

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86 / 2

4235 SRES SB 110 - SB 120

115

Total hired labor ranges from 1.03 worker equivalents (2,575 hours) of part-time hourly labor on the 52-cow Minnesota dairy to 18 full-time workers on the 1,436-cow Florida dairy. Some of the part-time labor hired in Minnesota, Pennsylvania, New York and Washington is seasonal and associated with crop production (Table 2).

Investment Requirements

The estimated new (replacement) cost per cow for assets required on the twenty-two dairies are summarized in Table 4. Replacement or new costs are used so that the average annual costs of ownership will reflect an amount sufficient to replace worn out assets when needed. Costs then reflect an amount needed to maintain the long-term viability of the operation.

On dairies without cropland for feed production, the total investment per cow ranges from \$3,372 on the 1,436-cow Florida dairy to \$5,053 for the 359-cow Arizona dairy. Including land and field machinery to produce feed, a Minnesota 52-cow dairy has a total replacement value of assets of more than \$15,000 per cow. The difference between herd sizes and regions are best reflected in comparing investment per cow in dairy buildings and equipment. Here the range is from \$749 on the 1,436-cow Florida dairy to \$4,871 for the 52-cow Minnesota dairy (Figure 2). The investment per cow in dairy buildings and equipment is substantially less on larger than on smaller dairies regardless of region. For typical herd sizes, the investment per cow is substantially less in Southeast and Southwest regions than in other regions. However, the 600-cow New York and 550-cow Idaho dairy

EXHIBIT B-2

Adjusted cost per cwt

A cost per cwt of milk (adjusted for sales other than milk) tended to be lower on large than on small dairies in all states (Figure 4).

Also costs were lower on the very large dairies in California, New Mexico, Arizona, and Idaho than on smaller dairies in Minnesota, Pennsylvania, and New York. However, the 600-cow New York dairy had comparable costs to herds of about that size in other states.

The major exception was the relatively high cost for Florida dairies. Floridas' high costs are in part offset by relatively high milk prices resulting in the competitive rate of return on investment discussed in the previous section and illustrated in Figure 3.

The cost per cwt of milk is nearly the same for alternative price support or federal order policy scenarios. However, costs per cwt drop dramatically for producers achieving milk production per cow equal to the top 20 percent of producers using DHIA tests compared to a producer achieving the average of all producers using DHIA tests (Table 8).

Conclusions of long-term analysis

A rate of return to investment is calculated for twenty-two dairy farms after all operating costs are paid and sufficient money withheld to maintain the long-term viability by replacing worn out equipment and facilities. The major findings of the analysis include the following:

1. Investment per cow in dairy buildings and equipment is less on larger than on smaller dairies.

2. For the herd sizes that characterizes dairy farming in each region, investment per cow is less for the large dairy operations in the Southwest, Northwest and Southeast than for the Lake State and Northeast regions.

3. Based on whole farm budgets, the larger dairies with 500 cows or more are more profitable than smaller dairies. Considering the long-term, effeciently operated dairies in New Mexico, ~~Arizona~~ and Florida are more profitable than their counterparts in ~~California~~, Idaho, Minnesota and the Northeast. This result is the bottom line ~~after~~ reflecting regional difference in costs and milk prices received.

4. Although costs per cwt of milk are highest in Florida, the relative high price received for milk provides a competitive return. The profitability of California and Idaho dairies is adversely affected by lower milk prices compared to New Mexico, ~~Arizona~~ and Florida dairies.

5. Strong economic pressure exists for herds to get larger in all regions. This will continue the trend to ~~fewer~~ and larger dairies.

6. The relatively favorable profit potential (rate of return) of large scale dairy farming in the Southwest, ~~Southwest~~ and Northwest regions will likely result, over the long term, in a continued shift in milk production to those areas. Those areas will likely increase their relative share of total U.S. milk production, placing increased competitive pressure on the traditional Lake States and Northeast dairy areas.

7. The profitability of dairy farming is greatly improved in all regions when management achieves production per cow levels equal to the top 20 percent of the farmers using Dairy Herd Improvement Testing programs (Scenario V). Achieving these performance levels tends to improve the profitability of large more than small dairies, adding more economic incentive for large scale dairying.

EXHIBIT B-4



RECORDS CERTIFICATION



I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

11/24/89
Date

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FEB 7 1985

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*****
*
* DELIVER TO: JFOM
*
* ORIGINAL
* SENT: 02/07/85 TIME: 15:05
* FROM: MICKI HENSON
* SUBJECT: POM
* PRINT DATE: 02/07/85 TIME: 15:08
*
*****

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TO: SENATOR STURGULEWSKI

REPRESENTATIVE PEARCE

FROM: MEAD TREADWELL
 YUKON PACIFIC CORPORATION
 PO BOX 10-1700
 ANCHORAGE, AK. 99510 PHONE: 279-1596 (WK.)

RE: ATTENTION MCKIE CAMPBELL

WE STRONGLY SUPPORT PASSAGE OF SB115 WHICH SHOULD ALLOW LEASING OF PIPELINE RIGHT OF WAY AND COMMUNICATIONS SITES ALONG THE DALTON HIGHWAY.

WITHOUT THIS BILL CONSTRUCTION OF A ANY PIPELINE TO MOVE NORTH SLOPE GAS TO MARKET WOULD BE NIGH IMPOSSIBLE AND WITHOUT QUICK PASSAGE, CURRENT ATTEMPTS TO ESTABLISH THE LOWEST COST POSSIBLE ROUTE WOULD BE GREATLY HINDERED.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 485-4907

Senate Committee on Resources

MEMORANDUM

February 8, 1985

TO: All Members
Senate Resources Committee

FROM: Staff, Senate Resources *MSL*

RE: SB 115 "An Act relating to oil and gas exploration along highway rights-of-way."

Supplemental Information on SB 115

The following two issues were raised after packets had been distributed to committee members yesterday afternoon.

1) Oil and Gas Lease Sale 31 (Prudhoe Bay Uplands) was held September 16, 1980. AS 19.40.200 has an effective date of October 5, 1980. All except one of the lease award notices were sent to successful bidders on September 23, 1980. One award notice was issued October 7, 1980.

In order to remove any possible legal cloud regarding the leases, the Department of Natural Resources, upon the advice of the Attorney General's Office, recommends that SB 115 be made retroactive to October 5, 1980.

If the committee does wish to include the retroactive effective date in the committee substitute, appropriate draft language is attached to this memo.

2) A representative of the Yukon Pacific Pipeline Company telephoned committee staff with a concern about whether communications equipment associated with the project could be installed within the right-of-way under the language of SB 115. The Department of Law has given a verbal opinion that the language of the proposed committee substitute would allow communications equipment related to oil and gas activities. The Department of Law advised that to make certain there was no question on this issue, a letter of intent should be adopted specifying that communication facilities related to oil and gas projects are among the allowed uses. Such a letter of intent is attached.

It was suggested by the representative of Yukon-Pacific that the committee might wish to include a broader exemption for communication activities in the pipeline corridor within the committee substitute. If the committee wishes to do this, appropriate language is available and the letter of intent would not be needed. This type of broadening, however, may jeopardize the support of some of the parties with whom the committee substitute has been developed.

SENATE AMENDMENT

By _____

To: cs _____ SENATE BILL No. 115 (Resources)

To: _____ HOUSE BILL No. _____

PAGE: 2 LINE: 2

Sec. 4. This Act is retroactive to October 5, 1980.

STATE OF ALASKA

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

February 12, 1985

BILL SHEFFIELD, GOVERNOR

REPLY TO:

1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

The Honorable Arliss Sturgulewski, Chairman
Senate Resources Committee
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Re: CSSB 115 (Res)

Dear Senator Sturgulewski:

Kay Brown, director of the division of oil and gas, has asked us to respond to your inquiry whether there would be any negative legal implications from the retroactive application of the proposed amendments to AS 19.40.200 - 19.40.210 contained in the referenced bill. 1/ We believe that there would not.

Although retrospective laws are generally not favored, curative legislation is encouraged. Here, the legislation is in part being proposed to validate certain existing AS 38.05 disposals and off-road vehicle activities which might otherwise be void for failure to conform with the existing proscriptions of

1/ You will recall that the inquiry was made at your meeting of February 8, at which time Ms. Brown proposed that the provisions of CSSB 115 (Res) be made retroactive. We had earlier advised Ms. Brown that any question regarding the validity of existing uses of state land along the Dalton Highway could be resolved in the context of an attorney general's opinion. However, on February 4, it was brought to our attention that at least one existing oil and gas lease would be void unless made valid by retroactive application of the proposed amendments contained in the bill.

AS 19.40.200 - 19.40.210. These disposals and activities were authorized by state officials under the mistaken belief that the provisions of AS 19.40.200 - 19.40.210 were limited in scope to certain circumstances of primary concern to the legislature when the original Act was passed, namely, the prohibition of cabin site and other land surface disposals under AS 38.05 and of hunting with ORVs along the Haul Road corridor. The plain language of the statute, however, exceeds this narrow application, even though a broad interpretation reportedly was not the legislature's original intent.

Nevertheless, even curative legislation must comply with certain legal requirements. Among these is the requirement of AS 01.10.090 for an express statement of retroactivity. The legislative drafting manual suggests that language providing for retroactive application of a bill be set out in a separate section immediately preceding the effective date section, and that the retroactive section and the sections of the bill that are to be retroactive have immediate effective dates. Thus, CSSB 115 (Res) should contain an additional section to read:

* Sec. 3. Sections 1 - 2 of this Act are retroactive to October 5, 1980. 2/

From a constitutional standpoint, a curative Act may not impair the obligation of contracts, take property without due process of law, or interfere with purely judicial matters. We are not aware of any potential problems arising in these three areas of concern if the presently proposed amendments to AS 19.40.200 - 19.40.210 are made retroactive to the effective date of the original Act. To the contrary, retroactive application will avoid the possibility of finding invalid existing uses of state land previously authorized by state officials.

