

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 80/2

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SRES

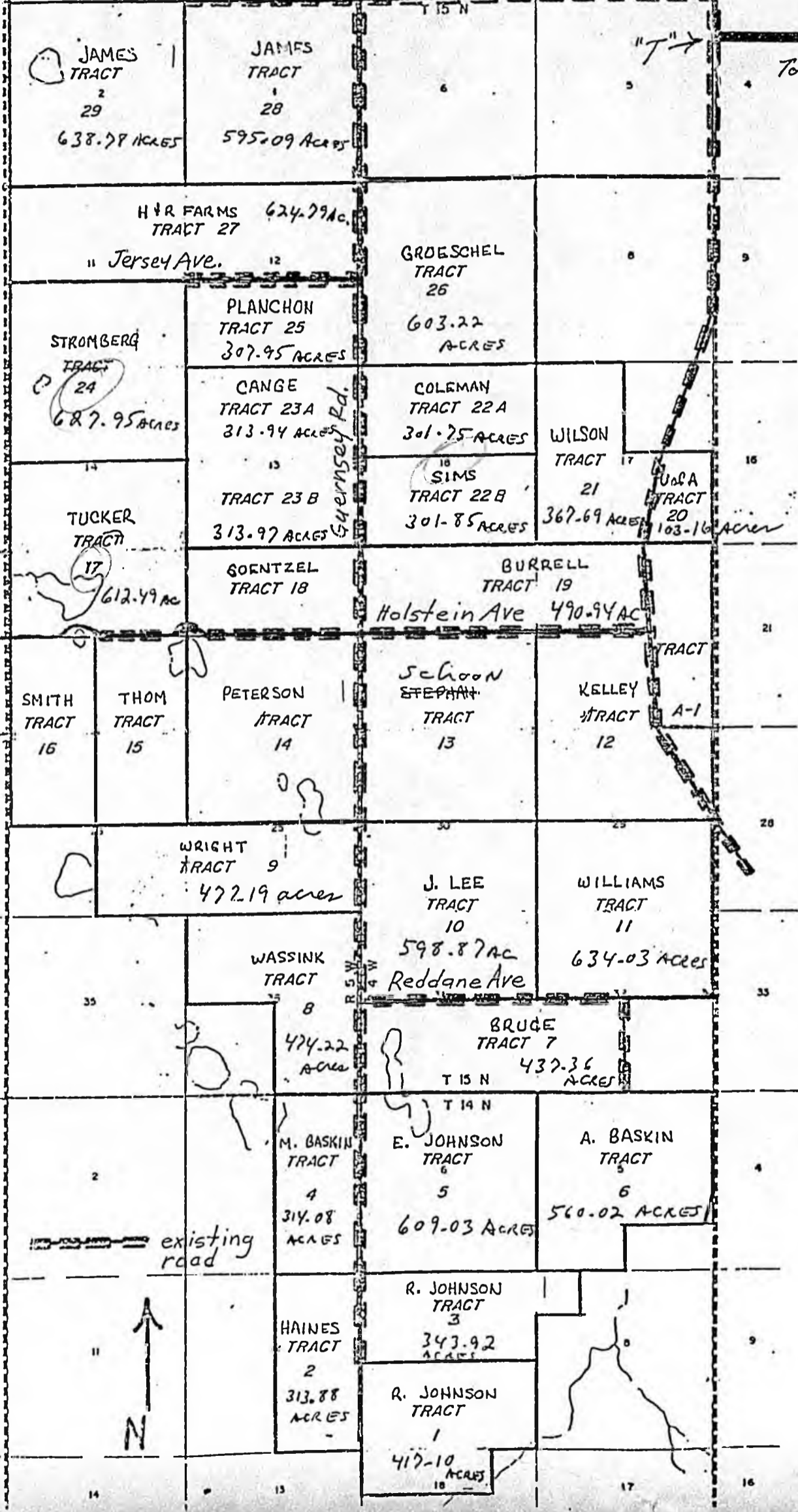
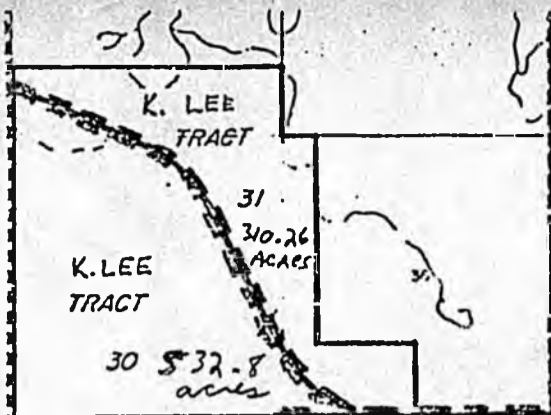
SB 155

1188

From light in Wasilla, take Knik-Goose Bay Rd. South 17.5 miles, turn right on gravel rd., proceed eight miles to "T".

Airshire Avenue

"T" → To Wasilla



existing road



34
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Guernsey Rd.

Reddane Ave

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T 14 N

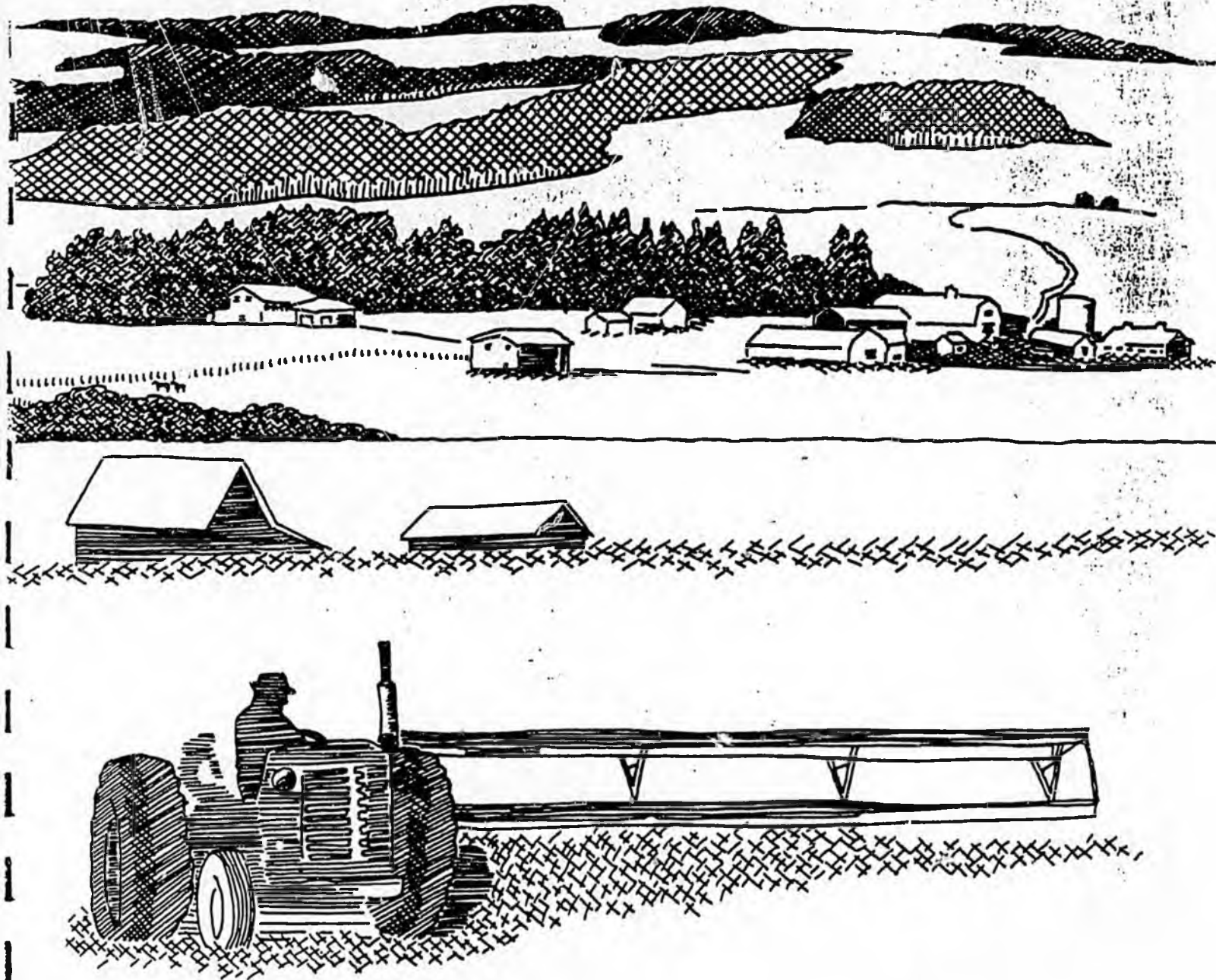
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JOSEPH PATRICK CAMBE

Agriculture in Alaska: A Plan for the Future

A Special Report to the Governor
November, 1983

Page 3
Page 7



Our conclusion is that the state's goal for 1990 should be to diversify and strengthen the state's economy by increasing the availability of competitively priced Alaska food products. This can be accomplished through pursuit of the following objectives:

- Encouraging expanded production of competitively priced farm products from existing agricultural lands
- Increasing number of acres available for agricultural production
- Preserving options for in-state market expansion and future exports

II. INSTATE MARKET POTENTIAL

The railbelt area holds much promise as a market for products of Alaska farmers; and it is this prospect which is the basis for our conclusions and recommendations.

IV. THE AGRICULTURAL LAND BASE

An agricultural land base of approximately 227,000 acres may be necessary to achieve the projected percentages of the 1990 railbelt market, but, given the number of variables, precision in any forecast is not possible. Actual demand for agricultural land during that period may vary since the market shares actually attained will depend on the competitiveness of products offered and the strength of promotional programs. In addition, the land base to produce feed for sheep, goats, rabbits and poultry plus food products for other areas of the state has not been estimated. Given that land is used for farm buildings, wood lots, and other farm-related but non-crop uses, production is expected on only 55 percent of the farm lands privately held (Table 3.)

To increase prospects that adequate land will be in production in 1990 and immediately beyond, an additional 27,000 acres of public lands should be conveyed to private ownership. These recommended disposals would add to the present 200,000 acre land base (prior state and borough disposals (Table 4) and other currently held private lands). Lack of development on prior disposals will

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ii

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

- 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;

(3)

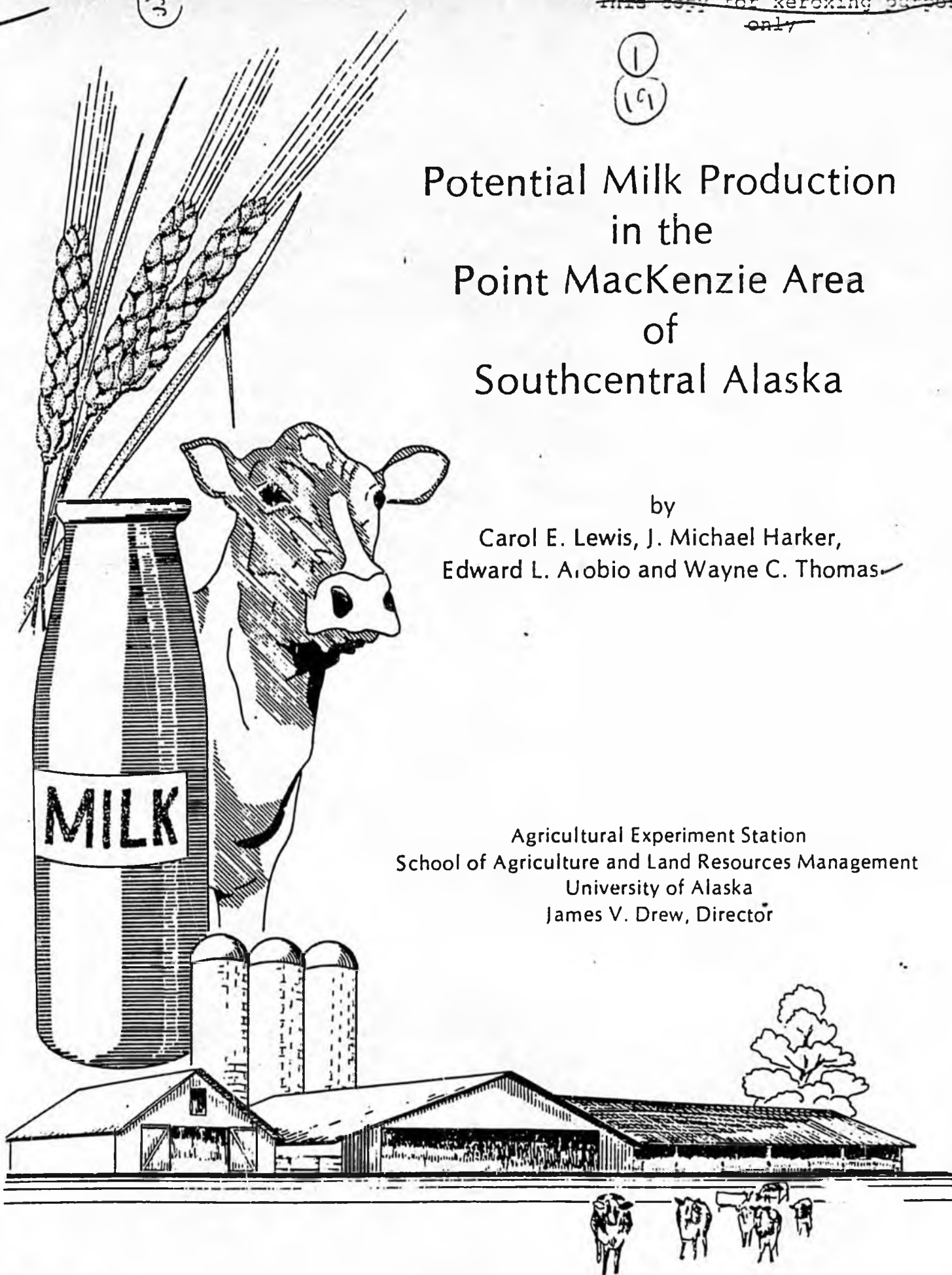
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Potential Milk Production in the Point MacKenzie Area of Southcentral Alaska

by

Carol E. Lewis, J. Michael Harker,
Edward L. Arobio and Wayne C. Thomas



Agricultural Experiment Station
School of Agriculture and Land Resources Management
University of Alaska
James V. Drew, Director

CHAPTER 1

INTRODUCTION

Point MacKenzie is an area northwest of Anchorage directly across the Knik Arm of Cook Inlet (Figure 1). This area contains a substantial amount of latent agricultural land and discussion regarding its potential has been going on for some time. The catalyst which activated the recent planning process directed at Point MacKenzie was concern over potential loss of the southcentral Alaska dairy industry expressed on May 4, 1979, in a letter from Jack Flint, General Manager, Matanuska Maid, Inc., to Governor Jay Hammond: "It is my opinion that if we do not take immediate steps to stabilize this important phase of agriculture, [the dairy industry] will pass from the scene. I think that if it should occur, it would be a serious blow to the State of Alaska, economically and socially. I believe we should also realize that if the dairy industry should cease to exist within the state, it is going to be very difficult to re-establish it."

