

ALASKA LEGISLATURE COMMITTEE FILES 1987-1988 8672

5029

HRES

SB 472

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2. ADI will receive no fee for its services under this Agreement. ADI is willing to enter into this contract because the members of its parent corporation are dairy farmers. The dairy farmers desire an agreement that allows the farmers to participate in the management oversight for the creamery, which is currently the only entity which will purchase the milk produced on their farms. ADI and Alaska Quality Dairy Cooperative, Inc. agree that the ability to participate in management oversight has economic value to them. The State agrees that participation from the farmers in management oversight has economic value to the State.
3. ADI agrees that it will at all times faithfully, industriously, and to the best of its ability, experience, and talents perform the oversight management for production, finance, and marketing in the ordinary course of business for the creamery as it existed on the date of this agreement, except when its oversight management authority is limited by other terms of this Agreement. Management decisions outside the ordinary course of business for the creamery as it existed on the date of this Agreement require ARLF Board approval.

The directors of ADI acknowledge they have a fiduciary duty to ARLF arising out of their responsibility to manage ARLF assets.

4. ADI agrees that in performing its duties under section 3 above that it will not permit any combination of payable accounts to exceed \$5,000.00 for longer than 45 days.
5. The members of the Board of Directors of ADI are:

Thomas Tatka, an ARLF Board representative
Karen Lee —
John Seavell
Paul Huppert —
Joseph VanTreeck —
John Cairns
Augie Heibert
Ron Eosi
Chris Swalling
Joseph C. Cange —
Harvey Baskin —
Robert Havemeister —
Director of the Division of Agriculture or
his designee

The members of the executive committee of the Board of Directors are:

John L. Seawell
Thomas Tatka, an ARLF Board representative
Karen O. Lee
Joseph P. Cange
Paul Huppert
Director of the Division of Agriculture or
his designee

The Director of the Division of Agriculture will serve as a non-voting member of the executive committee; unless there is a tie vote among the executive committee members attending.

If the Director of the Division of Agriculture chooses to designate another state employee to act on his behalf, he shall do so in writing. Karen Lee will serve as President

of ADI, Paul Huppert will serve as Vice-President of ADI, and Joseph P. Cange will serve as Treasurer of ADI. Any change in the members of board of directors or the executive committee requires ARLF Board approval.

6. ADI agrees to the terms of the ARLF professional services contract with Joe Van Treeck dated August 26, 1987. ADI may not alter or terminate the Van Treeck professional services contract without ARLF board approval.
7. The ARLF board may terminate this Agreement for cause, including but not limited to, breach of this Agreement, with 30-days written notice. The ARLF board may terminate this agreement on five days written notice in the event that there is \$5,000.00 cumulative in any payable accounts more than 45 days past due. ADI and the Alaska Quality Dairy Cooperative, Inc. waive damages arising out of termination.
8. As further consideration for the opportunity given to the dairy farmers to participate in the management oversight for the creamery, ADI and the Alaska Quality Dairy Cooperative, Inc. (hereafter in this section 8 referred to as "Indemnitors") agree to hold harmless and indemnify the State of Alaska, the directors of ADI, and the ARLF Board members (hereafter in this section 8 referred to as "Indemnitees") from any and all liability, damage, loss, cost and expense which may accrue to or be sustained by Indemnitees on account of any claim, action, complaint

and/or suit arising out of or related to the business of the creamery. Indemnitors agree that Indemnitees, in the sole discretion of Indemnitees, may hire attorneys to defend each of the Indemnitees. Indemnitors agree to pay directly to the attorneys the costs and expenses for attorney services as such costs and expenses are incurred. The obligations of Indemnitors continue after the termination of this Agreement as to any claim, action, complaint and/or suit arising out of or related to the business of the creamery during the term of this Agreement.

As further consideration for the opportunity given to the dairy farmers to participate in the management oversight for the creamery, ADI, the Alaska Quality Dairy Cooperative, Inc. and all directors of ADI who have an interest in a dairy farm, or an interest in a partnership or corporation which operates a dairy farm waive, for itself, themselves, and on behalf of any partnership or corporation in which they have an interest, all claims, actions, complaints and/or suits arising out of or related to the State's ownership, or operation of the creamery occurring during the term of this Agreement. The directors of ADI who have an interest in a dairy farm, or an interest in a partnership or corporation which operates a dairy farm warrant that they have the authority to bind the partnership or corporation.