In sum, we are of the opinion that CSSB 115 (Res), which grants new rights rather than takes away existing rights,

2/ The present Section 3, providing for an immediate effective date, would be renumbered Section 4.

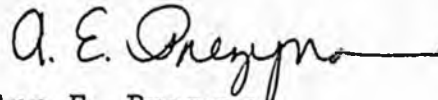
The Honorable Arliss Sturgulewski, Chairman
Senate Resources Committee

February 12, 1985
Page 3

will present no negative legal implications if its provisions are applied retroactively. To the contrary, because of the uncertain validity of some existing uses of state land, we strongly encourage inclusion in the bill of a retrospective clause such as the one we have suggested.

Very truly yours,

NORMAN GORSUCH
ATTORNEY GENERAL



By: Ann E. Prezyna
Assistant Attorney General

AEP/ma

cc: Kay Brown, Director
Division of Oil and Gas
Department of Natural Resources

Arthur H. Peterson
Assistant Attorney General
Department of Law - Juneau

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 152
Title: Royalty Oil, GVEA

Sponsor: Coghill
Requestor: _____
Date of Request: _____

FISCAL DETAIL

Agency Affected: Natural Resources
Program Category Affected: _____

BRU, Program _____ program(s) Affected: Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar Phone: 465-2400
Division: Commissioner's Office Date: 15 February 1985

Approved by Commissioner: Arthur P. Wunniche Date: 18 February 1985
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

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

7/1/84

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State of Alaska
Department of Natural Resources
Final Findings & Determinations
Golden Valley Electric Association
Royalty Oil Contract - Prudhoe Bay
Term: July 1, 1984 - June 30, 1985

May 9, 1984

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A. Introduction.

The State of Alaska intends to sell 2.667% of its Daily Royalty Oil (approximately 5,000 barrels per day) from the Prudhoe Bay Unit to Golden Valley Electric Association under a short-term, noncompetitive contract. In accordance with AS 38, the Department of Natural Resources must determine whether this disposal serves the State's best interest before the sale may take place. This document describes the proposed sale and analyzes its potential effects. This document is a final best interest finding and represents the conclusions of the Department.

B. Background and Chronology.

The State's current contract with GVEA in Fairbanks was the first royalty oil contract negotiated and executed after the establishment of the Alaska Royalty Oil and Gas Development Advisory Board in 1976. GVEA requested royalty oil so that raw crude oil might be used as turbine fuel for power generation in the event that the cost of clean turbine fuel from the North Pole Refinery became prohibitive.

GVEA's contract with the State currently in effect is for the purchase of 5,000 bpd. GVEA did not exercise its option to purchase royalty oil until June 17, 1981. This oil has been traded to North Pole Refinery (MAPCO) in exchange for turbine fuel.

In a letter to the Department of Natural Resources in November 1982, GVEA requested an extension of its contract for an additional ten years. No action was taken on that request pending the change of administrations. In March 1983, the new administration began negotiations with GVEA on a new contract with a ten-year term to assist in satisfying the needs of 50,000 in-state consumers. Negotiations were not completed in time to submit the long-term contract to the legislature in early 1984.

Because the oil must be nominated or denominated under the Prudhoe Bay Unit Agreement by March 30, 1984, it was necessary to enter into a short-term emergency contract with Golden Valley Electric Association to avoid an interruption in their service.

C. Summary of Contract Terms.

1. Price: (a) the amount the State would have received had it taken the oil in-value; plus,
(b) field cost allowance; plus,
(c) \$.30 premium; plus
(d) additional amounts if a favorable settlement of State of Alaska, et al vs. Amerada Hess, et al is reached.
2. Term: (a) The date of first delivery is July 1, 1984.
(b) The termination date of the contract is June 30, 1985.
3. Quantity: 2.667% (approximately 5,000 bpd) of Daily Royalty Oil from the Prudhoe Bay Unit.
4. Point of Delivery: Custody transfer meters into the Trans Alaska Pipeline system at Prudhoe Bay.
5. In-State Processing: 100% of the Royalty Oil tendered under this contract shall be used in-state.
6. Security: GVEA will provide a letter of credit to the State in the amount of \$5,400,000 which is equivalent to approximately sixty days' worth of oil. This letter is redeemable upon signature of the Attorney General and the Commissioner.

A copy of the contract may be obtained at the Division of Oil and Gas.

D. Findings and Determinations.

1. The sale is in the best interest of the State.

Under AS 38.05.183(e) a noncompetitive sale, exchange, or other disposal of royalty oil or gas taken in-kind by the State may be awarded by the commissioner to the prospective buyer whose proposal offers maximum benefits to the citizens of the State.

In accordance with AS 38.05.035(a)(14), AS 38.05.183(c) and (e) and 11 AAC 03.010(d), I find and determine that the taking of royalty oil in-kind and the disposal of that oil to Golden Valley Electric Association (GVEA) for use in-state is in the best interests of the State. I have considered the following in making this determination:

a. The State will receive no less from this sale than if it had continued to take the oil in-value. The price premium of \$.30 over the Producers' Weighted Average Field Price will likely offset the adverse market effects which could occur when the State meets the needs of a refinery that would otherwise be a crude oil customer on the west coast. While it is impossible to forecast the impact of customer displacement on west coast prices (if any), let alone its influence on the Producers' Weighted Average Field price, the amount of the premium is likely to cover a reasonable differential. AS 38.05.183(e)(1).

b. A disposal to GVEA will have a favorable effect on the economy of the State, because it will ensure the continued operation of the cooperative with attendant employment of state residents for the term of the contract.

Each consumer to whom GVEA provides electric service is a member of the cooperative. Profit margins are allocated back to the consumer owners, all of whom are Alaskan residents. No profits accrue to persons not residing and utilizing the services in-state. The prime purpose of the cooperative is to provide dependable electrical service to its member-owners at the most economical price.

GVEA is regulated by the Alaska Public Utilities Commission. Over the past year, GVEA has experienced increased consumer need represented by an addition of 2,000 new customers. GVEA currently employs 150 people (up 20% in two years) to bring electric service to more than 50,000 Alaskans. AS 38.05.183(e)(2).

c. The benefits of the continued operation of GVEA include local employment, security of supply, and the direct favorable results of the 5,000 bpd in-state use. Secondary industries partially or wholly connected with GVEA would also continue to benefit from that relationship. AS 38.05.183(e)(3).

d. As stated above, GVEA supplies electrical energy to more than 50,000 Alaskans who enjoy price benefits directly attributable to the cooperative's ability to purchase state royalty oil. AS 38.05.183(e)(4).

e. The State is now highly dependent on oil revenues and will continue to depend on oil revenues in the future. The price term of the proposed sale protects the State's interest by insuring that revenues from this sale will meet or exceed the in-value price. AS 38.06.070(a)(1).

f. The local and regional needs of the Fairbanks area for electrical supply are met by service provided by GVEA to its member owners. AS 38.06.070(a)(2).

g. The continued operation of GVEA with attendant payroll and secondary benefits will have a positive and desirable effect on the citizens of the State. Although this disposal will not result in new capital investment or development, it will enable existing investment and development to continue to be utilized. AS 38.06.070(a)(3).

h. The projected social impacts of a disposition to GVEA are anticipated to be favorable. The benefits presently received from the operation of the electrical cooperative would continue. AS 38.06.070(a)(4).

i. Since most of the essential provisions of the proposed disposal to GVEA relate to operation of its existing facilities and systems, the additional costs and responsibilities which could be imposed upon the State and affected subdivisions are likely to be minimal. AS 38.06.070(a)(5).

j. Local and regional consumption is directly and favorably affected by the GVEA disposal. AS 38.06.070(a)(6).

k. Environmental effects resulting from the proposal are negligible, if any, since the facility is already in existence. AS 38.06.070(a)(7).

l. The proposed disposal will help existing commercial private enterprise by making possible continued operation of GVEA cooperative. AS 38.06.070(a)(C).

In accordance with 11 AAC 03.060(b), I must also discuss the weight given to the applicable criteria in determining the maximum benefit to Alaska citizens. In making this finding I had to assure myself that the State would not lose money by making a disposal to GVEA. Once so assured, I could then look to other attendant benefits offered. If the cash value offered cannot assure the citizens what the State would have received in-value, then the sale would not, in my view, serve the State's best interests. For this reason I placed the greatest weight in this disposal on AS 38.05.183(e)(1), the cash value offered, in the sense that I would not have considered any sale unless the in-value price was guaranteed. Once the in-value price was guaranteed, however, I gave greatest weight to the projected benefits of using the oil in the State along with attendant effects of the sale on the economy of the State.

2. Competitive bidding is waived.

I have determined in accordance with AS 38.05.183(a) that the best interest of the State does not require competitive bidding for this

disposal. The best interest of the State is served by making this award on factors other than the highest price received from a competitive sale. A competitive bid process would not preclude the placing of royalty oil in a market which could have the effect of lowering the State's in-value price. Other concerns which I was able to address through a noncompetitive process include the security arrangements to insure payments to the State and provisions designed to forestall any possible responsibility or liability on the part of the State for handling royalty oil at Pump Station One.

I also find and determine that, in order to realize the objectives implied by the considerations listed in AS 38.05.182-183 and AS 38.06.070 and obtain the benefits of in-state processing and supply, disposal by competitive bid with the award determined entirely upon the cash value offered is not in the best interest of the State in this instance. Rather, it is in the best interest of the State to dispose of royalty oil for no less than the State would have received had it taken the oil in-value to purchasers who offer maximum benefits to State citizens under contracts which protect the interests of the State.

E. Conclusion.

By the terms of the proposed contract, the State is guaranteed the in-value price for its oil as well as a premium on each barrel. The additional premium protects the State and assures that the State is not receiving less for its oil than if it elected to take its royalty oil in-value. Since only a percentage of production is specified in the contract, rather than a fixed volume, a percentage of royalty oil will remain in-value. This in-value oil would be available for future sale by the State.