Mr. Flint's letter and corresponding action by the Matanuska-Susitna Borough have directed planning processes of the State of Alaska toward Point MacKenzie. The Alaska Agricultural Action Council, created by the 1979 state legislature to plan, recommend, and administer agricultural development projects on state lands in Alaska, held a meeting in the Matanuska Valley in September, 1979, and determined that an economic feasibility study, directed toward dairy production, should be undertaken for the Point MacKenzie area. This report is that feasibility study.

In order to perform the analysis, certain general assumptions are made. These include:

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

The land price of \$100 per acre for purchase of agricultural rights only is set by the Alaska Land Statutes, Section 38.05. It is an average price and may vary depending on soil type and timber on the property. The homestead credit, repealed in 1979, will be reinstated in 1980. The land-clearing costs were based on a \$165-per-acre cost in 1979 in interior Alaska. An additional 15 per cent was added to bring them to 1980 costs. The heavier timber cover will probably require more machine time estimated at \$30 per acre.

CHAPTER 3

MARKETING AND COMPETITIVE POSITION

Marketing

Milk is one of the few agricultural products having a well-organized marketing system in Alaska. Matanuska Maid, a dairy farmer cooperative, has identified the fresh milk market in Alaska, excluding the southeast portion of the state, at approximately 6,500,000 pounds per month. About 19 per cent is milk produced in Alaska, with the remaining 81 per cent shipped in by bulk and processed here or processed and packaged for retail sales outside the state before shipment to Alaska.

There are currently two major milk processors in Alaska—Matanuska Maid and Arden Farms—both located in Anchorage. Matanuska Maid processes all the milk produced in Alaska. The problem for these two processors lies in retaining a market share sufficient to maintain a volume of milk for efficient processing while competing with falling prices for imported milk. In-state milk production has declined from 22.1 million pounds in 1961 to 14.4 million pounds in 1978 with imported milk replacing the loss.

Fresh-milk producers in Alaska are being pressured by high land values in the Matanuska Valley. Dairy men are now able to realize significant gains by selling their land to speculators and subdividers, gains much higher than would be realized by continuing to farm or by selling to another farmer. As a result, since the 1960s dairy farms have been declining rapidly. The industry, thus weakened, has had a difficult time meeting increased competition from "outside" dairy men. Increased milk production from Point MacKenzie farms may help increase the competitiveness of the industry.

An important question is whether or not new milk producers at Point MacKenzie can reasonably expect to have a market for their milk. Some consumers may not choose Alaska-produced milk, even if it is price competitive, while others would probably be willing to pay a premium for local milk. Some retail firms may prefer, due to economic pressure, not to handle local milk unless it is competitive with out-

side milk. It is probable that considerably less than 100 per cent of the market will be supplied by local milk even with the additional production from Point MacKenzie.

Competitive Position of Alaskan-Produced Milk

The current competitive position of Alaskan-produced milk compared with alternative sources is analyzed below. Such analysis is important in considering the future of the Alaskan dairy industry. While disagreement is possible for any figure given, cost data in the analysis are as accurate as possible at this time. The magnitude of any inaccuracies would not be great enough to alter the conclusions.

Milk produced in Alaska must compete for a reasonable share of the market with milk shipped in from outside the state. As shown in Table 22 (pg. 20) Alaska farmers were receiving \$16.84 per hundred weight in November, 1979. Farm-to-processor transportation cost by regulated carrier was \$1.36 per cwt. Therefore, the total cost for Alaska-produced milk to an Anchorage processor was \$18.20 per cwt. Local processing cost adds another \$13.61 per cwt and brings the total cost, when delivered to the retail store dock, to \$31.81 per cwt. Milk shipped in by bulk and processed locally had a slightly higher wholesale cost of \$33.04 per cwt. This is primarily because regulations require that bulk milk shipped into Alaska must be pasteurized a second time, adding a cost of \$2.00 per cwt. Prepackaged milk shipped in from the Puget Sound had a significantly lower wholesale cost. Table 22 presents the cost of prepackaged milk using a Class I price (regulated handler) and blend price (non-regulated producer/distributor). These total \$27.66 and \$26.66 per cwt which is \$4.15 and \$5.15 less than Alaskan produced and processed milk, respectively. Recombined milk (dry skim milk and butterfat shipped in from out of state and recombined with water in Alaska) was competitive with the prepackaged milk even with the higher Alaska processing costs.

CONSULTING REPORT: THE FEASIBILITY OF
SUCCESSFULLY REORGANIZING MATANUSKA
MAID INC.: AN ALASKAN CORPORATION

This technical assistance study was accomplished under funding from Matanuska Maid, Inc., an Alaskan Corporation. The statements, findings, conclusions, and recommendations are solely those of the consulting team and do not necessarily reflect the views of Matanuska Maid Inc.

July 10, 1984

prominent infrastructure problems noted are energy costs necessary to maintain production and costs of transportation for raw product to Anchorage.

- (2) As noted elsewhere within this report, a \$7,000 per cow investment level is necessary to maximize efficiencies and economies of scale. This investment level produces a minimum herd size of 191 cows. The existing Point MacKenzie development requirements are such that effectively realizing this optimum level requires capitalization in excess of the lending limits now available to dairy farmers locating in the Point MacKenzie area.
- (3) The geographic isolation of the Point MacKenzie area compounds the cost control problems normally associated with dairy production. It is the assessment of the consulting team that Alaskan history will repeat itself in the Point MacKenzie area (relative to the dairy industry) unless modifications in the development plans for Point MacKenzie can be made. The reader is reminded that at one time over 80 small dairy farms existed in Alaska. Of the original 80 farms, only those who have managed to increase herd size and operating efficiencies survive today. This pattern is similar to the pattern evidenced for the industry as a whole and is an important consideration relative to development of the Point MacKenzie area.
- (4) The price reduction recommended in this proposal is absolutely essential to the survival of the existing dairy industry structure within Alaska. As noted, unless Mat-Maid products can become competitive within the marketplace sales will continue to decline as consumers react to price sensitivities. As the majority of the dairy producers associated with Mat-Maid have structured their debt load around a pricing structure in excess of \$22/CWT, adjustments in repayment schedule for such debt will be necessary.
- (5) For the proposed Mat-Maid recovery plan to be successful, the 2% retainage debt now carried by Mat-Maid must be treated in a manner similar to the debt for all other unsecured creditors. Further, the \$2.2 million worth of certificates of equity now carried by Mat-Maid are a liability against operating cash flows that severely damage potential for Mat-Maid to successfully reorganize.

Recommendations

It is the consensus opinion of the consulting team that successful reorganization of Mat-Maid depends upon fully implementing the company-specific and Macro Environment-specific recommendations earlier discussed. In addition, for the total system to survive, it is our opinion that the following producer-specific recommendations are also essential.



United States
Department of
Agriculture

Economic
Research
Service

RED, University of Minnesota
217 Cla Off Bldg, 1906 Buford Ave.
St. Paul, Minnesota 55108

November 28, 1984

Mr. Joseph Patrick Cange
Certified Public Accountant
Box 4-647
Anchorage, Alaska 99509

Dear Mr. Cange:

In response to your letter of October 31, 1984, I have enclosed a preliminary draft report recently completed. The capital costs estimated for twenty-two dairy operations in the lower 48 states are summarized in Table 4, page 15. The budget information is for "whole" farm situations and include some operations that produce most of the feed within the farm. By looking at alternative size herds within each state, some idea of how capital costs per cow change on alternative size farms can be evaluated. Table 4 breaks capital costs down into six categories such as dairy buildings and equipment. This may help you pick the most relevant figures for your purposes.

The results do indicate lower investment on larger farms than on smaller farms especially up to the 500 or 600 cow herd sizes. Perhaps the New York farms would be most relevant to the Point MacKenzie project as those farms use free stall housing, produce most of the forage requirement and 52-, 200-, and 600-cow operations are considered.

I enjoyed meeting with the group representing the Point MacKenzie area and also wish we had had more time to discuss the farm issues.

Sincerely,

Boyd M. Buxton

Boyd M. Buxton
Agricultural Economist

BMB/dmm

Enclosure

EXHIBIT B

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 for 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.

EXHIBIT B-3

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.

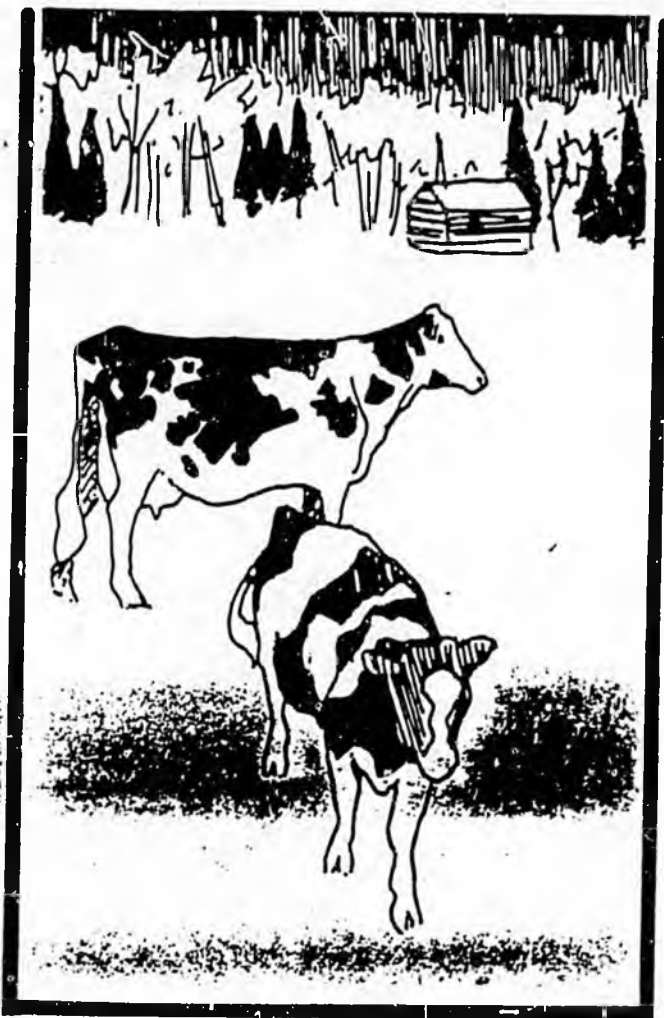
5. Strong economic pressure exists for herds to get larger in all regions. This will continue the trend to fewer and larger dairies.

6. The relatively favorable profit potential (rate of return) of large scale dairy farming in the Southwest, Southeast 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

Point MacKenzie Agricultural Project SALE BROCHURE



LAST COPY

Department of Natural Resources
Alaska Agricultural Action Council
September 11, 1982



STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF LAND AND WATER MANAGEMENT
323 East Fourth Avenue
Anchorage, Alaska

POINT MACKENZIE AGRICULTURAL INTEREST SALE

Lottery #10

Filing Period: 8:00 a.m., Wednesday, July 7, 1982 through
4:30 p.m., Friday, August 20, 1982.

Place of Lottery: Palmer High School
Little Theater
West Arctic Avenue
Palmer, Alaska

Date of Lottery: September 11, 1982

Time of Lottery: 10:00 a.m. (local time). Information Briefing and
Lottery Drawing.

INTRODUCTION

to develop agricultural land as a renewable resource of the
the Alaska Department of Natural Resources in cooperation with
Agricultural Action Council is disposing of approximately
acres of agricultural land in the vicinity of Pt. MacKenzie,
major objectives are to stimulate in-state milk production,
milk to Alaska consumers at a competitive market price, and
gaining agricultural self-sufficiency for the State of
Therefore, subject to the provisions of AS 38.04 and AS 38.05
and pursuant to the regulations promulgated thereunder, the Director of
the Division of Land and Water Management, or his authorized represen-
tative, will sell (the agricultural interest) by lottery in the follow-
ing described real property located within the Palmer Recording
District.

PARCELS FOR SALE

The agricultural interest in twenty-nine (29) parcels ranging in size
from .75 acres to 632.24 acres and totaling 13,940 acres will be
offered for sale. The sale of all parcels will be under the terms and
conditions set forth in this brochure and in the sale contract. Sample
sales contracts are available for inspection through the Southcentral
District Office. Land discounts pursuant to AS 38.05.058 and 11 AAC
67.900-915 are available to eligible Alaskans.

P.O. Box 4-647
Anchorage, Alaska 99509
January 17, 1985

Mr. James K. Barnett
Deputy Commissioner
Alaska Department of Natural Resources
555 Cordova Street
Pouch 7-005
Anchorage, Alaska 99510

Re: Consolidation of Parcels
116, 117, 123, and 124 into one farm

Dear Mr. Barnett:

The four owners of the hereinabove described parcels are asking that the four parcels be permitted to consolidate into one farm. After a very thorough economic analysis we made the decision in late 1983 to work jointly to build one large efficient facility rather than build four separate smaller ones. Thus, we combined our capital, time, and management expertise to create one large and economically efficient dairy. The reasons for this decision are as follows:

1. Through consolidation the capital investment per cow was 32% lower for one dairy than for four separate dairies. By pooling our economic resources we capitalized the dairy with \$1,000,000 cash. The capital requirements are so great that if each person had attempted to build a separate, small dairy, none of us would be operational at this time. However, through this cooperative effort, we are currently producing 12,000 lbs. of milk per day.
2. The operating costs including interest expense per cwt of milk produced are 26% lower on the one large dairy when compared to four smaller dairies. The economies of scale of the larger dairy will, therefore, make us competitive with outside milk.
3. None of the four parcel owners had much experience in the dairy industry; therefore, it was imperative that we secure a competent dairy manager to insure a successful well-managed

Mr. James K. Barnett
January 17, 1985
Page 2

operation. By building one large dairy we were able to attract and hire one of the leading dairymen in the country. A single, small dairy could not have afforded the compensation necessary to attract a good dairy manager.

4. We recognized that Matanuska Maid's bankruptcy filing, and a reduction in milk prices (from \$22.60 per cwt to \$19.00 per cwt) would require that we be able to produce milk at a price lower than \$19.00 per cwt. We could only do this by combining our parcels.

The Point MacKenzie sale brochure dated September 11, 1982 states on Page 1 "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."

The required minimum stocking of these four parcels by November 1, 1985 is 173 cows. We currently have 367 cows, more producing cows than all the other Point MacKenzie producers combined.

Having experienced the complete process of getting a dairy on line, none of us (the four parcel owners) would ever consider building separate, smaller dairies. We are viable and in production now only because we have consolidated the parcels.

~~The benefits to the state and the industry are many.~~ We have attached a letter from John Seawell (Exhibit A) that shows our 367 cows are earning the creamery \$12,845 per month. The consolidation will eliminate the duplication of capital and thus require less of ARLF funds. The existing funds available for agricultural lending are quite limited. In fact, the request for a separate loan on Parcel 116 has been postponed by the ARLF Board because of apparent lack of funds.

Lower capital requirements and lower operating costs create competitively priced agricultural products. To prove this point, we have also attached a letter and study from a leading authority on dairy farming (Exhibit B) which points to lower investment and lower operating costs on larger dairies versus smaller dairies.

Mr. James K. Barnett
January 15, 1985
Page 3

We are making an official request of the Director of the Division of Land and Water Management, with the consent and concurrence of the Commissioner of the Department of Natural Resources, to amend our CONTRACTS FOR THE SALE OF AGRICULTURAL INTEREST IN STATE LAND to permit a consolidation of Parcels 116, 117, 123, and 124 into one farm. With the November 1st contract date only nine months away, we would like to accomplish the consolidation as soon as possible.

It is imperative for the long-term success of the industry that the Department of Natural Resources demonstrate initiative and foresight in its policies to do those things that make the industry viable and competitive. Let's not live by yesterday's standards: let's be progressive. Now is the time to do the things that these competitive times demand.

Sincerely,

Evander C. Smith

Evander C. Smith
Parcel 116

Wilburn E. Tucker

Wilburn E. Tucker
Parcel 117

Charles J. Gange

Charles J. Gange
Parcel 123

Gary E. Stenberg

Gary E. Stenberg
Parcel 124

attachments

cc: Bill Heim
Esther C. Wunnicke

JOSEPH PATRICK CAH

CERTIFIED PUBLIC ACCOUNTANT

BOX 4-647

ANCHORAGE, ALASKA 99508

TELEPHONE (907) 344-5800

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.

Arliss Sturgulewski
February 18, 1985
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.

Arliss Sturgulewski
February 18, 1985
Page Three

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

	Facility Size	Actual Cows Milking	Difference
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
area of 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

Arliss Sturgulewski
February 18, 1985
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 parcels 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.

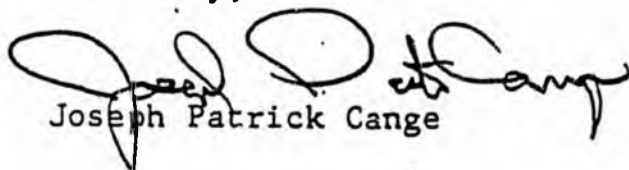
I have also enclosed earlier correspondence related to Point MacKenzie that you might find helpful. They are:

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

JOSEPH PATRICK CANGE

CERTIFIED PUBLIC ACCOUNTANT

BOX 4-847

ANCHORAGE, ALASKA 99509

TELEPHONE (907) 344-5800

MAR 3 1986

March 1, 1986

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

Subject: Senate Bill 155

Dear Arliss,

Pursuant to a conversation with you on the 21st of February, I am submitting herewith my thoughts regarding the merits and the importance of SB 155 to the Alaskan agriculture industry. In the most basic terms, this is a bill that provides a mechanism for DNR to combine and split agriculture parcels if it is in the public interest, if it encourages the development of the state's agricultural resources and if it prevents economic waste. SB 155 permits decisions to be made based upon the economic realities of the times.

I believe that the only way this industry can survive without continuing state subsidies is by all of us supporting those policies that make economic sense. In the DNR Special Report to the Governor dated November, 1983, entitled AGRICULTURE IN ALASKA: A PLAN FOR THE FUTURE, it states:

"Our conclusion is that the state's goal for 1990 should be to diversify and strengthen the state's economy by increasing the availability of competitively priced Alaska food products. This can be accomplished through pursuit of the following objectives: Encouraging expanded production of competitively priced farm products from existing agricultural lands."

In the DNR Special Report to Governor Sheffield dated March, 1985, entitled DEVELOPMENT OF AGRICULTURE IN ALASKA, it states;

"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: Encourage expanded production of competitively priced farm products from existing agricultural lands in Alaska."

In the University of Alaska Bulletin 58, dated September, 1980, entitled POTENTIAL MILK PRODUCTION IN THE POINT MACKENZIE AREA OF SOUTHCENTRAL ALASKA, it states:

"Milk produced in Alaska must compete for a reasonable share of the market with milk shipped in from outside the state."

These reports make the important determination that if the industry is going to be successful it must be competitive.

The Consulting report entitled THE FEASIBILITY OF SUCCESSFULLY REORGANIZING MATANUSKA MAID, INC., prepared for the State of Alaska, at an expense of \$40,000, states:

" The state of Alaska has repeatedly reenforced the major objectives of the Point MacKenzie agricultural project, and similar projects throughout Alaska, are to stimulate in-state agricultural production to provide Alaskan consumers agricultural products at competitive market prices. It is the consensus opinion of the consulting team that the current operating conditions for the Point MacKenzie project are such that realizing the state objectives of competitive price and expansion of the agricultural base within the state are in jeopardy. "

" A \$7,000 per cow investment level is necessary to maximize efficiencies and economies of scale. This investment level produces a minimum herd size of 191 cows. "

"The geographic isolation of the Point MacKenzie area compounds the cost control problems normally associated with dairy production. It is the assessment of the consulting team that Alaskan history will repeat itself in the Point MacKenzie area (relative to the dairy industry) unless modification in the development plans for Point MacKenzie can be made. The reader is reminded that at one time over 80 small dairy farms existed in Alaska. Of the original 80 farms, only those who have managed to increase herd size and operating efficiencies survive today. This pattern is similar to the pattern evidenced for the industry as a whole and is an important consideration relative to development of the Point MacKenzie area. "

In a report prepared by Boyd M. Buxton, Agricultural Economist at University of Minnesota and member of the United States Department of Agriculture research division, dated October, 1984, prepared for the Congressional Office of Technology Assessment, entitled, ECONOMIC, POLICY AND TECHNOLOGY FACTORS AFFECTING HERD SIZE AND REGIONAL LOCATION OF U.S. MILK PRODUCTION it states:

"A cost per cwt of milk tended to be lower on large than on small dairies in all states."

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

"Based on whole farm budgets, the larger dairies with 500 cows or more are more profitable than smaller dairies."

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

Our goal concurrent with the hereinabove discussed data is to produce milk at the lowest cost possible per unit of milk produced. To accomplish this goal three landowners have joined together to build one large barn on three parcels to create one efficient farm rather than three uneconomical farms. The reasons that this was done were purely economic. Some of which are as follows:

1. Price of milk dropped from \$22.60 to \$19.00 per cwt.
2. Costs as initially computed by the state were substantially understated and did not include such things as housing, working capital or machinery costs.
3. Consolidation reduced capital investment per cow by 32%. This creates more competitive fixed costs and lowers debt requirement per cow.
4. Operating costs, including interest expense per cwt of milk produced, were 26% lower on one large dairy than they would be on four smaller dairies.
5. None of the three owners had any experience in the dairy industry. Therefore, it was imperative that the dairy hire a competent dairy manager to insure a successful and well managed farm. Consolidation made this possible.

6. The Alaska revolving loan fund has limited resources and it is important that these funds not be wasted. In our case the state only has a loan for \$1,000,000 rather than \$3,000,000.

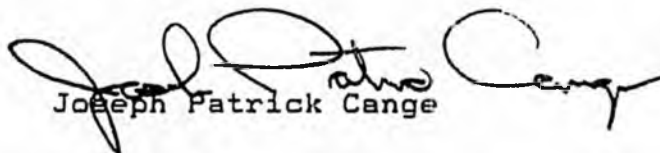
The Tucker dairy is currently producing 600,000 lbs of milk monthly. This is 30% of total milk being produced by local farmers. If we had not pooled our capital and management resources as we have done we would not be producing even one single lb of milk.

Furthermore, the consolidation of dairies is in compliance with the intent of the initial sales brochure dated September 11, 1982, 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 and accomplish this goal.

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

Thank you for your work on the agriculture bills and we appreciate your continuing support of the agriculture industry.

Sincerely,


Joseph Patrick Cange

cc: Jalmar M. Kerttula
Jan Faiks
Esther Wunnicke
James K. Barnett

1986

March 1, 1986

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

Dear Senator Sturgulewski,

We are writing to you in support of SB 155 for the consolidation of agricultural parcels at Point Mackenzie.

Since it can only be beneficial for the state as a whole to develop its agricultural economy, we must do everything we can not to impede that development.

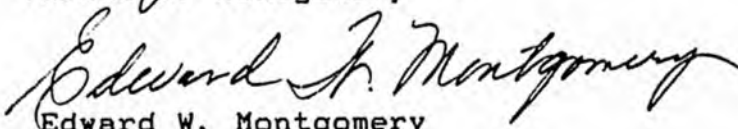
As the farmers at Point Mackenzie have shown, in the majority of cases it is cost prohibitive to develop a single ag-parcel. The logical solution, therefore, is to consolidate parcels thus the cost per cow is less; there is no need for as much equipment; operating costs would be less; and, labor and management costs reduced.

All of these factors could make the difference between a disastrous or a successful agricultural economy in Alaska.

Thank you for your consideration and support.

Sincerely,


Grace J. Montgomery


Edward W. Montgomery
P.O. Box 60430
Fairbanks, Alaska 99706

MAR 3 1986

February 28, 1986

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

RE: Support of SB 155

Dear Senator Sturgulewski,

I am concerned about what I have been reading in the newspapers about the development of the state's agricultural economy.

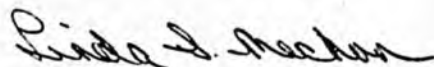
The major problem facing all of the farmers seems to be MONEY. The high cost of development of a single agricultural parcel is making it impossible for many of the farmers to meet the state's land contract requirements--which means foreclosure.

This seems an unnecessary extreme since some of the development costs could be lessened by the state allowing consolidation of parcels. This would lower the front-end capital requirements for development because less equipment would be needed, fewer employees would be required, daily costs of operation would be cut.

Foreclosing on the farmers only means failure for the industry and the state--we need a solution to their problem and I think that consolidation of parcels could be that solution.

I would appreciate your consideration in support of SB 155. Thank you very much.

Very truly yours,



Linda S. Mechon
12830 Summer Drive
Anchorage, Alaska 99516

MAR 3 1986

March 1, 1986

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

Dear Senator Sturgulewski,

I would like to voice my support for SB 155 which refers to the combining of agricultural parcels.

Since I am most familiar with the difficulties the farmers at Point Mackenzie are encountering, I will focus on those. Some of the farmers at Point Mackenzie have found themselves lacking the capital required to complete development. They cannot meet the state's land contract requirements for stocking cows and milking and, therefore, some are facing foreclosure.

Even if the single parcel development were to make it to completion and actually start production, the day-to-day operating costs are so high and price for milk is so low that the individual farmer will struggle to survive.

The low price of milk, due to Matanuska Maid's financial problems, means that the farmer needs to operate at a high level of efficiency. SB 155 would allow the consolidation of parcels-- which would allow the needed cost efficiency in the development stage and also in the operational stage of Alaska's dairy industry.

As it is now without consolidation of parcels 1) the initial capital investment per cow is excessive; 2) equipment needs are too costly; 3) labor costs are too high. With consolidation all of these costs would be reduced considerably.