The foregoing facts and analysis support my decision that this disposal is in the best interests of the State and maximizes benefits to Alaska citizens.

Esther C. Wunnicke
Commissioner

Date

Supplemental Information on SB 115

The following two issues were raised after packets had been distributed to committee members yesterday after noon.

1) Oil and Gas Lease Sale 31 (Prudhoe Bay Uplands) was held September 16, 1980. AS 19.40.200 has an effective date of October 5, 1980. All except one of the lease award notices were sent to successful bidders on September 23, 1980. One award notice was issued October 7, 1980.

In order to remove any possible legal cloud regarding the leases, the Department of Natural resources, upon the advice of the Attorney General's Office, recommends that SB 115 be made retroactive to October 5, 1980.

If the committee does wish to include the retroactive effective date in the committee substitute, appropriate draft language is attached to this memo.

2) A representative of the Yukon Pacific Pipeline Company telephoned committee staff with a concern about whether communications equipment associated with the project could be installed within the right-of-way under the language of SB 115. The Department of Law has given a verbal opinion that the language of the proposed committee substitute would allow communications equipment related to oil and gas activities. It was suggested by the representative of Yukon-Pacific that the committee might wish to include a broader exemption for communication activities in the pipeline corridor within the committee substitute. If the committee wishes to do this, appropriate language is attached to this memo.

Introduced: 1/31/85
Referred: Resources and
Transportation

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2

SENATE BILL NO. 115

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to oil and gas exploration along

7

highway rights-of-way; and providing for an
effective date."

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

9

* Section 1. AS 19.40.200 is amended to read:

10

Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE

11

MILES OF THE HIGHWAY. The state may not dispose of state land under

12

AS 38 which is within five miles of the right-of-way of the highway.

13

This section does not apply to an oil and gas lease under

14

AS 38.05.180; ~~other state land disposals~~ ^{a lease or material sale} necessary for ~~oil and gas~~

15

~~exploration, development, production, or transportation~~ ^{of oil and gas} or ~~other~~

16

~~state land disposals~~ ^{lease or material sale} necessary for ~~highway maintenance and~~

17

reconstruction and maintenance of the highway. ✓

18

* Sec. 2. AS 19.40.210 is amended to read:

19

Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road

20

vehicles are prohibited on land within five miles of the right-of-way

21

of the highway. However, this prohibition does not apply to off-road

22

vehicles supporting oil and gas exploration, development, production

23

or transportation, or to a person who holds a mining claim in the

24

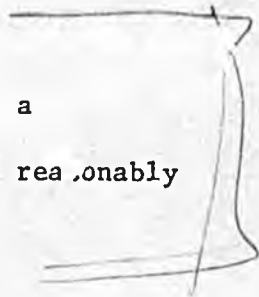
vicinity of the highway and who must use land within five miles of the

25

right-of-way of the highway to gain access to the [HIS] mining claim.

Sec. 3. This Act takes effect immediately in
accordance with AS 01.10.070(c).

Prior to selling materials under this section to a private entity or to a state agency for disposal to a private entity, the state shall consider reasonably available private sources of materials in the area.



FROM: SHERWIN A. START, 320 MCCARREY ST., C, ANCHORAGE, 99504,
337-8988

RE: SB 115

FEB 15 1985

THE LAST SESSION OF THE LEGISLATURE REWROTE TITLE 38 COMPLETELY,
THAT REWRITE PROVIDED VERY CONTROLLING PROVISIONS FOR THE
STATE TO ONLY OFFER LAND THAT WHERE LEGAL/PHYSICAL ACCESS! BY
PASSAGE, THIS BILL WILL EFFECTIVELY CLOSE DOWN STATE LAND
DISPOSALS.

HBU 47447	28237	28255 29	HBP 28256	HBU 47448	HBP 47469	HBP 28275	ARCO HBP 28275	(COND) 28298	HBU 28297	HBU 34624	HBU 34627	HBU 34626	HBU 34625	MANATHON, AMERADA 1-31-90 ADL-312827	6-30 Y-0 1-31-9	
HBP 28239	HBP 28238	HBP 28259	HBP 28258	MOBIL, PHILLIPS, CHEVRON HBP 28257	HBP 28279	HBP 28278	HBP 28277	HBP 28299	HBP 28300	HBP 28301	HBP 34628	HBP 34629	HBU 34630	HBP 34635	HBP 34634	HBP 3463
CHEVRON MOBIL PHILLIPS HBP 28241	HBP 28240	MOBIL, PHILLIPS, CHEVRON HBU 47450	MOBIL, PHILLIPS HBP 28261	HBP 28260	HBP 28282	HBP 28281	HBP 28280	HBP 28304	HBP 28303	HBP 28302	HBP 34632	HBP 34631	HBP 29320	HBP 28138	HBP 28137	HBP 28136
HBP 28244	HBP 28245	CHEVRON HBP 28262	MOBIL, PHILLIPS HBP 28263	MOBIL, PHILLIPS, CHEVRON HBU 47451	HBP 28283	HBP 28284	HBP 28285	HBP 28305	HBP 28306	HBP 28307	HBP 28321	HBP 28322	HBP 28323	HBP 28337	HBP 28340	HBP 28341
HBP 28247	(COND) 28246	MOBIL, PHILLIPS, CHEVRON HBU 47453	MOBIL, PHILLIPS, CHEVRON HBU 47452	EXXON, ARCO HBP 28264	MOBIL, PHILLIPS HBP 28288	HBP 28287	HBP 28286	HBP 28310	HBP 28309	HBP 28308	HBP 28326	HBP 28325	HBP 28324	HBP 28343	HBP 28342	HBP 28341
ARCO HBP 28250	ARCO HBP 28249	MOBIL, PHILLIPS HBP 28266	CHEV, MOBIL, PHILLIPS HBU 47454	EXXON, ARCO HBP 28265	PHILL, MOBIL, CHEV HBP 28209	SHELL, HBU 47471	AMERADA, GETTY HBU 47472	ARCO, EXXON HBP 28313	HBP 28312	HBP 28311	HBP 28329	HBP 28328	HBP 28327	HBP 28344	HBP 28343	HBP 28342
HILLIPS HBP 1-31-90 18604	HBP 28251	HBP 28267	MOBIL, PHILLIPS HBP 28268	MOBIL, PHILLIPS HBP 318609	MOBIL, PHILLIPS HBP 318609	MOBIL, PHILLIPS HBP 28290	ARCO, EXXON HBU 47476	SHELL, HBU 47475	MOBIL, PHILLIPS HBP 28314	HBP 28315	HBP 28330	HBP 28331	HBP 28372	HBP 28346	HBP 28347	HBP 28348
ARCO HBP 10-31-90 318606	HBP 10-31-90 318607	HBP 28271	HBP 28270	CHEVRON HBP 28264	BP&E, SOHIO HBP 318610	BP&E, SOHIO HBP 318611	BURGLIN HBU 10-31-90 318612	BURGLIN HBU 10-31-90 318613	ARCO, EXXON HBU 28316	HBP 28317	HBP 28335	HBP 28334	HBP 28333	HBP 28349	HBP 28348	HBP 28347
HBP 318629	HBP 318636	HBP 28273	HBP 28272	HBP 28292	HBP 318642	HBP 28291	HBP 318645	HBP 318646	HBP 29317	HBP 318651	HBP 318652	HBP 318653	HBP 318659	HBP 318660	HBP 318661	HBP 318662
BURGLIN HBP 10-31-90 318631	HBP 10-31-90 318632	HBP 318638	HBP 28274	HBP 28293	HBP 28294	HBP 318647	HBP 318647	HBP 318648	HBP 28318	HBP 318654	HBP 318655	HBP 318662	HBP 318663	HBP 318664	HBP 318665	HBP 318666
AE, HIO 31-90 8634	10-31-90 318635	10-31-90 318639	ARCO HBP 318641	ARCO HBP 318644	HBP 28296	HBP 28295	MOBIL, PHILLIPS HBP 28319	BP&E, SOHIO HBP 318649	PHILLIPS HBP 318650	PHILLIPS HBP 319656	HBP 318659	HBP 318658	HBP 318657	HBP 318656	HBP 318655	HBP 318654

HEMI SPRINGS UNIT

Proposed Sale 47

R12E

R14E

R16E

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 115
 Title: Exploration and Development
1. Highway Rights-of-Way
 Sponsor: _____
 Requestor: Sen. Sturgulewski
 Date of Request: 1/31/85

FISCAL DETAIL

Agency Affected: Natural Resources
 Program Category Affected: NRMEC
 ERU, Program or Subprogram(s) Affected:
Minerals and Energy Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		-0-	-0-	-0-	-0-	-0-

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

REVENUE						
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

No fiscal impact.

Prepared By: Ned Farquhar
 Division: Commissioner's Office

Phone: 465-2400
 Date: January 31, 1985

Approved by Commissioner: Wm D. Amodeo
 Agency: Natural Resources

Date: January 31, 1985

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

7/1/84

To Kee
Date 2-7 Time 11:00

WHILE YOU WERE OUT

M Mrs. T. Radford
of Yukon Pacific
Phone 279 1596
Area Code Number Extension

TELEPHONED		PLEASE CALL	
CALLED TO SEE YOU		WILL CALL AGAIN	
WANTS TO SEE YOU		URGENT	
RETURNED YOUR CALL			

Message re: ~~113~~ SB 115

Operator

The Department of Natural Resources is requesting amendment of AS 19.40.200 and AS 19.40.210 to allow oil and gas exploration and development within five miles of the right-of-way of the Dalton Highway (North Slope Haul Road).

The statute presently prohibits the disposal of state land under AS 38 and use of off-road vehicles within five miles of the highway. "State land" includes resources owned by the state, including oil and gas.

Although the department does not believe it was the intent of the 1980 legislature to prohibit oil and gas activities along the highway, the statute as presently written may be interpreted to have that effect. Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985 and contains approximately 611,840 acres. Of that total, some 230,000 acres (52 of the 113 tracts) are within the five-mile corridor and will have to be deleted from the sale without clarification of the statutes cited above. Final notice of Sale 47 is scheduled to be given March 22, 1985.

Original sponsor: Resources Committee

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 115 (Resources) *DK*

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to land use and disposal near a
7 highway right-of-way; and providing for an effective
8 date."

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

10 * Section 1. AS 19.40.200 is amended by adding new subsections to read:

11 (b) The prohibition on disposal of state land under (a) of this
12 section does not apply to a

13 (1) disposal necessary for an oil and gas lease under
14 AS 38.05.180;

15 (2) a state lease or materials sale necessary for explora-
16 tion, development, production, or transportation of oil and gas or
17 reconstruction or maintenance of the highway.

18 (c) Before the sale of materials under (b)(2) of this section to
19 a private entity or person or to a state agency the state shall give
20 due consideration to the availability of materials from private
21 sources in the area where the materials are needed.

22 * Sec. 2. AS 19.40.210 is amended to read:

23 Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road
24 vehicles are prohibited on land within five miles of the right-of-way
25 of the highway. However, this prohibition does not apply to off-road
26 vehicles necessary for oil and gas exploration, development, produc-
27 tion, or transportation [REDACTED]

28 [REDACTED] or to a person who holds a mining claim in the vicinity of the
29 highway and who must use land within five miles of the right-of-way of

1 the highway to gain access to the [HIS] mining claim.

2 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
3 10.070(c).
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DEPARTMENT OF NATURAL RESOURCES

PROPOSED AMENDMENT TO HB 143

1. Delete Section 1 and insert:

*except for purposes of reconstruction
or maintenance of the highway*

*Section 1. AS 19.40.200 is amended to read:

Section 19.40.200. PROHIBITION ON DISPOSAL WITHIN FIVE MILES OF THE HIGHWAY. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. This section does not apply to an oil and gas lease under AS 38.05.180, or to a disposal necessary for exploration, development, production, or transportation of oil and gas ~~or for reconstruction and maintenance of existing highways.~~ *north of 68° North latitude.*

2. Add a new section to read:

*Sec. 3. This Act takes effect immediately in accordance with AS 01.10.070(c).

3. Change title to read: "An Act relating to oil and gas activities along highway rights-of-way; and providing for an effective date."

Cai

Moen
2/5/85/

Original sponsor: House Special Committee
on Oil and Gas

1 IN THE HOUSE

BY THE HOUSE SPECIAL
COMMITTEE ON OIL AND GAS

2 CS FOR HOUSE BILL NO. 143 (Oil and Gas)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to oil and gas activities along
7 highway rights-of-way; and providing for an effective date."

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

9 * Section 1. AS 19.40.200 is amended to read:

10 Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE
11 MILES OF THE HIGHWAY. The state may not dispose of state land under
12 AS 38 which is within five miles of the right-of-way of the highway,
13 *except for purposes of reconstruction or maintenance of the highway.*
14 This section does not apply to an oil and gas lease under
AS 38.05.180, *or to a disposal necessary for exploration, development, production, or*
transportation of oil and gas north of 69 degrees north latitude.

15 * Sec. 2. AS 19.40.210 is amended to read:

16 Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road
17 vehicles are prohibited on land within five miles of the right-of-way
18 of the highway. However, this prohibition does not apply to off-road
19 vehicles necessary for oil and gas exploration conducted under an oil
20 and gas lease issued under AS 38.05.180 or to a person who holds a
21 mining claim in the vicinity of the highway and who must use land
22 within five miles of the right-of-way of the highway to gain access to
23 the [HIS] mining claim.

24 * Sec. 3. This act takes effect immediately in accordance
25 with AS 01.10.070 (c).
26
27
28
29

Guest Editorial

Stevens Village Opposes State Selections Around Yukon Crossing

By Village Council
Stevens Village

Fairbanks, Alaska — Stevens Village wishes to express its extreme concern and fear over the State of Alaska selecting lands within the haul road corridor around the Yukon Crossing near Stevens Village and to alert the general public to this happening in order to rally more public support to prevent this from happening.

These are lands that the people of Stevens Village have traditionally used, occupied, and governed. The lands are subsistence lands and as such are needed to remain in that use to maintain the subsistence economy and the traditional lifestyle of the people of Stevens Village.

The people of Stevens Village are struggling to survive and to protect their culture and traditional lifestyle. In order to do this, they have to have a say in what goes on in their traditional lands that they use. They oppose the State selecting these lands because of the State's insensitivity in dealing with Stevens Village in the past.

For example, during pipeline days, the State rushed to build the Hickel Highway through Stevens Village's lands without the village's permission and without the construction permit being granted yet for the pipeline from the Federal government.

If the State selects these lands and then encourages settlement and/or development there, it will have a devastating effect on the people of Stevens Village. Why

start a new settlement only to wipe out another one? The haul road is for transportation purposes and for reasons of safety and efficiency it needs to remain free of settlement and/or development. This will save the State money in the long run.

We are asking the people of Alaska to support us in this by contacting the State Department of Natural Resources and our representatives in the State Legislature.

By keeping these lands in a natural state it will help to insure the survival of the Stevens Village people and their culture, for without that Alaska can never be a great land.

DISCUSSION DRAFT
1/21/85

Proposed clarification amendments to AS 19.40.200-.210

Dalton Highway

Sec. 19.40.200. Prohibition on disposal of land within five miles of the highway. The state may not dispose of state land under AS 38 which is within five miles of the right-of-way of the highway. However, this prohibition does not apply to oil and gas leases under AS 38.05.180; to other disposals necessary for oil and gas exploration, development, production or transportation; or to disposals for highway maintenance and construction purposes.

Sec. 19.40.210. Prohibition of off-road vehicles. Off-road vehicles are prohibited on land within five miles of the right-of-way of the highway. However, this prohibition does not apply to off-road vehicles supporting oil and gas exploration, development, production, or transportation, or to a person who holds a mining claim in the vicinity of the highway and who must use land within five miles of the right-of-way of the highway to gain access to his mining claim.

1/21-cor
butts3

Offered: 2/11/85
Referred: Transportation

Original sponsor: Resources Committee

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 115 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to land use and disposal near a
7 highway right-of-way; and providing for an effective
8 date."

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

10 * Section 1. AS 19.40.200 is amended by adding new subsections to read:

11 (b) The prohibition on disposal of state land under (a) of this
12 section does not apply to a

13 (1) disposal necessary for an oil and gas lease under
14 AS 38.05.180;

15 (2) a state lease or materials sale necessary for explora-
16 tion, development, production, or transportation of oil and gas or
17 reconstruction or maintenance of the highway

18 (c) Before the sale of materials under (b)(2) of this section to
19 a private entity or person or to a state agency the state shall give
20 due consideration to the availability of materials from private
21 sources in the area where the materials are needed.

22 * Sec. 2. ~~AS 19.40.210~~ is amended to read:

23 Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road
24 vehicles are prohibited on land within five miles of the right-of-way
25 of the highway. However, this prohibition does not apply to off-road
26 vehicles necessary for oil and gas exploration, development, produc-
27 tion, or transportation or to a person who holds a mining claim in the
28 vicinity of the highway and who must use land within five miles of the
29 right-of-way of the highway to gain access to the [HIS] mining claim.

1 * Sec. 3. This Act is retroactive to October 5, 1980.

2 * Sec. 4. This Act takes effect immediately in accordance with AS 01.-
3 10.070(c).

BACKGROUND ON SB 115
DEPARTMENT OF NATURAL RESOURCES
February 8, 1985
Senate Resources Committee

DISPOSALS UNDER AS 38 NECESSARY FOR OIL AND GAS DEVELOPMENT:

- Oil and gas leases under AS 38.05.180 convey exploratory drilling rights and production rights for any oil and gas discovered.
- Material (sand and gravel) sales are made to private entities under AS 38.05.110-120 for roads, drill pads, offshore artificial drilling islands, causeways, and other facilities. "Sales" are also made to the Department of Transportation and Public Facilities for highway reconstruction and maintenance under AS 38.05.810 (public and charitable use).
- Oil and gas pipeline right-of-way leases under AS 38.35 are the required authorization to construct an oil or gas pipeline on or across state land.
- Leases under AS 38.05.070 are held by private service companies and contractors in the Prudhoe Bay Industrial Tract Subdivision. These companies and contractors sell, rent, and repair equipment and provide services to oil and gas lessees. Alyeska Pipeline Service Co. also holds leases (for example, construction camp site).

ACTIVITIES IMMEDIATELY AFFECTED BY THE PROPOSED LEGISLATION

- Oil and Gas Lease Sale 47 (Kuparuk Uplands) is tentatively scheduled for May 21, 1985, and contains approximately 611,840 acres. Of that total, about 230,000 acres (52 of the 113 tracts) are within five miles of the highway and would have to be deleted from the sale without the proposed clarification of existing statute. Final notice of Sale 47 is scheduled to be given March 22, 1985.
- Seismic exploration using off-road vehicles is currently prohibited within the 10-mile corridor.
- Several existing material sales to the Department of Transportation and Public Facilities, and current pending applications for continued materials requirements of Alyeska will be in jeopardy.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA, 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

January 30, 1985

TO: All Members
Senate Resources Committee

FROM: Senator Arliss Sturgulewski
Chairman, Senate Resources Committee *(AS)*

RE: Proposed legislation regarding haul road right-of-way

In 1980 the legislature passed AS 19.40.200 and .210. These sections prohibit the disposal of state land within five miles of the Dalton Highway and also prohibit the use of off-road vehicles in this same area.

An oil and gas lease sale is currently scheduled to be announced in March and to take place in May of this year. This sale, number 47, would include area that is within this five mile border of the highway. If the existing statutes are not modified, the lease sale could not proceed.

The Department of Natural Resources, Division of Oil and Gas, has asked the Senate Resources Committee to introduce the attached legislation to remedy this problem. The House Special Committee on Oil and Gas introduced identical legislation yesterday.