I realize some of the farmers at Point Mackenzie have been able to meet the state's requirements without consolidating; however, many have not. Since each and every farm is so important to the industry as a whole within the state, I think it behooves us to do whatever we can to support them. This means supporting SB 155.

Thank you.

Cordially,

Veronica C. Montgomery
Veronica C. Montgomery

MAR 5 1986

February 26, 1986

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

Dear Senator Sturgulewski:

My wife, JoAnn, and I purchased Pt. MacKenzie Agricultural Tract #24 on February 14, 1984. From our studies and the information then available from State and Federal Agencies we felt the dairy industry in Alaska "had" a great future. You might say we placed our faith with the program and its future.

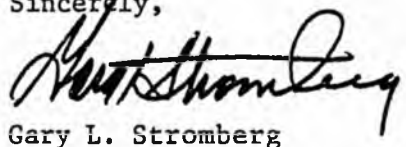
As facts and figures became available from actual dairy operations at Pt. MacKenzie we found our original assumptions no longer valid and we looked for methods to develop a dairy that would be feasible. We have been working with Mr. Milburn Tucker on a consolidation whereby greater efficiency in operations can be attained, thereby making possible a feasible dairy unit. We have held off on construction of a smaller, less efficient, facility pending resolution of our consolidation efforts and now find that funds may not be available in the revolving fund if our consolidation is not accepted.

We strongly urge approval of "Senate Bill 155" for the following reasons:

- (1) The cost per cow is much greater in a smaller, less efficient, facility than a larger more efficiency operation. Low milk prices put an even greater pressure on the dairy industry to be efficient.
- (2) Duplicated farm equipment required with individual smaller farms creates a burden on an industry already economically borderline.
- (3) It is difficult to find competent farm managers and help for the amount that can be paid with a small dairy operation.
- (4) It's a waste of State money to stay with old ideas where current information indicates that larger, more efficient, dairies are better able to compete in the market place.

We appreciate your support and any assistance you can give us.

Sincerely,



Gary L. Stromberg

27 February 1986

Arliss Sturgulewski
Chairman Senate Resource Committee

MAR 3 1986

RE: Senate Bill 155
Senate Bill 120
"Production Credits"

Dear Senator Sturgulewski:

In the fall of 1982 I was one of the "fortunate ones" who was selected in the Point MacKenzie Agricultural Lottery as a winner of a dairy parcel. In the intervening 3 1/2 years a great deal has happened with our parcel and several other parcels at Point MacKenzie which are very positive both for the State of Alaska as an entire entity and specifically for the economy of the Matsu-Borough as well as the concept of renewable resources.

In 1986 James Farms will employ 9 full-time individuals as well as 1 part-time individual throughout the year. During the summer (harvest time) we will employ 2-3 additional individuals and, in total, will produce a payroll in excess of \$250,000 dollars per year through our farm alone year in and year out. Our seed, fertilizer and fuel for this upcoming year exceeds \$100,000 all obtained through Alaskan vendors. We will purchase in excess of 750 tons of barley from Delta Junction, Alaska helping to evolve the agricultural scheme conceived in earlier administrations. At this point we are farming in excess of 1200 acres, milking 260 animals and producing 17% of Matanuska Maids milk requirements. All and all, several of us at Point MacKenzie have met and exceeded the State's expectations with regard to agriculture at the Point and our support of other areas of agriculture in the State.

In the last several years significant changes have occurred throughout this state. These include change: in population increases, changes in the price of oil, renewed emphasis on local hire as well as a new sense of fiscal responsibility in state government. Changes have also occurred in Alaska agriculture during this same period unfortunately, which require all of us to redefine requirements and perceptions to allow its orderly growth in a fiscally responsible manner. In many instances in the past, agricultural policy was not based upon sound business sense and attempts were being made to evolve this on the basis of social awareness or a sense of social need. I would recommend certain changes in our agricultural policy. These would include:

- (1) Passing Senate Bill 155 to allow consolidation or subdivision of agricultural plots as economic needs dictate. At Point MacKenzie I am the owner of tracts 28 and 29. On tract 28 a 260 cow dairy was built which would have fulfilled the requirements for both tracts, however, because of our present State policy, a small dairy was built on 29 also. This, I believe, is an unneeded and wasteful use of remaining economic resources and is, to me, an ill-conceived state requirement. The remaining parcel owners at MacKenzie should have the opportunity of consolidating their parcels. The unfortunate people at Delta should also have the opportunity of subdividing their parcels into perhaps better economic units based on reality rather than state studies.

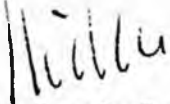
27 February 1986

Page II

- (2) I believe that production credits would be healthy for the entire agricultural community as it places some value on individuals who are producing and follow through with agricultural production in this state. It does little or no good to clear 10,000 acres and have them grow up in fireweed again in contrast to the individual who plants, harvests and sells 1,000 or 2,000 acres of barley creating new industry and new jobs in this state. The latter is of value, the former is ill-conceived planning.
- (3) Senate Bill 120 of course is the agricultural omnibus bill which is "housekeeping" functions for the Dept. of Agriculture as well as providing some increased flexibility in dealing with agricultural issues and policies as things evolve in the next several years.

Many of us who are serious about making agriculture succeed in this state are not looking for handouts, further bureaucratic involvement in the system nor are we looking for a shoulder to cry on. What we do need, however, is good, sound, economically reasoned agricultural policies for the future which transcend administration and at the same time are able to deal with the unfortunately ill-conceived plans of the past. Thank you for your assistance.

Yours sincerely,



J. Michael James, M.D.

/sf

cy: Esther C. Wunnicke
Jalmar M. Kerttula
Bill Hein

Dick Zobel
S. R. Box 3210
Wasilla, Alaska 99687
February 6, 1986

Honorable Albert P. Adams
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Mr. Adams:

Those of us who are involved in Alaskan agriculture realize that the Delta and Pt. Mac Kenzie projects do need some sort of relief. However the reasons for their problems appear to be quite different.

I am a District Supervisor in the Wasilla Soil and Water Conservation District. The Pt. Mac Kenzie project is located in the Wasilla District. I have attended several meetings regarding the consolidation concept, as it would effect the point Mac Kenzie project. It was with a great deal of concern that I attended the January 10th forum sponsored by the State Soil and Water Conservation Board in Palmer. As Mr. Weaver pointed out at the beginning of the January 10th meeting, those of us who are involved in the Conservation Districts are primarily interested in preserving soil and water production capabilities. More particularly we are interested in the conservation and preservation of agricultural soils for future generations of Alaskans.

I am active in several Ag. oriented groups here in the Mat-Sue Borough. I have not gone to any sort of agricultural meeting over the past 4 years that questions, as to the real intent of some of the tract holders, has not been raised. Quite frankly Mr. Adams there is a very deep concern in the agricultural community, as to the true goals of some of the Point Mac Kenzie Project tract holders. While this situation may not have the same priority to our urban neighbors I can assure you that many of them are also concerned.

As I understood the agenda for that January 10th meeting, it was specifically for the Pt. Mac Kenzie tract holders to air there concerns, and especially for those favoring consolidation, to present their reasons for wanting to do so.

There were almost 10,000 applications for the tracts in the Pt. Mac Kenzie lottery. There probably were again that many Alaskans, that after penciling out the economics of an investment in this lottery, did not participate. I think that the State is going to place itself in a very precarious position if it now retroactively changes the conditions of those sale contracts. Many of the people that participated, still have a great deal of interest in its eventual outcome.

There have been several Ag. sales over the past ten years. Each one was researched, planned and designed by not only Alaskans with agricultural expertise but some of the most respected names in U S agriculture. These projects were formulated to deliver a quality product to Alaskans and contribute to the rest

of the State agricultural industry. None of these projects have been allowed to go to their projected completion date without some sort of major alteration. Changes that totally alter the concept and intent of the project are detrimental not only to that project, but to the rest of the States agricultural industry.

Keeping in mind that the terms of the each sale were explicit. The feed-back from the more knowledgeable and experienced farmers in the State is that they seriously question the eventual goals of some of the tract owners. There are quite a number of issues that are questioned but they seem to narrow down to these basic items.

1.) Many of the present tract holders are not original lottery winners, but purchased tracts after the sale.

2.) Most participants in the Pt. Mac Kenzie lottery agree that the economics of farming within the constraints of the sale specifications were marginal. Yet many of the tracts have been sold at substantially more than the basic lottery prices, even considering any outstanding development loans.

3.) Judging from comments and actions even before their initial development on the land, it appeared that steps were being taken to alter the conditions of the contracts. It was obvious that some of the tract holders were inclined not to honor the terms and the intent of the sale, or the contract that they had signed.

Those tract owners favoring consolidation have offered quite an array of numbers to back-up their position. However those numbers are highly suspect to others in the farming community, and more particularly, from other dairy farmers. As the meeting progressed some of their figures were challenge. I have reviewed my notes of that meeting a number of times, several comments made at that meeting by those individuals favoring consolidation seem to stand out.

1.) When asked if they would accept a provision that would strengthen the agricultural covenant as part of consolidation relief, the answer was No! ✓

(I think that of all the issues that have come out of Pt. Mac Kenzie, this answer tends to substantiate the deepest of the concerns expressed in the agricultural community. In light of the agricultural covenant placed on this land originally, the fact that tract holders are reluctant to reinforced that covenant, seems to add credence to the Ag. communities suspicions.)

2.) One of their group stated that if their tracts operation failed it would take the whole project down.

(This has to be intimidation, directed at the Division of Ag. and the Legislature, in an attempt to get favorable legislation.)

It is my personal opinion that HB 300 would only give the speculators and developers a greater opportunity to manipulate the States lottery sales.

RESPECTFULLY YOURS
D. A. Zobel

FEB 19 1986

JOSEPH PATRICK CANGE

CERTIFIED PUBLIC ACCOUNTANT

BOX 4-647

ANCHORAGE, ALASKA 99509

TELEPHONE (907) 344-5600

February 17, 1986

Jan Faika
Chairman Senate Finance Committee
Pouch V
Capitol Building
Juneau, Alaska 99811

Re: \$3,057,000 State Grant for power a Point MacKenzie (HB 691)

Dear Jan,

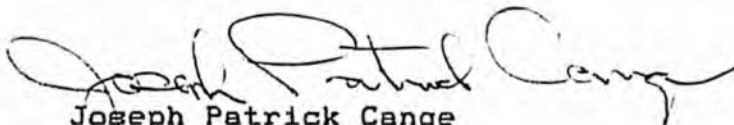
The power installation appears to be completed at Point MacKenzie for which the grant was made. I would appreciate very much if you could see how much of the total grant was spent and how much is unspent. As I had written you last year, I think the legislature should consider directing that any unspent money be used to bring natural gas to the farms.

Currently natural gas goes by the project, but no one has the necessary capital to bring gas to each farm. I believe that if properly administrated the entire investment can be repaid by a reimbursement from the gas company based upon gas usage.

Currently most of us at Point MacKenzie are using propane which is five times more expensive than natural gas. If agriculture is going to succeed we should do everything possible to reduce our operating costs.

Thank you very much for your continuing work and support of the Alaskan agriculture industry.

Sincerely,


Joseph Patrick Cange

cc: Esther C. Wunnicke
James K. Barnett
Jalmar N. Kerttula
Arliss Sturgulewski

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

DIVISION OF AGRICULTURE

BILL SHEFFIELD, GOVERNOR

APR 11 1985

P.O. BOX 949
PALMER, ALASKA 99645-0949
PHONE: (907) 745-7200

April 1 , 1985

Joseph Patrick Cange
Box 4-647
Anchorage, Alaska 99509

Dear Mr. Cange:

Your letter in response to the short article in The Anchorage Times on September 14, 1984 touches on a number of subjects that concern all of us involved in agriculture but perhaps interpolates meanings beyond the extent of the statements.

As you no doubt noted, the statements are not quotes but a generalized synopsis of a conversation. I was asked to respond to a statement attributed to Milburn Tucker. The assertion was that small, family dairy farms are obsolete and uneconomical. It was further stated that the State's determination to use the Pt. MacKenzie size parcels supported this and that even larger sized parcels were needed to achieve an economically viable farm unit. My response was in the form of a conversation with the reporter on the differences between large and small dairies. In the discussion I pointed out that the economic viability of a dairy does not depend solely on farm size but on a broad combination of economic factors. I did not say that state statistics show the smaller, family-run dairy is the most economical unit. No statistical analysis has been done by the State comparing small family-run dairies with large non-family operated dairies. The limited number of dairies, either large or small, would clearly make it difficult to obtain a meaningful statistical sample. Since the only larger dairies available for such a comparison are at Pt. MacKenzie and none of them are at full production capacity, such a comparison is obviously premature.

The generalization that smaller, family-run dairies are the most economic farming unit is not substantiated as a universally true or false case and is not a Division of Agriculture or Department of Natural Resources theory or policy. We do express the concern that if we have only a few large dairies, the failure of one of them has a much larger impact on the overall industry than if we have a large number of smaller dairies and experience the failure of one.

It should be obvious to you that neither large nor small farms are automatically more economical. The economic effect of differing combinations in size, investment, financial management, herd management,

DEPARTMENT OF
NATURAL RESOURCES
APR 04 1985
COMMISSIONER'S OFFICE
JUNEAU

crop production, market conditions, and simply timing of actions are only a few considerations. The cumulative economic effect of these differing combinations can make a small farm more economic than a large one or create the reverse situation. A non-inclusive list of items affecting profitability encompass several broad areas.

- o Capitalization Costs. Initial expenditures for land, facilities, equipment, and cows. The investment required at this stage depends on some basic management decisions determining operations as well as the farm size. For example choices of how much feed will be produced on-farm versus purchased, running a confinement system versus other combinations, the availability of family labor versus amount of hired labor, registered versus grade cows, etc. Each decision has some effect on the amount of initial capital required. The November 1984 issue of Farline article "Measuring the Debt Problem" puts this in perspective.

"Debt Risk and Farm Size

"Average debt-to-asset ratios also tend to rise with farm size. In other words, the larger farmers are typically carrying the largest debts relative to assets. Economist Lloyd Teigen sees this group, in general, as the one most exposed to debt risk."

- o Financial Structuring. Substantial debt service resulting from high capitalization can create a narrow profit margin and result in less flexibility to changes in cash flow. Decisions on the amount of personal capital injection and amount of short- and long-term debt incurred are based on not only the personal ability of each dairyman and intended farm size but on personal expectations. Each dairyman makes decisions which effect the eventual economic viability of his farm, whether large or small, with projections of the amount of milk production he expects to obtain, an anticipated price he will be paid for the milk, successful crop production, and numerous other requirements. The inevitable prospect of a poor crop year, herd disease decreasing production, or unexpected large expenses can have an immediate effect which reflects directly on the management decisions previously.
- o Management Costs. Perhaps the most apparent difference between family farms and non-family farms appears in this area. Increased mechanization, whether in large or small dairies, has provided an invaluable tool for better management. The effect on labor savings is weighed against the increased debt by each dairyman depending on the size of farm. The use of non-paid, family labor on small farms has

provided a method for smaller farmers to deal with economic fluctuations. The dependency of larger farms on knowledgeable, hired labor, the inability to decrease labor costs (without decreasing the number of cows and decreasing cash-flow), creates a fundamental difference and economic impact. Loss of a dairy manager can be catastrophic to the non-dairyman owner, which is one of the reasons the ARLF has required manager-insurance in many instances. The family dairies often persevere through economic adversity because of the unpaid labor and family commitment to continue.

- o Operation Costs and Decisions. If properly structured financially either large or small dairies should pay their operating costs and provide a profit margin for the owner. It should be remembered however that the debt structuring and operation were predicated on a set of assumptions. The reality of any business is that routine changes in conditions will require numerous operating decisions and changes that ultimately effect the profitability. The flexibility of family farms to deal with increased costs is frequently demonstrated through the fact that they absorb costs by decreasing family-income. A family member may obtain an off-farm job. National statistics from 1980 through 1983 show an average of 64 percent of farm income is generated by off-farm sources. Larger, non-family farms cannot significantly utilize labor to mitigate increased costs, assuming that it is operating at reasonable efficiency of about 55 manhours/cow/year.

It is apparent that the number of variables affecting the economic operation of a farm, whether large or small, are numerous and complex. A general guideline is used by dairymen and financing institutions to determine the economic strength of a dairy. The "cost per cow" reflects the amount of total debt-load which must be repaid by each milking cow. Since the milking cow is the only cash-flow generator, it must ultimately repay all capitalization, operating, debt-service, management costs, and provide a profit for the farm. Comparison of these numbers between small, family-run dairies and large, non-family dairies is thus possible on a per-cow profitability basis. The Successful Farming magazine recently published an article indicating that the maximum debt per cow should not exceed \$1,600 to maintain a financially sound dairy. I realize \$1,600/cow is based on national averages and do not reflect Alaskan prices. Without attempting any statistical economic conversion of this number to an Alaskan equivalent, it appears evident that the current debt per cow on Pt. MacKenzie, ranging from a low of less than \$5,000 per/cow to the high debt load of more than \$10,000 per/cow is a matter for concern.

The interrelationship between the Delta Barley project, Pt. MacKenzie and the red meat industry is fairly straightforward but still developing.

Brown to Cange
April 1, 1985
page 4

Barley production in Delta increased in 1984 setting a new record with a 156,000 bushel increase over the previous year. Informal estimates by the division indicate that approximately 30 percent of that production currently goes directly or indirectly into dairy consumption. The redmeat industry expansion benefits from processing cull and bull calf dairy animals, but it is premature to suggest a percentage of dependency on the dairy industry. Currently expansion in both hog production and feeder cattle indicate the redmeat industry is significantly expanding, simultaneously with the Pt. MacKenzie dairy expansion. There is clearly an interdependence between these agricultural enterprises, but I would certainly not intimate that the grain production at Delta was dependent upon the success of the Pt. MacKenzie Project, particularly in view of the recent market development for barley use in an ethanol plant in Delta. There is always a clear interrelationship between source-production-market that is not unique to the dairy industry.

Specifically referring to the six pages and 36 questions in your letter based on two sentences in an article in the Anchorage Times, the following responses may assist you.

As I noted, the state has not generated any statistics comparing small, family-run dairies with larger, non-family labor dairies, nor was that my statement. Questions 1 through 9 are directly predicated on this statement as are numerous other questions.

In question 9 you inquired as to what the ideal size for a "smaller, family-run dairy" should be. The acceptable goal for milk production per worker should be 600,000 pounds of milk per worker per year. Using this goal, a one-man or family farm could be from 30 cows (20,000 lbs of milk x 30 cows equals 600,000 lbs of milk) on up depending on how much family labor is available. Since you mention Tucker Dairy and you seem to have some affiliation with them, does that operation meet these goals?

Regarding question 10: because the Point MacKenzie lottery participation could not (by court ruling) pre-qualify, very few of the successful applicants were practicing farmers. Most of the winners were thus forced due to their own lack of ability to hire all labor to make it feasible, including a manager and spread the cost over a large number of cows.

In reference to your question 11 addressing the Washington State University, Small Business Development Center Report by Ed Owens, I have read the report. All reports have some value or validity, however, you must remember the dairying has evolved differently in different sections of the nation. In western Washington they have a much longer growing and

Brown to Gange
April 1, 1985
page 5

grazing season than Alaska, milder and shorter winters, and cheaper forage. All of these variables make for different economical feasibilities.

In question 12 you address economics of scale. Economics of scale are an accepted fact of life and it does apply to the dairy industry. Review my response to question 9 for the ratio of milk production per person per year. This applies if they are milking 30 cows or 3,000 cows.

In reference to question 32, page five, your statement is untrue that ". . . On some loans the Alaska Revolving Loan Fund Board has required applicants to share management and use of facilities on adjoining parcels."

At no time has the Agricultural (not Alaska) Revolving Loan Fund Board required such conditions. In fact the converse is true since the ARLF Board, through staff, has expressed concern to both you and Mr. Tucker, and have not approved requests to share facilities and management.

You specifically referred to the \$3,100,000 grant (actually \$3,057,000) for electricity and questioned what I was doing about overseeing administration of these funds. Since this funding is not through the Department of Natural Resources or Division of Agriculture, I have no involvement in expenditures. I have, however, pursued a farmer concern over providing electricity to one parcel and did provide documentation and correspondence to the administrative agency which may have helped that producing dairy obtain electricity.

You additionally questioned my position on the importance of providing natural gas to Pt. MacKenzie and questioned my personal efforts in this regard. I have personally pursued this issue within DNR, providing information on the need for gas and requesting that provisions be included in the right-of-way approvals and in the negotiations between the Division of Oil & Gas and Enstar. My role has been one of advocacy, providing information at appropriate junctures since I am not in a position to make the decisions involved. The Department of Natural Resources has supported the efforts of the Pt. MacKenzie farmers to obtain natural gas through the efforts of several divisions.

Your letter has addressed a number of cogent issues, asking me for responses which encompass theoretical speculation, positions I do not espouse, statistical analyses, and issues that national experts cannot agree upon. Some of your questions would require separate studies and experts in the field rather than my personal opinion or speculation.

You indicate that responses to your questions are critical to your analysis of the long-term success or failure at Point MacKenzie. I assume that your

Brown to Cange
April 1, 1985
page 6

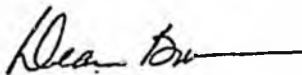
initial analysis pointed to a long-term success at Pt. MacKenzie or you would not have invested significantly in dairy development.

I personally feel that the project is presently meeting and exceeding our expectations and submit the following data from last fall for your consideration:

- o Eighty-four percent of the Class II & III acreage required to be in production by 9/85 was already in production by 9/84.
- o Four of the 19 dairy farms required to be in Phase I production by 11/85 were in production in 11/84.
- o Those four farms produced 79 percent of the total production required for the entire project in 11/85 which demonstrates that actual production per farm was an average of 316 percent above requirements, a year in advance of the deadline.
- o Of the 31 farms that will have to have the required acreage cleared and planted by 9/85, 21 farms had some acreage planted in 1984.

While the Division of Agriculture would also like answers to some of your questions, I wish to point out that premature evaluation of the dairy project and the emphasis of several of your questions on the results of possible failure, is nonproductive at this point - three years before the project is required by contract to be in full production. I believe in giving the farmers the opportunity to individually demonstrate their capability within those time frames.

Sincerely,



Dean Brown
Deputy Director

cc: Governor Bill Sheffield
Esther C. Wunnicke, Commissioner, DNR
Bill Heim, Director, Agriculture
Senator Jalmar Kerttula

WELCOME TO POINT MACKENZIE AND THE TUCKER DAIRY!

Point Mackenzie is a 15,000-acre agricultural project containing 29 parcels sold in an August 1982 lottery. Point Mackenzie was initially conceived and created through the genius and foresight of Senator Jalmar Kerttula in the tradition of William Henry Seward who acquired Alaska in 1867. Kerttula's vision is now reality. All at Point Mackenzie, and all throughout the entire state, will always be indebted to this visionary, Jalmar Kerttula.

The Tucker Dairy is a cooperative effort of four individual parcels containing 2,200 acres in total. The owners of these four parcels realized that it was far better to create one efficient large dairy rather than four inefficient dairies. As in any business, the economies of scale created by a more efficient facility result in lower per unit cost of milk. Only through the pooling of capital, labor and management could these four compete with efficient Outside dairies.

This dairy can and will compete with Outside dairies! We believe that with: 1) the freight advantage; 2) the low cost land advantage, and 3) the low cost energy advantage, we can compete with Outside dairies.

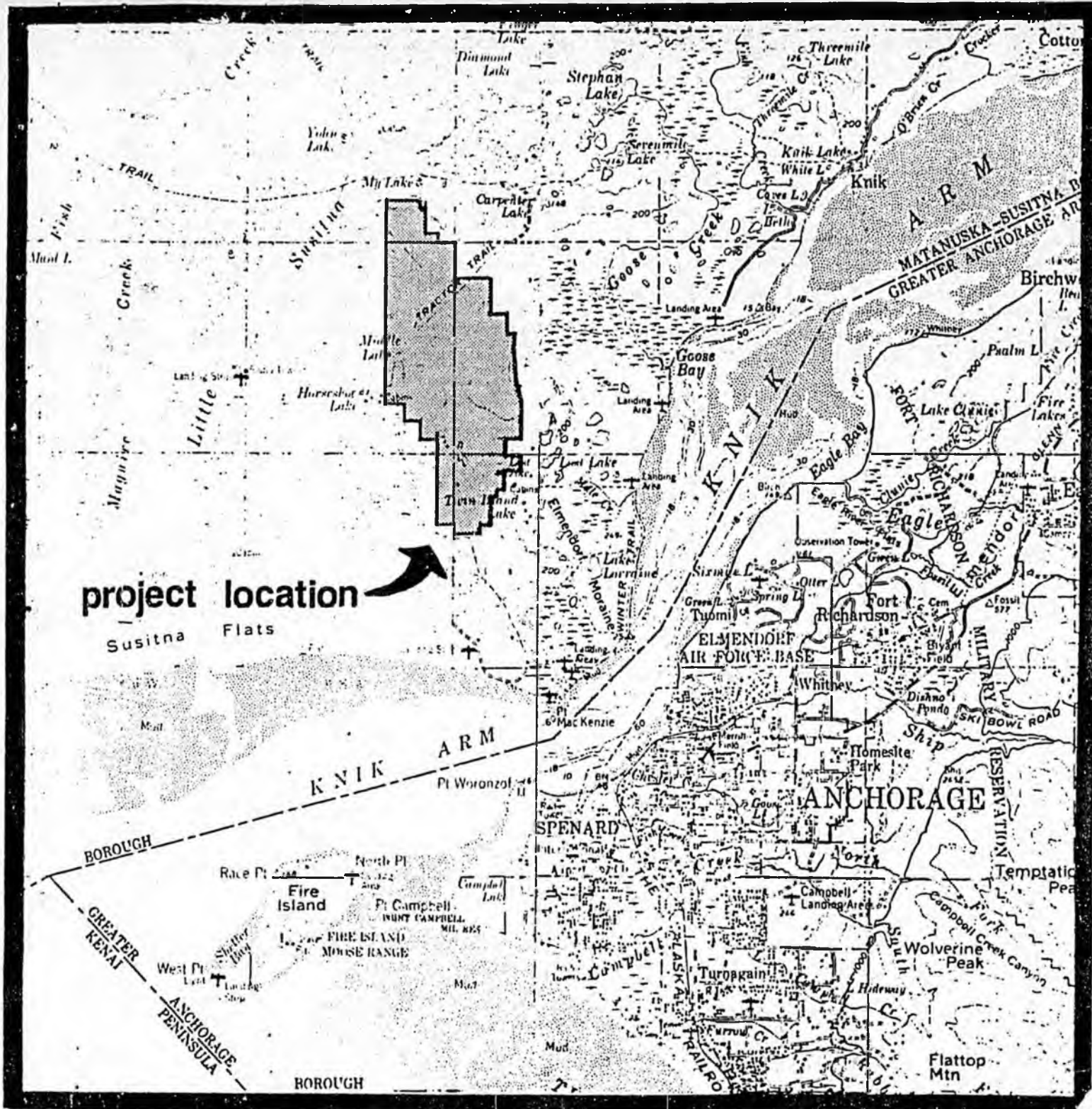
The agricultural industry is dependent upon one thing: Alaskans buying Alaskan products. We encourage all Alaskans to support our project.