A copy of the proposed legislation and a map of the area involved is attached.

Enclosures

1 IN THE SENATE

BY THE RESOURCES COMMITTEE

2 SENATE BILL NO.

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FOURTEENTH LEGISLATURE - FIRST SESSION

5 A BILL.

6 For an Act entitled: "An Act relating to oil and gas exploration along
7 highway rights-of-way."

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

9 * Section 1. AS 19.40.200 is amended to read:

10 Sec. 19.40.200. PROHIBITION ON DISPOSAL OF LAND WITHIN FIVE
11 MILES OF THE HIGHWAY. The state may not dispose of state land under
12 AS 38 which is within five miles of the right-of-way of the highway.
13 This section does not apply to an oil and gas lease under
14 AS 38.05.180; other state land disposals necessary for oil and gas
15 exploration, development, production, or transportation; or other
16 state land disposals necessary for highway maintenance and
17 construction.

18 * Sec. 2. AS 19.40.210 is amended to read:

19 Sec. 19.40.210. PROHIBITION OF OFF-ROAD VEHICLES. Off-road
20 vehicles are prohibited on land within five miles of the right-of-way
21 of the highway. However, this prohibition does not apply to off-road
22 vehicles supporting oil and gas exploration, development, production
23 or transportation, or to a person who holds a mining claim in the
24 vicinity of the highway and who must use land within five miles of the
25 right-of-way of the highway to gain access to the [HIS] mining claim.
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STATE OF ALASKA
THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY
LEGISLATIVE REFERENCE LIBRARY

POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE

, 2/8/85, 1:30



RECORDS CERTIFICATION

I, the undersigned, an employee of the State of Alaska, do hereby certify that the microfilm images on this microform are accurate reproductions of the original records of the State of Alaska as accumulated during the regular course of business, and that it is the established policy and practice of this State to microfilm its records and to dispose of the original records after microfilm reproductions have been made.

James O. Smith
Signature of Camera Operator

11/24/89
Date

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Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
BETTYE FAHRENKAMP, Vice Chairman
JACK COGHILL
DICK ELIASON
VIC FISCHER
RICK HALFORD
FRED ZHAROFF



POUCH V
JUNEAU, ALASKA. 99811
(907) 465-4907

Senate Committee on Resources

MEMORANDUM

March 12, 1985

TO: All Members
Senate Resources Committee

FROM: Staff *H*
Senate Resources Committee

RE: CSSB 120 (Resources) "An Act relating to agriculture; and providing for an effective date."

Committee Substitute for Senate Bill 120 (Resources) incorporates a number of changes relating to agriculture in the state. Highlights of the bill are:

Section 1:

1. Allowing DNR to regulate and control the entry and transportation of shell eggs. This adds to an already existing list of products that DNR regulates.
2. Allows the establishment of commodity marketing associations and providing for matching grants. This section has a \$25,000 fiscal note.
3. Allows DNR to establish and administer a grain warehousing and merchandising program.
4. Allows DNR to license, bond, inspect and audit public grain facilities.

Section 2:

1. Remove irrigation from loan types as they are not made.
2. Allows DNR to combine loan types and extend loan terms beyond 7 years if in the best interest of the state and additional collateral is available.
3. Allows loans to exceed the \$1,000,000 limit by 20% if a borrower has held a loan for three year and agrees to conditions set by the ARLF.

Section 3:

1. Allows short term limits to be raised by 20%.
2. Allows DNR to combine long term and short term loans if in the best interest of the state.

Section 4:

Raises agricultural revolving loan fund from \$75 million to \$100 million.

Section 5:

Increase ARLF Board from 5 to 7 members.

Section 6:

Raises agricultural dealer bond from \$5,000 to \$25,000.

Section 7:

Adds class IV soils to suitable agriculture lands definition.

This packet includes:

1. Bill analysis from DNR;
2. Fiscal note from DNR;
3. Development of Agriculture in Alaska - Summary Section, DNR, March 1985;
4. Resolution of Alaska Farmers and Stockgrowers Association;
5. Resolution by Greater Fairbanks Chamber of Commerce;
6. Letter from Karen Lee;
7. Letter from Joseph Cange.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-465-2400

March 12, 1985

The Honorable Arliss Sturgulewski
Chair, Senate Resources Committee
Pouch V
Juneau, AK 99811

Dear Senator Sturgulewski:

As you have requested, the Department of Natural Resources has reviewed the Sponsor Substitute for Senate Bill 40, the Committee Substitute for Senate Bill 120 (Resources) and the Committee Substitute for Senate Bill 57 (Resources). We offer our support for these three bills and are very pleased to note that they allow the department to undertake many of the actions we believe are necessary to assist farmers and promote the development of agriculture in Alaska.

Our recent report to the Governor on agriculture identified high debt levels and the difficulties associated with marketing farm products as major problems faced by Alaska's farmers. The solutions we have proposed include establishment of a production credit program, similar to the program described in SSSB 40; increasing the flexibility of the Agricultural Revolving Loan Fund (ARLF) to restructure loans, and assisting in the organization of commodity marketing associations, as outlined in CSSB 120; and encouraging the preferential use of Alaska agricultural products when state money is used for purchases, as described in CSSB 57.

We have enclosed specific information about each bill with this letter, and a summary of our report on agriculture in Alaska.

Please let us know if you need additional information about these bills or our agricultural programs.

Sincerely,



Esther C. Wunnicke
Commissioner

Enclosures

Analysis of the CS for SB 120

The CS for SB 120 allows the department to take a number of actions that will help solve current problems in agriculture.

Section 1(a)(6) of the bill contains an addition to the statute which allows the Commissioner to work with commodity groups in establishing marketing associations and allows her to provide assistance in the form of matching grants. There is interest among farmers in forming associations to market products such as eggs, vegetables, beef, reindeer and honey. This legislation will help farmers solve marketing problems related to particular commodities.

Another addition to 1(a) of the statute, part (7), allows the Commissioner to control the warehousing of grain. Part (6) is added to Section 1(b) to control warehousing by requiring bonding and inspection of warehouse facilities and auditing of records. This will help protect farmers who store grain in off-farm facilities.

Section 2 adds new language to the statute which allows the ARLF the flexibility to restructure farm loans and exceed current loan limits by 20 percent, if such actions are in the best interests of the state and will help promote agriculture in Alaska.

Section 4 raises the ceiling for the ARLF to \$100 million from \$75 million. This is necessary to accommodate future appropriations to the fund which is currently capitalized at \$68 million. Although the FY 86 appropriation to the ARLF is expected to be no more than \$2.5 million, if the \$17.5 million in principal from clearing loans made to Alaska Agricultural Action Council (AAAC) project participants is returned to the ARLF rather than the general fund (this requires legislation), the current ARLF ceiling would be exceeded.

Section 4 also enlarges the ARLF board to seven members from five and requires that four members instead of three have an Alaska farming background. Increasing the size of the board will allow it to more fully represent the farming community and broaden its expertise.

Section 6 requires that vegetable wholesalers obtain bonds of \$25,000 rather than the currently required \$5,000. Vegetable growers are concerned that the currently required bond is not sufficient to cover the value of vegetables they provide to dealers for resale.

Section 7 adds class IV soils to lands that would be subject to agricultural homestead clearing requirements. This addition to the statute will help to ensure that some acreage will be prepared for cultivation or put into production on an ag homestead. Currently, 50% of the class II or III soils on an ag homestead must be cleared to gain title to the land. If the homestead does not contain class II or III soils, the clearing requirements do not apply. By adding class IV soils to the requirements, the likelihood that some acreage will require clearing increases.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CSSB 120
Title: Agriculture Omnibus

FISCAL DETAIL

Agency Affected: Natural Resources, Div. of Ag.
Program Category Affected: NRMEC

Sponsor: Rules Committee
Requestor: Sen. Resources Comm.
Date of Request: 3/8/85

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 CRANTS, CLAIMS						
800 MISCELLANEOUS		25.0	25.0	25.0	25.0	25.0
TOTAL OPERATING		25.0	25.0	25.0	25.0	25.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		25.0	25.0	25.0	25.0	25.0
FEDERAL FUNDS						
OTHER						
TOTAL		25.0	25.0	25.0	25.0	25.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

Prepared By: Carol Wilson Phone: 465-2400
Division: Commissioner's Office Date: 3/11/85

Approved by Commissioner: *Esther P. Wunnich* Date: 3-12-85
Agency: Natural Resources

Distribution (by Agency preparing fiscal note):
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Requestor
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7/1/84

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FRANK HOWAN
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DEVELOPMENT OF AGRICULTURE IN ALASKA:
A REVIEW OF PROGRESS AND PLANS

A Special Report to Governor Sheffield

Prepared by:
State of Alaska
Department of Natural Resources
Esther C. Wunnicke, Commissioner
Division of Agriculture
Bill L. Heim, Director

March 1985

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SUMMARY

This second report to Governor Sheffield on the Division of Agriculture's programs and plans for agricultural development describes actions taken since the last report, proposes new actions, and discusses the current industry situation.

The Success of the Alaska Agriculture Community

Alaska's agricultural sector has grown by increasing margins in recent years, compared with a downward trend nationally. This is due chiefly to agricultural project developments at Delta and Point MacKenzie. Cash receipts for Alaska farm commodities grew by 10 percent between 1981 and 1982, and by 16 percent between 1982 and 1983. This upward trend may be even more dramatic when final 1984 figures are released.

Production highlights for 1984 include:

- o Crops

Barley harvest set an historical record with 525,000 bushels harvested, 156,000 bushels above the previous record. This reflects production increases primarily from the Delta agricultural project. Oat production increased by 200 percent over 1983. Lettuce acreage increased by 20 percent. The largest potato crop since 1967 was harvested.

- o Livestock

Dairying expanded as three new farms began operating at Point MacKenzie during 1984. Milk production increased three percent. A new milk-processing facility opened in Delta Junction. Milk production will grow at a faster pace in 1985 as 10 to 15 new dairy farms begin operation.

Meat marketing saw gains during 1984. The new meat-processing plant in Palmer had its first full year of operation in 1984 and Alaska-grown meat products became available in Anchorage in greater quantities. In Fairbanks, Alaska choice beef became available for the first time on a weekly basis, from animals fed in Delta Junction. A new livestock packing plant will open in Fairbanks in 1985, further stimulating interest in livestock production.

The primary opportunity for development of Alaska agriculture is to meet in-state needs since relatively large markets are available. In order to meet this market opportunity, the following objectives have been developed as the basis of programs and plans of the Division of Agriculture.

- o Encourage expanded production of competitively-priced farm products from existing agricultural lands in Alaska;
- o Increase the number of acres devoted to agricultural production in Alaska;

- o Preserve options to allow for increased production in Alaska to meet potential in-state market expansion and future export possibilities.

Accomplishments as a Result of the First Report

Much has been accomplished as a result of the State's undertaking most of the actions proposed in the 1983 report to the Governor on agriculture. These actions had a direct influence on the gains made in agriculture. Actions include:

- o Additional funding of the Agricultural Revolving Loan Fund;
- o Increased marketing service support programs;
- o Additional funding of the Grain Reserve program;
- o Support of Federal Crop Insurance;
- o Provision of electrical power to Point MacKenzie;
- o Construction of 20 miles of roads within small agricultural sales;
- o Sale of 4,500 acres of State land for agricultural development on 13 new farm parcels;
- o Providing 7,260 acres for agricultural homestead filing on 64 parcels.

The Action Plan for Alaska Agriculture

In order to assist Alaska farmers and others involved in agribusinesses, the Division of Agriculture recently conducted a major review of state agricultural programs and problems. The objective was to review and critique prior actions and accomplishments, and consider new trends and responses which could benefit Alaska's agricultural economy. Because of limitations on State revenues, the review centered around the development of an action plan that would not require extensive State funding to complete. The review process has led to the identification of six issues of concern, and proposals for actions to help enhance the future of Alaska agriculture.

1. Issue -- Large debt of new farmers in Alaska

Action: Enact legislation to develop a production credit program available statewide.

Action: Investigate methods of restructuring farm debt through partial releases, reduced farm parcel size, and lease preferences on land returned to the state by current owners.

Action: Allow combining and splitting of agricultural tracts and providing for farmsteads on new tracts.

2. Issue -- Lack of market development

Action: Enact legislation to allow and fund commodity associations.

Action: Encourage preferential use of Alaska agricultural products by state agencies.

Action: Emphasize marketing assistance from Division of Agriculture personnel to farmers.

Action: Reactivate milk industry advisory board.

Action: Transfer state-owned railroad hopper cars from DNR to the Alaska Railroad.

Action: Write, review, and adopt fertilizer regulations.

Action: Enact enabling legislation for grain warehousing control.

3. Issue -- Confusion in land tenure requirements

Action: Draft new language for agricultural patents to conform to statutes.

Action: Draft new agricultural interest regulations to protect farmers from non-judicial foreclosure.

Action: Investigate alternative methods of financing farm home construction.

4. Issue -- Need for continued enhancement of the Agricultural Revolving Loan Fund

Action: Add two new board members to provide additional expertise and farmer representation.

Action: Increase ARLF capitalization to meet financing needs.

Action: Enact legislation to allow for land-clearing loan payments from Delta I, Delta II, and Point MacKenzie to return to the ARLF and not the general fund.

Action: Provide greater contact between loan examiners and borrowers.

Action: Increase loan board flexibility to meet modern farm development requirements.

5. Issue -- Lack of agency coordination

Action: Establish an Agricultural Advisory Board to the Department of Natural Resources.

Action: Examine the roles of the Department of Natural Resources and the Department of Environmental

Conservation in inspection and grading of agricultural products.

Action: Seek increased coordination among the Division of Agriculture, the Cooperative Extension Service, and the Agricultural Experiment Station.

6. Issue -- Lack of adequate federal involvement in Alaska agriculture

Action: Encourage Agriculture Research Service activity in Alaska through maintaining or expanding existing programs.

Action: Encourage the Farmers Home Administration to increase its lending to Alaskan farmers.

Action: Encourage the use of Alaska agricultural commodities by federal agencies in Alaska.

The Future of Alaska Agriculture

It is projected that receipts for selected agricultural sales in Alaska will grow to approximately \$60 million on an annual basis by 1990. This compares with about \$18 million in 1983. Additional State capital appropriations needed to accomplish these objectives amount to approximately \$28.5 million, mostly over the next two years. To the extent that declining revenues do not allow this level of funding, even

though the largest component is for loans, the appropriations would have to be made over succeeding years, delaying the anticipated benefits. Additional farm industry receipts during the period could total \$164 million.

In addition to providing expanded economic activity, an additional 1,800 jobs could be created by 1990 by achieving the projected level of production. This would give significant support to a diversified Alaskan economy.

The balance sheet for Alaska agriculture clearly shows an expanding agricultural sector. The number of producing farms in Alaska grew, by 100, from 360 in 1979 to 460 in 1983. Despite falling realty values, assets increased to \$185.8 million in 1983 compared with \$160.3 million in 1979. Equity was reported at \$140.5 million in 1983, whereas outstanding debt is reported at \$45.2 million.

It is clear that agriculture in Alaska is now at a critical juncture, as it is for the entire nation. Some industry gains have been made, and new economic activity has been generated by this growing sector of the State's economy. The results of previous State investment are well-demonstrated and will continue to accrue through time. With modest additional State investment plus regulatory and legislative solutions to current farm development and debt problems, projections of increased receipts and additional economic activity are achievable. This will assure a viable economic sector for Alaska agriculture into the next century.

ALASKA FARMERS AND STOCKGROWERS ASSOCIATION, INC.

1985 Resolution Platform

The following resolutions were adopted by the General Assembly of the Alaska Farmers and Stockgrowers Association at its annual meeting, in Anchorage, on December 5, 1984:

- 1) Requesting the institution of a State Board of Agriculture, consisting of producers and a representative of the Governor's office, whose task is to act as a liaison between the industry, the Governor, and the Division of Agriculture.
- 2) Requesting that the State of Alaska put up at least two (2) storage bins in Seward for in-state storage and distribution of grain.
- 3) Supporting the establishment of favorable agricultural rates on the State ferry system and on the Alaska Railroad.
- 4) Requesting that in all instances where state institutions use or require agricultural products, they use Alaska-grown products when those products are in season, price competitive, and of a like quality.
- 5) Supporting right-to-farm legislation.
- 6) Endorsing the concept of a petition requesting a constitutional amendment which would protect agricultural rights on State lands.
- 7) Supporting the concept that all agricultural lands sold in the future be disposed of by lottery only, and that they include agricultural development credits.
- 8) Supporting disposal of agricultural lands under the Homestead Bill enacted in 1933 to include soils classified as II, III, IV, V, and VI, and to specify that the lands be sold with agricultural rights, only, forever.
- 9) Supporting the development of a policy which classifies as agricultural land those lands containing Class II and III soils which are suitable for grazing.
- 10) Encouraging the State to rework its land lease laws to better facilitate agricultural needs (including the incorporation of "option-to-renew" clauses.)
- 11) Requesting that duties related to the agricultural industry be transferred from the Department of Environmental Conservation to the Department of Natural Resources.
- 12) Requesting clarification of the conveyance of the agricultural rights title to guarantee the rights of the purchaser.

The Agricultural Development Committee and the Board of Directors of the Greater Fairbanks Chamber of Commerce urges your support for the following legislation to encourage agricultural development in Interior and South Central Alaska.

1. Support is urged for SB39 to build the roads and bridges necessary to develop both the agricultural and mineral resources in the Totchaket area of Interior Alaska.
2. Support is urged for the concept of production credits, as outlined in SB40 and SB154, to assist Alaska's agricultural industry in its early stages of development.
3. Support is urged for SB41 to increase from five years to ten years, the moratorium on payments for the sale of state land for agricultural purposes. This bill will assist Alaskan farmers in adjusting to the new worldwide economic conditions in agriculture.
4. Support is urged for the concept of SB42 as it relates to the transfer of land title from state to private ownership. This concept will enhance the ability of Alaskan farmers to obtain financing from private sector sources for agricultural production.
5. Support is urged for SB57, which would require a clause be inserted in all state bids, requiring agricultural products originating in this state be used wherever competitively priced and available and of like quality as compared with agricultural products originating outside the state.
6. Support is urged for SB110 to increase the amounts of long term loans available from the State of Alaska to any one borrower for agricultural purposes. This legislation will increase the loan limits to be more in line with the economy of scale necessary for economically sound, modern farming and will enhance the ability of borrowers to repay.
7. Support is urged for the concept of SB155, relating to the splitting and combining of agricultural parcels, with the suggestion the bill be amended to allow the minimum parcel size be 320 acres. This legislation will permit increased flexibility in the development of economically sound full-time and part-time farming enterprises in Alaska.
8. Support is urged for SB120 to increase the limits of the Agricultural Revolving Loan Fund, to assist in the establishment of Commodity Marketing Associations, and to increase the number of members on the Agricultural Revolving Loan Fund Board.

FEB 27 1985

Karen O. Lee
P.O. Box 871871
Wasilla, Alaska 99687

Senator John B. Coghill
Pouch V
Juneau, Alaska 99811

Dear Senator John B. Coghill;

I would like to request your help in remedying some of the problems associated with the state's current attempt at agricultural development.

At present, there are some crucial, and sensible, measures addressing this problem which have been introduced this session. I would like to urge your positive consideration of SB 110, raising the Agricultural Revolving Loan Fund loan limit per unit to \$2 million; SB 154, establishing a system of production credits on agricultural sales to apply toward interest on state agriculture loans; and SB 155, allowing for adjustments in contractual requirements on agricultural interest parcels sold by the state.

Before discussing the merits of each bill, I should like to make a brief case for agriculture in Alaska, and for the state's having a role in the initial development of it.