There is an interrelationship and interdependence between the Delta Barley, Point Mackenzie and Red Meat industry. Only through the success of Point Mackenzie can the other industries survive. The state of Alaska has invested over \$200,000,000 taxpayer-supported capital in the development of these highly interrelated agricultural based industries.

The future of agriculture is therefore in your hands. We have made a commitment as you can see here today...that agriculture can succeed and we believe that it will...but only with your support.

BUY ALASKA . . . BUY MATANUSKA MAID

Tucker Dairy
9/84



**POINT MacKENZIE
AGRICULTURAL PROJECT
Site Vicinity Map**



Scale: 1:250,000

MAP 1

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 SB 155, 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

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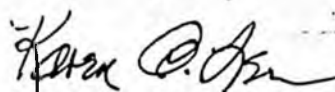
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To summarize, SB 110 and SB 155 will act quickly to maintain the dairy industry in Southcentral Alaska, and enable the other areas of agriculture to become more efficient and to develop according to the overall plan. SB 154 will not involve an appropriation, 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

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

Senator Jalmar Ketrulla
Pouch V
Juneau, Alaska 99811

FEB 26 1985

Dear Senator Jalmar Ketrulla;

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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

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SB155
~~FRANK~~
BILL SHEFFIELD, GOVERNOR

POUCH 7-005

ANCHORAGE, AK 99510

PHONE: (907) 276-2653

July 25, 1985

Messrs Charles J. Cange, Evander C. Smith,
Gary L. Stromberg, and Milburn E. Tucker
P.O. Box 4-647
Anchorage, AK 99509

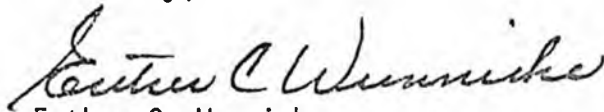
Gentlemen:

Earlier this year you requested that the Department allow the consolidation of your individual Point MacKenzie agricultural parcels into one large parcel, and approve changes in your individual development contracts to accommodate the consolidation into one large dairy farm.

The Attorney General has informed me that the law precludes my approving your requests. Under AS 38.05.020(b) (7), I may approve changes in the requirements of an agricultural land development contract only if the land is inaccessible by road and the required development is, for certain reasons, uneconomic. Since your parcels are accessible by road you do not meet these requirements.

As you know, I believe the Department should have the flexibility to amend agricultural land contracts if it would benefit the public and promote the development of agriculture in Alaska. I have sent a copy of Mr. Reeves July 16 letter to the Attorney General for consideration. Please let me know if you have additional questions.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: The Honorable Bil. Sheffield, Governor
Senator Arliss Sturgulewski
James K. Barnett, Deputy Commissioner
Bill Heim, Director, Division of Agriculture
Tom Hawkins, Director, L&WM
Francis Neville, Assistant Attorney General, Dept. of Law
Jim Reeves, Bogle & Gates

SB 155

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

August 7, 1985

Joseph Patrick Cange
Box 4-647
Anchorage, AK 99509

Dear Joe:

I have received the enclosed letter from Commissioner Wunnicke after I inquired as to the status of combining agricultural parcels. As you already know, they had anticipated being able to accomplish this administratively. Apparently after review by the Attorney General's office, it was determined that this could not be done.

Commissioner Wunnicke indicated that she would be considering necessary changes if needed to SB 155. I will keep you informed as we go along.

I appreciate your continued interest in Alaskan agriculture.

Sincerely yours,

Senator Arliss Sturgulewski
Chairman, Senate Resources Committee

Enclosure

cc: Dr. Michael James
1634 W. 13th
Anch 99501

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH M
JUNEAU, ALASKA 99811
PHONE: 907-485-2400

July 23, 1985

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

Dear Senator Sturgulewski:

I appreciate your continued interest in Alaska agriculture and, as you have requested, am providing information about the status of our efforts to allow combining or splitting of agricultural parcels.

As you know, earlier this year, at the time of the public hearing on SB 155, we believed that the department could amend agricultural contracts and allow the combining and splitting of agricultural parcels. Department of Law staff informally concurred with our position.

Because we wished to ensure that agriculture contract changes related to the combining or splitting of a parcel were in the public interest, staff proceeded to draft regulations that specified conditions to be met before contract changes would be approved.

During the Department of Law's review of the proposed regulations it was determined that combining or splitting agriculture parcels would violate AS 38.05.020(b)(7) if the action required amendment of an agricultural land contract.

AS 38.05.020(b)(7) was enacted in 1984 to assist farmers who were unable to economically transport farm products to market because expected roads or marine routes were never developed. While reviewing our draft regulations for consistency with the statutes, the Department of Law determined that the statutes allow the commissioner to modify development requirements of an agricultural land contract only if the land is inaccessible by road and the development requirements are uneconomic.

I have enclosed a copy of a recent memorandum from the Department of Law that provides additional information about this matter.

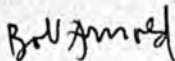
The Honorable Arliss Sturgulewski -2-

July 23, 1985

I believe that the department should have the flexibility to amend agricultural land development contracts to benefit the public and further the development of agriculture in Alaska. It appears that legislative action will now be required to provide the state with this flexibility. We are currently considering whether SB 155 is sufficient for this purpose.

My staff and I look forward to working with you and the Senate Resources Committee during the next legislative session. Thank you for your continuing interest in this and other natural resource matters.

Sincerely,



for Esther C. Wunnicke
Commissioner

Enclosure

cc: Jim Barnett

MEMORANDUM

DAVID CRISTMAN
DEPARTMENT OF
NATURAL RESOURCES

State of Alaska

CW cc BA
EW
Tom H
Bill H

TO: Honorable Bill Sheffield
Governor

JUL 1 1985 DATE:

June 27, 1985

Norman C. Gorsuch
Attorney General
FROM: By: *G. Thomas Koester*
G. Thomas Koester
Assistant Attorney General
Department of Law

COMMISSIONER'S OFFICE NO. 2
JUNEAU
TELEPHONE NO:

465-3600

SUBJECT: Combining Point
MacKenzie agricult-
ural parcels

You asked me to look into a situation at Point MacKenzie where four individuals, represented by Mr. Joe Canje, apparently desire to combine agricultural parcels and use one already-constructed dairy facility to serve all four parcels. Legislation apparently was introduced to authorize that procedure; unfortunately, the legislature adjourned without taking final action on the bill. Subsequently, Mr. Canje and his associates apparently were led to believe that certain steps could be taken administratively to permit them to follow that course of action; however, it subsequently was determined by the Attorney General's office that this could not be done.

In accordance with your request, I discussed this matter with attorneys in both our Anchorage and Juneau offices. It is the consensus view of this department that the law, as it currently exists, precludes Mr. Canje and his associates from following the course of action they desire.

Under 11 AAC 67.185(a), a farm development plan may be required as part of the sale contract for an agricultural parcel. Our understanding is that all of the Point MacKenzie dairy farm development plans include the requirement that the cows be milked in an approved dairy facility on the parcel which is the subject of the contract. Under 11 AAC 67.185(a), it is a requirement of the sale contract under which Mr. Canje's associates received the parcels.

In this circumstance, the commissioner of Natural Resources has no legal authority to modify that contractual requirement. Under AS 38.05.020(b)(7), the commissioner may "waive, postpone, or otherwise modify the development requirements of a contract for the sale of agricultural land" only if two conditions are satisfied:

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

Honorable Bill Sheffield
Governor, State of Alaska

June 27, 1985
Page 2

(Emphasis added.) As we understand it, the parcels involved are accessible by road. Accordingly, one of the two conditions which must be met before the commissioner may modify the contracts is not satisfied, and there is no legal authority under which the commissioner may waive or otherwise modify the requirement that the cows be milked in an approved dairy facility on each parcel. This, in turn, precludes the use of an already-constructed dairy facility serving to satisfy the requirement for four separate parcels.

It is my understanding that Mr. Canje and his associates now have retained legal counsel in Anchorage (Mr. James N. Reeves, a former Assistant Attorney General) who already has been in contact with attorneys in our Anchorage office regarding this matter. We certainly will consider any other legal analysis he might bring to our attention. However, at this time, none of the attorneys in this department who have reviewed the matter see any basis for a different conclusion.

We note that some creative solutions have been employed to satisfy the requirement that an approved dairy facility be used to milk the cows on each agricultural parcel in the Point MacKenzie area. In at least one instance, a barn was built straddling the property line between two adjacent parcels, with part of the barn on one parcel and the other part on the other parcel. A second suggestion, perhaps facetious but perhaps not, has been to put a barn on wheels and move it from parcel to parcel in a manner similar to the rumored procedure used with respect to prove-up cabins for homestead purposes earlier in Alaska's history. While we have not determined whether this would satisfy the development plan requirement, we point it out merely to suggest that creative solutions may be possible and, if proposed, will be considered.

In summary, however, it remains our view that there is no legal administrative mechanism by which the development plan requirement that Point MacKenzie cows be milked in an approved dairy facility on each parcel may be waived. The solution, as we view it, is a legislative amendment. However, you should be aware that other individuals with agricultural parcels in the Point MacKenzie area, particularly those who already have constructed an approved dairy facility on their parcels, may object to the legislature authorizing the commissioner to relax the development requirement. On the other hand, if the current requirements (particularly with respect to parcel size and the development requirements imposed on each such parcel) make the entire Point MacKenzie dairy operation uneconomic, perhaps an overall review of the entire situation by the legislature and appro-

Honorable Bill Sheffield
Governor, State of Alaska

June 27, 1985
Page 3

priate legislation authorizing the commissioner to take appropriate action would benefit the entire program.

If we can answer any further questions, please contact us at your convenience.

GTK:dlm

cc: Esther C. Wunnicke
Commissioner
Department of Natural Resources

Ronald W. Lorensen
Deputy Attorney General

Francis Neville
Assistant Attorney General

James N. Reeves, Esq.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

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

FEB 20 1986

February 19, 1986

The Honorable Arliss Sturgulewski
Chair, Senate Resources Committee
P.O. Box V
Juneau, AK 99811

Dear Senator *Arliss* Sturgulewski:

As you may recall, at the time of the Senate Resources Committee hearing on SB 155 last session, I believed that the Department of Natural Resources could amend agricultural contracts and, among other things, allow the combining and splitting of agricultural parcels. Because I wished to ensure that proposed contract changes were in the public interest, regulations that specified conditions to be met before changes could be approved were drafted.

During the Department of Law review of the draft regulations it was determined that combining or splitting agricultural parcels would, in most cases, violate AC 38.05.020(b)(7) if the action required amending an agricultural land contract. Title 38 currently allows me to modify an agricultural land contract only if the land is inaccessible by road and the development requirements are uneconomic (see attached A.G.'s opinion and letter).

I believe the Department should have the flexibility to amend an agricultural land contract if it will benefit the public and further the development of agriculture in Alaska. As amended last session, SB 155 would allow me the flexibility to combine or split agricultural parcels when certain conditions have been met. While I have no objections to this legislation, I would like to point out an area where wording changes would make the proposed bill more compatible with current agricultural policies.

As written, SB 155 would allow a purchaser of agricultural land to split the parcel as soon as the land contract is signed. Our present agricultural policies generally allow a parcel to be subdivided only after the farm development schedule has been met and the land has been conveyed to the purchaser.

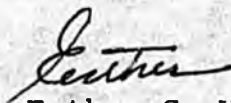
The Honorable Arliss Sturgulewski -2- February 19, 1986

The following changes to page 1, line 16 would bring SB 155 more in line with our policies:

(b) [If a parcel is] Only conveyed land may be split under this section, and no more than one . . .

I appreciate your continued interest in the development of agriculture in Alaska. If I may provide you with additional information about this matter, please let me know.

Sincerely,



Esther C. Wunnicke
Commissioner

Attachments

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

POUCH 7-005

ANCHORAGE, AK 99510

PHONE (907) 276-2653

July 25, 1985

Messrs Charles J. Cange, Evander C. Smith,
Gary L. Stromberg, and Milburn E. Tucker
P.O. Box 4-647
Anchorage, AK 99509

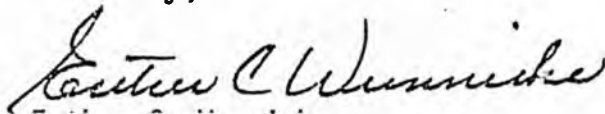
Gentlemen:

Earlier this year you requested that the Department allow the consolidation of your individual Point MacKenzie agricultural parcels into one large parcel, and approve changes in your individual development contracts to accommodate the consolidation into one large dairy farm.

The Attorney General has informed me that the law precludes my approving your requests. Under AS 38.05.020(b) (7), I may approve changes in the requirements of an agricultural land development contract only if the land is inaccessible by road and the required development is, for certain reasons, uneconomic. Since your parcels are accessible by road you do not meet these requirements.

As you know, I believe the Department should have the flexibility to amend agricultural land contracts if it would benefit the public and promote the development of agriculture in Alaska. I have sent a copy of Mr. Reeves July 16 letter to the Attorney General for consideration. Please let me know if you have additional questions.