Not least among the considerations is the fact that the State of Alaska has already decided to develop agriculture. Many Alaskans with belief in the good intentions of our state have been invited to participate. Once in the program, we have been forced to put up very large sums of our own money, work and hopes for the future in support of a joint vision, ours and the state's. I cannot believe that the purpose in all this was to convince a few people to put our whole hearts into the enterprise and then end it. It is one thing for the state to cut its own losses; it is another thing altogether for the state to decide prematurely to cut the losses of its individual citizens.

To reiterate the reasons for the state's original interest in the development of agriculture: it is a basic, job-creating, service-creating, renewable resource industry. It not only creates its own labor requirements; it creates a ripple effect throughout every community where it exists. For example, my farm creates employment for four families directly. Commodities are hauled in and milk is hauled out; truckers are employed at both ends. In Anchorage, the milk is processed by more employees, and distributed by still more. Another company manufactures plastic jugs for the milk. All this demonstrates the well-known economic fact that a dollar produced by a basic industry circulates many times more than a service or retail dollar does.

I grew up in Alaska, and I can attest to the accuracy of the economists' observations. There is one major difference between the Alaska of the 1950's and the Alaska of the present, and that is the general affluence. That affluence is due to the building up of a large public and service network based on another basic industry, resource extraction. Without that basic industry, there would be no affluence. Without the incentives, particularly those at the federal level, urging on the oil companies to explore and the mining companies to keep looking, there would be little but fishing in Alaska right now which could qualify as a basic industry.

The problem with resource extraction as the basic industry of choice, of course, is its volatility. The warnings on oil have been sounding for some time now.

I believe strongly that we must develop what other basic industries we are able to in the time remaining to us, with the funds from other extractive industries which we still have coming to us. Agriculture, mining, fishing and tourism thus become, as I see it, the major areas for expansion, rather than contraction, in state spending in the coming years of waning oil revenue. At some point, we are not only going to have to be weaned from oil, we are going to need some other basic to replace it. Otherwise, we will be stuck with a state of shopping centers and state and service employees, and no one to provide the basic dollar on which they all feed.

Agriculture has earned its place in the line-up of future basic industries supporting the state's economy, even though it is still barely half-way to its goal of self-sufficiency. It has persevered through decades of neglect, lack of infrastructure, lack of marketing cohesion, lack of fair labeling laws, lack of sufficient volume of either land or product, and lack of sufficient state encouragement. Even so, there are now farms which have been in existence since the 1930's and 1940's.

All statistics available indicate that a self-sufficient agriculture industry happens naturally when 500,000 acres are in production. We have a way to go to meet that goal, as outlined in the Governor's Agricultural Task Force Report of May 18, 1983. I believe that if the fundamental precepts outlined in that document and others preceding it are followed, and funding is kept at the levels recommended in that report, the success of agriculture in Alaska will be assured.

As to the specifics of the bills, SB 110 and SB155, when considered together, actually constitute a cost-cutting device. In the case of the Point MacKenzie Agricultural Project, for example, the 19 dairies required in the original configuration would have been eligible for, and would have needed, \$1 million each, or a total of \$19 million. At that, many of the units would not have been of an efficient size, and those which were would have been grossly undercapitalized.

Should the bill allowing consolidation of units be approved, five consolidated farms and six single farms are likely to result at Point MacKenzie, making the total loan requirement \$16 million, a savings of \$3 million. (Five at \$2 million; six at \$1 million each.) Moreover, the total number of cows producing milk will actually be higher than in the original plan, a fact which is crucial to the survival of the finished product marketing arm, Matanuska Maid.

The original Point MacKenzie feasibility study was written seven years ago. Even then, the study clearly stated that the most efficient farm was the largest size studied (150 cows). Since that time, building costs have increased by huge increments. So have insurance, workmen's compensation, feed, labor, equipment, fertilizer, and so on.

In the past seven years, the industry as a whole has undergone a number of changes tending to force farms into larger sizes for efficiency of production. It is likely that this trend will increase, rather than subside, especially if President Reagan's proposed new farm policy is instituted nationally.

Consolidation and an increase in unit loan limits will insure that Point MacKenzie dairies come on line in configurations that will allow them to compete with shipboard milk. The ship milk is produced on farms being subjected to great national pressure to become larger and more efficient. If we are to compete, we too must become larger and more efficient. Building 19 units, many of which will be small expensive anachronisms on the day they open, does not make economic sense for the farmer, for the state, or for the consumer.

National statistics indicate that the farms now in trouble are those with between \$50,000 and \$500,000 in gross annual revenues. Adjusted for pricing differentials, the Alaskan figures would more likely be between \$60,000 and \$700,000. At present, only a few farms in Alaska exceed that volume. Anything under \$60,000 could be considered a hobby with the owner/operator making the main living elsewhere. To earn over \$700,000 a dairy farm would have to milk 240 cows, and milk them well. A 240-cow farm in Alaska costs a minimum of \$2.5 million to build, stock and plant.

With the recent loss of a significant percentage of its stability and pricing levels at the market, the dairy industry in Alaska is particularly vulnerable right now, and particularly in need of a mechanism for consolidating both land and debt to a point that will again allow them to operate with positive cash flows. Between them, SB 110 and SB 155, would be of immense help in preserving the gains that have been made in the dairy industry. And, as I mentioned earlier, they will save money in both the short and long runs.

Other areas of agriculture would be similarly benefitted by the measures. Delta would become more flexible in the handling of their lands; possibly converting some of the farms into the part-time lower-gross category while still maintaining the same amount of planted acreage. Hog farms and beef feedlots are as capital-intensive as are dairy farms; with the rise of inflation over the past decade, it would not be possible to build either of these enterprises to an efficient level for the current loan limits. The state has invested significantly in the processing ends of both the meat and milk industries. It seems foolish to expect these investments to pay off if there are not to be any large hog farms, no big beef feedlots and no large dairy farms.

There has been much concern expressed over the delinquency rate of current ARLF loans. I think that is a problem that will take care of itself once farming has actually been developed, rather than developing. Once the industry has grown to the sufficient volume to be interrelated and profitable, the private financing industry will be only too glad to take over the responsibilities. For now, it must be remembered by policy makers that ARLF is in the business of developing a new basic industry, literally from the woods. They are not loaning to a new hamburger outlet for a simple return on invested capital. They are trying to get Alaskan agriculture to the point where we could sell our own hamburgers, not just eat the

ones that come in from Argentina. When reading the negative reports from Legislative Audit and the Budget Office, this ultimate larger purpose should be recalled.

As for SB 154, dealing with production credits, I favor this mechanism simply because it promises some benefit to those who have been trying the hardest to make the agricultural system work. The way it is now, those of us who have been working hardest and longest, thus losing the most money, are the ones getting hurt. Those who have been planting for years at Delta, with only a modicum of state encouragement, or who began producing milk at Point MacKenzie before they absolutely had to, would at least get the benefit of some reduction in carryover interest debt. In the case of the Point MacKenzie farmers, the state in its capacity of creamery owner has held the price of milk down because of a state moratorium until late 1985 on state loan repayments. That sounds all right, until you remember that if the interest is not forgiven, it will have cost every farmer about \$80,000 for that moratorium. There is no way to recoup that loss without production credits.

To summarize, SB 110 and SB 155 will act quickly to maintain the dairy industry in Southcentral Alaska, and enable the other areas of agriculture to become more efficient and to develop according to the overall plan. SB 154 will not involve an appropriation, and will greatly aid those who have been the losers so far in the struggle to develop agriculture in Alaska.

I would be happy to supply more information, either general or specifically from my own Point MacKenzie operation, should you decide that that would help you in your deliberations.

Thank you for taking your time in a busy 120-day session to listen to these concerns.

Sincerely,



Karen O. Lee

Owner

Tract 30 Point MacKenzie

JOSEPH PATRICK CANGE
CERTIFIED PUBLIC ACCOUNTANT
BOX 4-847
ANCHORAGE, ALASKA 99503
TELEPHONE (907) 344-5800

FEB 28 1985

February 18, 1985

Arliss Sturgulewski
Chairman Resources Committee
Alaska State Senate
Pouch V
Capital Building
Juneau, Alaska

SUBJECT: SENATE BILLS NOS. 110 AND 155

Dear Arliss:

Pursuant to our conversation yesterday, I am submitting data regarding Senate Bills Nos. 110 and 155. Before I address these items, however, I would like to express my thoughts on the agriculture industry.

First I ask "Can the dairy industry be viable?" Yes. Our figures indicate that we can provide milk that is competitive with Outside milk because of the freight advantage that exists. The additional total cost of producing milk locally versus Outside is less than the freight on milk shipped from Seattle.

The goal at the Tucker dairy is to produce milk at the lowest cost possible per unit of milk produced. The local dairies must be as efficient and as well managed as Outside dairies or they cannot compete in the local market place. Most of the local dairies have never become efficient enough to bring their operating costs down to be competitive with Outside dairies. For example, our cost of feed is \$4.29 per day per cow when we bring in soybean meal and barley in bulk and mix our own feed. The cost of this same feed purchased locally is \$1.00 per day per cow more. That \$1.00 savings is the farmer's profit on the milk produced.

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Page Two

Historically, the various State administrations have had no comprehensive plan. Thus, agriculture has been an unorganized, unplanned and poorly administered industry. This situation has left Alaskan agriculture in a state of chaos and near bankruptcy. It is not too late to save agriculture. Many things must be done and many changes in policies and practices must immediately take place if we are to save the industry.

We are fortunate that for the first time in Alaskan agricultural history we now have a Commissioner who is genuinely concerned about agriculture. She is willing to change obsolete policies and thinking and is doing the things necessary to save the industry -- and the state's investment. This is the direction in which Esther Wunnicke and Deputy Director James K. Barnett are embarking. Senate Bill No. 110 and Senate Bill No. 155 are a vital part of that comprehensive plan that will make the dairy industry viable.