Sincerely,



Esther C. Wunnicke
Commissioner

cc: The Honorable Bill Sheffield, Governor
Senator Arliss Sturgulewski
James K. Barnett, Deputy Commissioner
Bill Heim, Director, Division of Agriculture
Tom Hawkins, Director, L&WM
Francis Neville, Assistant Attorney General, Dept. of Law
Jim Reeves, Bogle & Gates

MEMORANDUM

DEPARTMENT OF NATURAL RESOURCES
State of Alaska

TO: Honorable Bill Sheffield, Governor
DATE: JUL 1 1985 June 27, 1985

Norman C. Gorsuch
Attorney General
COMMISSIONER'S OFFICE
JUNEAU
TELEPHONE NO: 465-3600

FROM: By: *G. Thomas Koester*
G. Thomas Koester
Assistant Attorney General
Department of Law
SUBJECT: Combining Point
MacKenzie agricultural
parcels

You asked me to look into a situation at Point MacKenzie where four individuals, represented by Mr. Joe Canje, apparently desire to combine agricultural parcels and use one already-constructed dairy facility to serve all four parcels. Legislation apparently was introduced to authorize that procedure; unfortunately, the legislature adjourned without taking final action on the bill. Subsequently, Mr. Canje and his associates apparently were led to believe that certain steps could be taken administratively to permit them to follow that course of action; however, it subsequently was determined by the Attorney General's office that this could not be done.

In accordance with your request, I discussed this matter with attorneys in both our Anchorage and Juneau offices. It is the consensus view of this department that the law, as it currently exists, precludes Mr. Canje and his associates from following the course of action they desire.

Under 11 AAC 67.185(a), a farm development plan may be required as part of the sale contract for an agricultural parcel. Our understanding is that all of the Point MacKenzie dairy farm development plans include the requirement that the cows be milked in an approved dairy facility on the parcel which is the subject of the contract. Under 11 AAC 67.185(a), it is a requirement of the sale contract under which Mr. Canje's associates received the parcels.

In this circumstance, the commissioner of Natural Resources has no legal authority to modify that contractual requirement. Under AS 38.05.020(b)(7), the commissioner may "waive, postpone, or otherwise modify the development requirements of a contract for the sale of agricultural land" only if two conditions are satisfied:

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

Honorable Bill Sheffield
Governor, State of Alaska

June 27, 1985
Page 2

(Emphasis added.) As we understand it, the parcels involved are accessible by road. Accordingly, one of the two conditions which must be met before the commissioner may modify the contracts is not satisfied, and there is no legal authority under which the commissioner may waive or otherwise modify the requirement that the cows be milked in an approved dairy facility on each parcel. This, in turn, precludes the use of an already-constructed dairy facility serving to satisfy the requirement for four separate parcels.

It is my understanding that Mr. Canje and his associates now have retained legal counsel in Anchorage (Mr. James N. Reeves, a former Assistant Attorney General) who already has been in contact with attorneys in our Anchorage office regarding this matter. We certainly will consider any other legal analysis he might bring to our attention. However, at this time, none of the attorneys in this department who have reviewed the matter see any basis for a different conclusion.

We note that some creative solutions have been employed to satisfy the requirement that an approved dairy facility be used to milk the cows on each agricultural parcel in the Point MacKenzie area. In at least one instance, a barn was built straddling the property line between two adjacent parcels, with part of the barn on one parcel and the other part on the other parcel. A second suggestion, perhaps facetious but perhaps not, has been to put a barn on wheels and move it from parcel to parcel in a manner similar to the rumored procedure used with respect to prove-up cabins for homestead purposes earlier in Alaska's history. While we have not determined whether this would satisfy the development plan requirement, we point it out merely to suggest that creative solutions may be possible and, if proposed, will be considered.

In summary, however, it remains our view that there is no legal administrative mechanism by which the development plan requirement that Point MacKenzie cows be milked in an approved dairy facility on each parcel may be waived. The solution, as we view it, is a legislative amendment. However, you should be aware that other individuals with agricultural parcels in the Point MacKenzie area, particularly those who already have constructed an approved dairy facility on their parcels, may object to the legislature authorizing the commissioner to relax the development requirement. On the other hand, if the current requirements (particularly with respect to parcel size and the development requirements imposed on each such parcel) make the entire Point MacKenzie dairy operation uneconomic, perhaps an overall review of the entire situation by the legislature and appro-

Honorable Bill Sheffield
Governor, State of Alaska

June 27, 1985
Page 3

priate legislation authorizing the commissioner to take appropriate action would benefit the entire program.

If we can answer any further questions, please contact us at your convenience.

GTK:dln

cc: Esther C. Wunnicke
Commissioner
Department of Natural Resources

Ronald W. Lorensen
Deputy Attorney General

Francis Neville
Assistant Attorney General

James N. Reeves, Esq.



STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

SOIL AND WATER CONSERVATION BOARD

PO Box 949, Palmer, Alaska 99645



Bill Sheffield, Governor

Susan Jane Brook
Juneau

Lawrence T Davis
Nome

Norman Cosgrove
Delta Junction

Peter C Roberts
Homer

Mark A Weaver
Palmer

File SB155
APR 7 1986

April 4, 1986

Senator Arliss Sturgulewski
PO Box V
Juneau, AK 99811

Dear Senator Sturgulewski:

The Alaska Soil and Water Conservation Board has completed its review of SB 155, and specifically, combination of agricultural tracts at Point MacKenzie.

As identified by the enclosed resolution ASWCB 86-1 and on page 2 of the February 18 & 19 minutes, the ASWCB does not support significant changes in agriculture contract development schedules, which would be the case in combining Point MacKenzie agricultural tracts. However, the ASWCB does support giving the Commissioner authority to amend agricultural sale contracts as included in SB 155 (introduced 2-13-85).

Sincerely,

Larry Davis
Chairman

RESOLUTION NO. ASWCD 86-1

SUBJECT OF RESOLUTION Agricultural Parcel Combining

ORIGIN OF RESOLUTION Alaska Soil and Water Conservation Board

DATE OF ORIGIN February 19, 1986

WHEREAS, under present law, the commissioner cannot modify development schedules in land sale contracts, and

WHEREAS, SB 155 would empower the commissioner with that authority,

THEREFORE BE IT RESOLVED, that the Alaska Soil and Water Conservation Board supports SB 155, and

BE IT FURTHER RESOLVED, that the Alaska Soil and Water Conservation Board would not support a significant change in land sale contracts relating to development schedules.

ACTION TAKEN Passed



STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

SOIL AND WATER CONSERVATION BOARD



Bill Sheffield, Governor

ALASKA SOIL AND WATER CONSERVATION BOARD

Minutes

February 18 & 19, 1986

The meeting was called to order on February 18 at 9:00 a.m. Those present were:

Larry Davis	Chairman, Nome
Sue Brook	Board Member, Juneau
Norm Cosgrove	Board Member, Delta Junction
Pete Roberts	Board Member, Homer
Keith Quintavell	Executive Director
Burt Clifford	State Conservationist, SCS, Anchorage
Gerry Larson	Deputy State Conservationist, SCS, Anchorage

MINUTES

The minutes of the 1-11-86 and 1-16-86 minutes were approved as written.

GRANITE CREEK BASIN HYDROLOGIC STUDY

The ASWCB reviewed Salcha-Big Delta SWCD's proposal for this study. The ASWCB supports the project, but due to budget constraints, cannot support it financially. Salcha-Big Delta SWCD will be notified by copy of letter to DGGS.

EXECUTIVE DIRECTOR'S REPORT

Financial Statement was distributed, a copy is attached to these minutes. Approval given to reimburse Larry Davis approximately \$500.00 for expenses from NACD convention, and to expend money for supervisor handbook publishing.

SWCD Supervisor's Handbook first draft was distributed for review. The schedule is tight for completion and distribution to the SWCD at the AASWCD meeting in March. Recommended additions are a map of SWCDs and a list of acronyms. ASWCB members will submit their comments by March 1.

POINT MACKENZIE

Proposed Farm Parcel Combining. The board addressed this topic, which was the subject of the board's public meeting on January 11, 1986. A decision on the topic was postponed by the board until this meeting.

Further issues which were discussed were: Parcel owners should comply with contracts; the real issue is contract relief rather than combination; if given the opportunity to combine, owners would not agree to a condition that they individually sign a covenant forfeiting other than agricultural development at any time regardless of existing state law at that time; that the proposed contract change requires passage of legislation, and would set a precedent for what is the assumed next step - passage of legislation granting the rest of their development rights. Board member Mark Weaver, who was not present at the meeting, participated in this discussion by speaker phone, thereby enabling a full, five member board vote.

The board unanimously passed a resolution (ASWCB 86-1, copy attached) in support of the bill (SB 155, introduced 2-13-85) which would give the Commissioner authority to allow combination, with the condition that contract amendments involving significant development schedule changes should not be approved.

The board further directed Mark Weaver to testify on behalf of the board at the Senate Resources Committee meeting on SB 155.

Dairy Manure Management Study which was contracted by the ASWCB has been completed by the University of Alaska and copies were distributed. Bill Leitch from DEC stated that the report confirms SCS guidelines, and now he has to draft DEC guidelines to implement recommendations given in the report. As soon as he completes the draft implementation guidelines, a copy will be forwarded to the board for review.

Sig Restad, UA-AFES reported by phone that he and Chien Lu Ping met with DEC Commissioner Ross on 1-24-86 and confirmed the results of the study, that is, no leaching. They also agreed to: DEC will drop requirement for further manure monitoring wells, if UA-AFES will continue their monitoring program of existing wells.

AGENCY REPORTS

Soil Conservation Service: Burt Clifford distributed an SCS activity report in the Alaska district, and correspondence relating to the "Sodbuster" and "Swampbuster" provisions of the 1985 Farm Bill. Burt also discussed the ongoing field office workload analysis, and recommended that the ASWCB participate in the speech and poster contests. Due to the costs involved in the statewide Alaska district, however, the ASWCB will not participate. Burt also expressed concerns relating to the availability of the \$87,000.00 for this field season's soil survey work. Additionally, the ASWCB formally requested SCS to conduct a soil survey of the Central PMC site.

DNR, Division of Management: Rod Mourrant explained that the ASWCB's travel funding was a legislative add on, and therefore cannot be a part of DNR's base budget request in successive years. In order for the funding to be a continuing line item:

1. The Governor or OMB would have to include it, and would have to delete like amount somewhere else in the state; or
2. The Commissioner could request it, but would have to delete the same amount somewhere else in DNR.

The meeting adjourned at 4:00 p.m. and reconvened at 9:00 a.m. on February 19, 1986

DNR COMMISSIONER WUNNICKE

The Commissioner distributed a copy of executed delegation of authority for a portion of AS 41.10.130(a), SWCD supervisor elections. DO #120, SWC contact has been put into effect this year; the ASWCB was thanked for their help in creating new ag patent language; DNR has not developed an opinion on the right-to-farm or grazing preserve legislation yet. On the combination of ag parcels, the Commissioner appreciates the ASWCB's concerns on the issue, and their support in favoring legislation which would give the Commissioner flexibility to amend contracts. Problems with the loss of PMC's horticultural program, as well as development of the Central PMC site, were discussed. The Commissioner explained DNR reaction to budget shortfalls in the loss of positions, re-organization of some divisions, that the Legislature may need to relieve DNR of some responsibilities, and the belief that duties should be delegated to the lowest level responsible. The ASWCB mentioned receiving authority for conducting soil surveys, and the Commissioner would like the ASWCB to develop the proposal more, before it can be brought to the Department of Administration and OMB.

DEC COMMISSIONER ROSS

DEC is at a phase now to implement the ASWCB's Point MacKenzie Dairy Manure Management Study, and it is hoped the Granite Mountain/Clearwater Creek Study will be as valuable; next year there will be little or no 205j water quality planning monies, but perhaps some 205j forestry monies in the future; if the Clean Water Act is reauthorized, there may be a possibility of non-point source grant monies to states, Bill Leitch will contact the board if available; DEC is beginning Alaska's hazardous waste management program, and will have a reimbursible services agreement with DGGs in the future for hydro technical studies.

NEW BUSINESS

Pedro Denton, Director, DNR Division of Mining: Pedro explained the surface coal mine reclamation act and the abandoned mined land reclamation program. Alaska needs to expand mined land reclamation, including placer mining, and the most effective way to accomplish this is through development and implementation of mining practices regulations by a mining related agency.

Soil Survey: The ASWCB will investigate options to receive a delegation of authority from the Commissioner of DNR for AS 41.10.110(1), responsibility to conduct soil surveys.

Cooperative Agreement was executed with Harold and Jane Niebergall, from Aniak.

AASWCD: The ASWCB will request voting membership in the AASWCD.

SB 406, SB 409: The ASWCB will write a letter in support of both the grazing preserve and right-to-farm bills.

There being no further business, the meeting was adjourned.

Respectfully submitted,



Keith Quintavell
Executive Director

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.