SENATE BILL NO. 110

Proposes increasing loan limits of the Agricultural Revolving Loan Fund (ARLF) from \$1,000,000 to \$2,000,000

A number of things have made this increase necessary.

1. When the State's figures were done in 1979 (see Exhibit A "Potential Milk Production in the Point MacKenzie area of Southcentral Alaska") the Consumer Price Index was 233.2 (1/1/80). Today the Consumer Price Index is 316 which is a 36% increase in costs since 1/1/80.

2. The initial plan at Point MacKenzie was for the establishment of 19 small family-run dairies. However, the \$200,000 cash requirement for even the smallest dairy prohibited the building of these smaller dairies. The larger dairies actually being built require more total borrowing, but result in lower borrowing per cow.

3. The State's figures (see page 7 of Exhibit A) showed that the total capital investment for a 150-cow facility was estimated to be \$1,241,711. However, these numbers do not include housing, working capital or machinery costs. These add an additional \$500,000 to the 1979 figure of \$1,241,711.

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Page Three

4. Current farms are undercapitalized and there is no other source of funds available. The current dairies are:

	<u>Facility Size</u>	<u>Actual Cows Milking</u>	<u>Difference</u>
Tucker Dairy	480 cows	360	120 cows
Lee Dairy	300 cows	160	140 cows
James Dairy	260 cows	40	220 cows
Rudgers Dairy	150 cows	50	100 cows
TOTAL	1190	610	580

It does not make sense to create facilities and then not provide inadequate funds for cows. These dairies are all up against the \$1,000,000 loan limit, but need additional funds to bring these dairies up to maximum capacity. Increasing the loan limit will allow these dairies to be brought up to 100% milk producing potential. This will generate the greatest return on scarce funds because of a better utilization of existing facilities. Every cow generates \$3,000 in revenues for the farm. In addition, according to Matanuska Maid each additional cow generates \$420 per year in additional net income for the creamery (see Exhibit B).

580 additional cows x \$420.00
= \$248,600 additional net income to the creamery.

SENATE BILL NO. 155

Proposes the splitting and combining of agricultural parcels

This change is necessary for the following reasons.

1. By consolidating parcels the total capital required per cow is substantially less. In our case, consolidation reduced capital investment per cow by 32%. This creates more competitive fixed cost and lowers debt requirement per cow. Boyd Buxton, noted dairy authority who has done work for the Department of Agriculture, states

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Page Four

"The investment per cow in dairy buildings and equipment is substantially less on larger than on smaller dairies regardless of region." (See Exhibit C, Page 14 "Economic Policy and Technology Factors Affecting Herd Size and Regional Location of U.S. Milk Production").

2. The operating costs, including interest expense per cwt of milk produced, are lower on larger dairies than on smaller dairies because of the principle of economies of scale. The Tucker dairy operating costs per cwt of milk produced are 26% lower on one large dairy than they would be on four smaller dairies. Boyd Buxton states "Based on whole farm budgets, the larger dairies with 500 cows or more are more profitable than smaller dairies." (See Exhibit C, Page 27).

3. Most of the Point MacKenzie parcel owners have little or no experience in the dairy industry. Therefore, it is imperative that the dairies hire competent dairy managers to insure a successful and well managed farm. Consolidation makes this financially possible.

4. Currently many dairies have already joined together in cooperative efforts as follows:

Dairy West joined two borough parcels together
Tucker Dairy joined four separate parcels together
Wright Dairy joined two parcel together
James Dairy joined two parcels together
Shoone Dairy joined two parcels together

These joint efforts have been necessitated due to the simple economics of the dairy industry. The dairy industry needs Senate Bill 155. Not passing Senate Bill 155 would place a definite hardship on these dairies and could result in their bankruptcy and thus the industry as well.

5. The consolidation of dairies is in compliance with the intent of the initial sales brochure dated September 11, 1982 (see Exhibit D) which states "The major objectives are to stimulate in-state milk production, to provide milk to Alaska consumers at a competitive market price, and to assist in gaining agricultural self-sufficiency for the State of Alaska." Only through consolidation can we be competitive.

Arliss Sturgulewski
February 18, 1985
Page Five

6. The consolidation of parcels will eliminate unnecessary duplication of buildings and machinery. This will substantially reduce the borrowing required from the ARLF. There is currently not enough money in the ARLF to develop all the remaining parcels and the reduced capital needs resulting from consolidation will help lessen the demands on ARLF funds. In our case, the ARLF has only \$1,000,000 invested in one 485-cow facility instead of a possible \$4,000,000 in four 120-cow dairies.

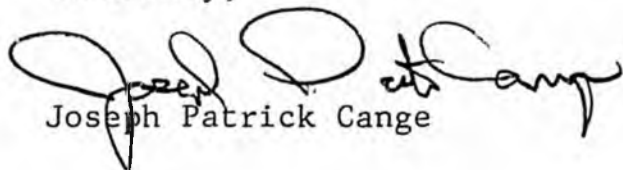
I have also enclosed earlier correspondence related to Point MacKenzie that you might find helpful. They are:

Exhibit E	1/1/84	Jalmar Kerttula
Exhibit F	6/22/84	Bob Heath
Exhibit G	9/14/84	Dean Brown
Exhibit H	1/17/84	James K. Barnett

The passage of Senate Bills 110 and 155 are mandatory if we are going to work toward a successful, profitable and financially strong dairy industry that will produce dairy products for Alaskans at a competitive price.

Thank you for your attention to this very important matter. If I can be of any further assistance, please do not hesitate to give me a call.

Sincerely,


Joseph Patrick Cange

:p

cc: Esther Wunnicke
James K. Barnett
Mike Szymanski
Jan Faiks
Jalmar Kerttula
Bill Heim

STATE OF ALASKA THE LEGISLATURE

POUCH Y - STATE CAPITOL
JUNEAU, ALASKA 99811
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May, 1980

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

SENATE RESOURCES COMMITTEE,	3/13/85,	1:40
" "	3/15/85,	1:40
" "	3/18/85,	1:00

TESTIMONY BY

James V. Drew

Before the Senate Committee on Resources

Juneau, Alaska

March 13, 1985

My name is James V. Drew. I live at 4725 Villanova Drive, Fairbanks, Alaska. I have been associated with agricultural development in Alaska during the last ten years as Director of the Agricultural and Forestry Experiment Station, University of Alaska-Fairbanks. I very much appreciate the opportunity to testify today before the Senate Committee on Resources during hearings on agricultural legislation.

My testimony rests on the premise that expanded agricultural development in Alaska is in the best, long-term interest of Alaskans. Sound development of an agricultural industry can provide cost-effective farm production and diversify Alaska's almost total economic dependence on petroleum prices. I believe that a number of bills under consideration this year are important in strengthening and expanding Alaska's agriculture.

I also recognize that current economic conditions in the agricultural industry nationally create a difficult environment for advocates of agricultural development in Alaska. During recent weeks the news media have carried stories about farm foreclosures across the U.S. These foreclosures reflect a U.S. farm credit crisis resulting from declining farmland prices, high interest rates, and low prices for agricultural commodities.

Why, in view of these difficult times for American farmers, should we continue agricultural development in Alaska? Three reasons are important.

1. Alaska has approximately three millions acres of potential agricultural land in state ownership near the existing road and rail belt. This land could be transferred from state to private ownership for farm development and long-term productivity. Top farmers in the Delta and Point MacKenzie areas and elsewhere in the state have demonstrated that crop and livestock products of high quality can be produced in Alaska when good management is used.
2. Agricultural development, in concert with other resource development including timber production and mining, can provide the economic productivity necessary to support and improve transportation on Alaska's existing road and rail system. It can create a desirable settlement pattern for adjacent land, particularly where other resource developments are unlikely. In the more remote areas of western Alaska, an expanded reindeer industry can provide economic productivity from the tundra rangeland. Unlike petroleum extraction, agricultural development will not provide massive amounts of revenue to state government; it will provide opportunities and jobs for people.

3. Additional sales of potential agricultural land will permit Alaska's agriculture to expand beyond the stage of an infant industry. As the volume of agricultural production increases, the costs of producing, processing, and marketing agricultural products will become competitive with those in other agricultural regions. Thus, subsidies necessary for the existing, infant, agricultural industry can be reduced and eventually eliminated.

It is unlikely that today's economic conditions in U.S. agriculture will persist in the long-term, although some restructuring of the industry will undoubtedly occur. Unfortunately, current economic conditions in the U.S. timber and mining industries are also substantially below previous levels. In the long run, however, the development of Alaska's agricultural industry will provide economic and social benefits, particularly in areas of the state where opportunities for the development of other resources are limited.

With these benefits in mind, and with 200 years of agricultural history in Alaska, why does the state not have a mature agricultural industry today? Why is it that annual cash receipts from farming total \$14.3 billion in California, \$6.7 billion in Minnesota, \$2.7 billion in North Dakota, but only \$16 million in Alaska, only half as much as Rhode Island's \$32 million.

A major reason is that virtually all of the potential agricultural land in Alaska was held by the state or federal government during the time agricultural development was occurring in other states. Unlike other resource industries, crop production agriculture cannot develop effectively in the U.S. on land owned by government. Because of limited acreage in private ownership, Alaska's farmers could not take advantage of economies of scale associated with farming elsewhere. In addition, Alaska's economic infrastructure, including the transportation system, did not facilitate supplying farms with needed materials or marketing agricultural products. Thus, the cost of producing and marketing agricultural products was high.

Now that agriculture is fully developed in California, Minnesota, and North Dakota, Alaskans who are not farmers tend to forget that hundreds of millions of dollars were spent by government in developing irrigation projects to make California's agriculture cost-effective. They forget that government spent hundreds of millions of dollars to provide inexpensive barge transportation on the Missouri and Mississippi Rivers to make agriculture in Minnesota and North Dakota cost-effective.

In short, agriculture did not develop unassisted elsewhere in the U.S. In all states, it took investments from government as well as the private sector. But these investments created new wealth from land resources that would not have been productive otherwise.