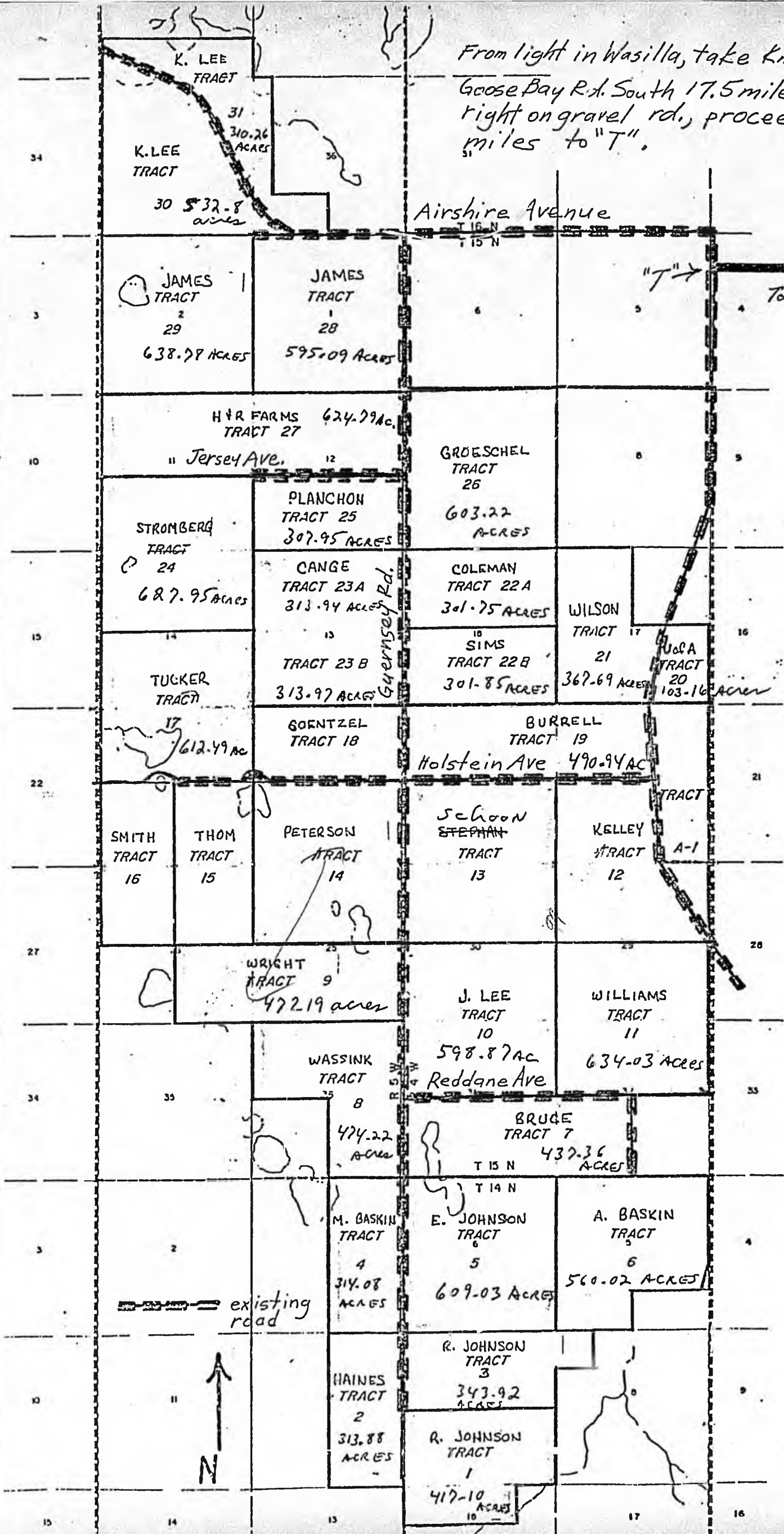
Jeanie Henry

SENATE RESOURCES COMMITTEE, 4/3/85, 1:35

From light in Wasilla, take Knik-Goose Bay Rd. South 17.5 miles, turn right on gravel rd., proceed eight miles to "T".

Airshire Avenue

"T" → To Wasilla



existing road



3-3-86

Announcement of Senate Resources Committee Meeting

The Senate Resources Committee will meet today at 1:30 in the Butrovich Room.

Three bills will be brought before the committee:

- ✓ SB ~~362~~³⁶⁸ "relating to the sale of inherited remote parcels" o/c
- ✓ SB 343 "relating to protection of natural rangelands"
- ✓ ~~SSSB~~ 155 "relating to the splitting and ~~splitting~~ of agricultural lands"

|| Didn't read!

The sponsor substitute for SB 430, originally scheduled for hearing today, has been postponed until Friday, March 7th.

SEE NOTES

NEXT PAGE



MAR 3 1986

March 1, 1986

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

Dear Senator Sturgulewski,

We are writing to you in support of SB 155 for the consolidation of agricultural parcels at Point Mackenzie.

Since it can only be beneficial for the state as a whole to develop its agricultural economy, we must do everything we can not to impede that development.

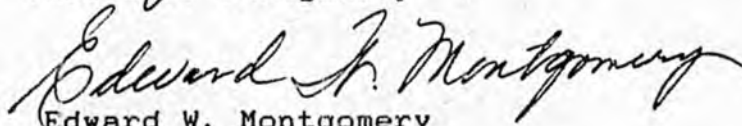
As the farmers at Point Mackenzie have shown, in the majority of cases it is cost prohibitive to develop a single ag-parcel. The logical solution, therefore, is to consolidate parcels thus the cost per cow is less; there is no need for as much equipment; operating costs would be less; and, labor and management costs reduced.

All of these factors could make the difference between a disastrous or a successful agricultural economy in Alaska.

Thank you for your consideration and support.

Sincerely,


Grace J. Montgomery


Edward W. Montgomery
P.O. Box 60430
Fairbanks, Alaska 99706

MAR 3 1986

February 28, 1986

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

RE: Support of SB 155

Dear Senator Sturgulewski,

I am concerned about what I have been reading in the newspapers about the development of the state's agricultural economy.

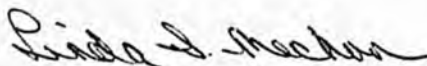
The major problem facing all of the farmers seems to be MONEY. The high cost of development of a single agricultural parcel is making it impossible for many of the farmers to meet the state's land contract requirements--which means foreclosure.

This seems an unnecessary extreme since some of the development costs could be lessened by the state allowing consolidation of parcels. This would lower the front-end capital requirements for development because less equipment would be needed, fewer employees would be required, daily costs of operation would be cut.

Foreclosing on the farmers only means failure for the industry and the state--we need a solution to their problem and I think that consolidation of parcels could be that solution.

I would appreciate your consideration in support of SB 155. Thank you very much.

Very truly yours,



Linda S. Mechon
12830 Summer Drive
Anchorage, Alaska 99516

MAR 3 1986

March 1, 1986

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

Dear Senator Sturgulewski,

I would like to voice my support for SB 155 which refers to the combining of agricultural parcels.

Since I am most familiar with the difficulties the farmers at Point Mackenzie are encountering, I will focus on those. Some of the farmers at Point Mackenzie have found themselves lacking the capital required to complete development. They cannot meet the state's land contract requirements for stocking cows and milking and, therefore, some are facing foreclosure.

Even if the single parcel development were to make it to completion and actually start production, the day-to-day operating costs are so high and price for milk is so low that the individual farmer will struggle to survive.

The low price of milk, due to Matanuska Maid's financial problems, means that the farmer needs to operate at a high level of efficiency. SB 155 would allow the consolidation of parcels-- which would allow the needed cost efficiency in the development stage and also in the operational stage of Alaska's dairy industry.

As it is now without consolidation of parcels 1) the initial capital investment per cow is excessive; 2) equipment needs are too costly; 3) labor costs are too high. With consolidation all of these costs would be reduced considerably.

I realize some of the farmers at Point Mackenzie have been able to meet the state's requirements without consolidating; however, many have not. Since each and every farm is so important to the industry as a whole within the state, I think it behooves us to do whatever we can to support them. This means supporting SB 155.

Thank you.

Cordially,

Veronica C. Montgomery
Veronica C. Montgomery

MAR 3 1986

February 26, 1986

The Honorable Arlin Sturgulewski
Alaska State Senate
Pouch V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

My wife, JoAnn, and I purchased Pt. MacKenzie Agricultural Tract #24 on February 14, 1984. From our studies and the information then available from State and Federal Agencies we felt the dairy industry in Alaska "had" a great future. You might say we placed our faith with the program and its future.

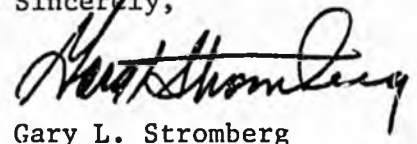
As facts and figures became available from actual dairy operations at Pt. MacKenzie we found our original assumptions no longer valid and we looked for methods to develop a dairy that would be feasible. We have been working with Mr. Milburn Tucker on a consolidation whereby greater efficiency in operations can be attained, thereby making possible a feasible dairy unit. We have held off on construction of a smaller, less efficient, facility pending resolution of our consolidation efforts and now find that funds may not be available in the revolving fund if our consolidation is not accepted.

We strongly urge approval of "Senate Bill 155" for the following reasons:

- (1) The cost per cow is much greater in a smaller, less efficient, facility than a larger more efficiency operation. Low milk prices put an even greater pressure on the dairy industry to be efficient.
- (2) Duplicated farm equipment required with individual smaller farms creates a burden on an industry already economically borderline.
- (3) It is difficult to find competent farm managers and help for the amount that can be paid with a small dairy operation.
- (4) It's a waste of State money to stay with old ideas where current information indicates that larger, more efficient, dairies are better able to compete in the market place.

We appreciate your support and any assistance you can give us.

Sincerely,



Gary L. Stromberg

27 February 1986

Arliss Sturgulewski
Chairman Senate Resource Committee

MAR 3 1986

RE: Senate Bill 155
Senate Bill 120
"Production Credits"

Dear Senator Sturgulewski:

In the fall of 1982 I was one of the "fortunate ones" who was selected in the Point MacKenzie Agricultural Lottery as a winner of a dairy parcel. In the intervening 3 1/2 years a great deal has happened with our parcel and several other parcels at Point MacKenzie which are very positive both for the State of Alaska as an entire entity and specifically for the economy of the Matsu-Borough as well as the concept of renewable resources.

In 1986 James Farms will employ 9 full-time individuals as well as 1 part-time individual throughout the year. During the summer (harvest time) we will employ 2-3 additional individuals and, in total, will produce a payroll in excess of \$250,000 dollars per year through our farm alone year in and year out. Our seed, fertilizer and fuel for this upcoming year exceeds \$100,000 all obtained through Alaskan vendors. We will purchase in excess of 750 tons of barley from Delta Junction, Alaska helping to evolve the agricultural scheme conceived in earlier administrations. At this point we are farming in excess of 1200 acres, milking 260 animals and producing 17% of Matanuska Maids milk requirements. All and all, several of us at Point MacKenzie have met and exceeded the State's expectations with regard to agriculture at the Point and our support of other areas of agriculture in the State.

In the last several years significant changes have occurred throughout this state. These include change: in population increases, changes in the price of oil, renewed emphasis on local hire as well as a new sense of fiscal responsibility in state government. Changes have also occurred in Alaska agriculture during this same period unfortunately, which require all of us to redefine requirements and perceptions to allow its orderly growth in a fiscally responsible manner. In many instances in the past, agricultural policy was not based upon sound business sense and attempts were being made to evolve this on the basis of social awareness or a sense of social need. I would recommend certain changes in our agricultural policy. These would include:

- (1) Passing Senate Bill 155 to allow consolidation or subdivision of agricultural plots as economic needs dictate. At Point MacKenzie I am the owner of tracts 28 and 29. On tract 28 a 260 cow dairy was built which would have fulfilled the requirements for both tracts, however, because of our present State policy, a small dairy was built on 29 also. This, I believe, is an unneeded and wasteful use of remaining economic resources and is, to me, an ill-conceived state requirement. The remaining parcel owners at MacKenzie should have the opportunity of consolidating their parcels. The unfortunate people at Delta should also have the opportunity of subdividing their parcels into perhaps better economic units based on reality rather than state studies.

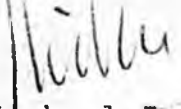
27 February 1986

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- (2) I believe that production credits would be healthy for the entire agricultural community as it places some value on individuals who are producing and follow through with agricultural production in this state. It does little or no good to clear 10,000 acres and have them grow up in fireweed again in contrast to the individual who plants, harvests and sells 1,000 or 2,000 acres of barley creating new industry and new jobs in this state. The latter is of value, the former is ill-conceived planning.
- (3) Senate Bill 120 of course is the agricultural omnibus bill which is "housekeeping" functions for the Dept. of Agriculture as well as providing some increased flexibility in dealing with agricultural issues and policies as things evolve in the next several years.

Many of us who are serious about making agriculture succeed in this state are not looking for handouts, further bureaucratic involvement in the system nor are we looking for a shoulder to cry on. What we do need, however, is good, sound, economically reasoned agricultural policies for the future which transcend administration and at the same time are able to deal with the unfortunately ill-conceived plans of the past. Thank you for your assistance.

Yours sincerely,



J. Michael James, M.D.

/sf

cy: Esther C. Wunnicke
Jalmar N. Kerttula
Bill Hein

JOSEPH PATRICK CANGE

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MAR 3 1986

March 1, 1986

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

Subject: Senate Bill 155

Dear Arliss,

Pursuant to a conversation with you on the 21st of February, I am submitting herewith my thoughts regarding the merits and the importance of SB 155 to the Alaskan agriculture industry. In the most basic terms, this is a bill that provides a mechanism for DNR to combine and split agriculture parcels if it is in the public interest, if it encourages the development of the state's agricultural resources and if it prevents economic waste. SB 155 permits decisions to be made based upon the economic realities of the times.

I believe that the only way this industry can survive without continuing state subsidies is by all of us supporting those policies that make economic sense. In the DNR Special Report to the Governor dated November, 1983, entitled AGRICULTURE IN ALASKA: A PLAN FOR THE FUTURE, it states:

"Our conclusion is that the state's goal for 1990 should be to diversify and strengthen the state's economy by increasing the availability of competitively priced Alaska food products. This can be accomplished through pursuit of the following objectives: Encouraging expanded production of competitively priced farm products from existing agricultural lands."

In the DNR Special report to Governor Sheffield dated March, 1985, entitled DEVELOPMENT OF AGRICULTURE IN ALASKA, it states;

"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: Encourage expanded production of competitively priced farm products from existing agricultural lands in Alaska."