9. Title to all real and personal property of the creamery remains in ARLF's name. ADI may not dispose of or in any way encumber property without ARLF Board approval.

The ARLF board reserves the right to sell any real or personal property of the creamery that is not essential to the operation of the creamery. Without limiting the proceeding sentence, the ARLF Board reserves the right to change the product line of, sell, lease, or otherwise dispose of the feed mill and store provided the ARLF board makes a written decision of its intended action and notifies ADI by July 1, 1988.

10. ADI may not borrow money from any source for the operation of the creamery without ARLF approval, except ADI may allow the day-to-day creamery manager to bind the ARLF to trade credit terms that were in effect prior to the date of this agreement.
11. All profits and/or losses generated by the creamery operation belong to ARLF. Net profits may not be spent without ARLF Board approval. The ARLF Board will review the financial statements as of June 30, 1988 and December 31, 1988 to determine whether cumulative net profits for the prior six months exist. ARLF may withdraw cumulative net profits after the review of financial statements described in the preceding sentence, but may not withdraw cumulative

net profits more than once in a six-month period or withdraw cumulative net profits prior to the review of financial statements.

ARLF desires to limit monthly operating losses of the creamery. ARLF will provide up to a maximum of \$60,000 a month for January 1988, February 1988, March 1988, April 1988, May 1988, and June 1988 to cover operating losses at the creamery upon written request by ADI. The money available for any month will not exceed the operating loss for the prior month and in any event will not exceed the amounts stated in the preceding sentence. The loan manager for ARLF is directed to disburse money consistent with this paragraph after receipt of the ADI written request. ADI may not increase the price of milk as it exists on November 1, 1987 paid to dairy farms if the creamery shows an operating loss. ADI may lower the price of milk paid to dairy farms at any time, however, ADI will lower the price of milk paid to dairy farms if the operating loss exceeds \$60,000 in any one month during the period January 1, 1988 to June 30, 1988. After July 1, 1988, ADI will adjust the price of milk paid to dairy farms to prevent operating losses. If ADI fails to lower the price of milk paid to dairy farms as required in this paragraph, ARLF, at its option, may adjust the price of milk, terminate this Agreement, or take other

action that ARLF deems appropriate.

12. ADI may not discriminate against any employee or applicant for employment because of race, religion, color, national origin, or because of age, physical handicap, sex, or marital status, change in marital status, pregnancy or parenthood when the reasonable demands of the position do not require distinction on the basis of age, physical handicap, sex, or marital status, change in marital status, pregnancy, or parenthood. ADI shall take affirmative action to insure that the applicants are employed and that employees are treated during employment without regard to their race, color, religion, national origin, ancestry, age, sex, or marital status. This action must include, but need not be limited to the following: employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation, and selection for training including apprenticeship. ADI shall post in conspicuous places, available to employees and applicants for employment, notices setting out the provisions of this paragraph.

ADI shall state, in all solicitations or advertisements for employees, that it is an equal opportunity employer and that all qualified applicants will receive consideration for employment without regard to race, religion, color, national

origin, age, physical handicap, sex, or marital status.

ADI shall send to each labor union or representative of workers with which ADI has a collective bargaining agreement or other contract or understanding a notice advising the labor union or workers' representative of ADI's commitments under this article and post copies of the notice in conspicuous places available to all employees and applicants for employment.

ADI shall include the provisions of this article in every contract, and shall require the inclusion of these provisions in every contract entered into by any of its subcontractors, so that those provisions will be binding upon each subcontractor. For the purpose of including those provisions in any construction, maintenance, or service contract or subcontract, as required by this contract, "contractor" and "subcontractor" may be changed to reflect appropriately the name or designation of the parties of the contract or subcontract.

ADI shall cooperate fully with the office or agency of the State of Alaska which seeks to deal with the problem of unlawful discrimination, and with all other State efforts to

guarantee fair employment practices under this contract, and promptly comply with all requests and directions from the State Commission for Human Rights or any of its officers or agents relating to prevention of discriminatory employment practices.

Full cooperation in the preceding paragraph includes, but is not limited to, being a witness in any proceeding involving questions of unlawful discrimination if that is requested by any official or agency of the State of Alaska; permitting employees of ADI to be witnesses or complainants in any proceeding involving questions of unlawful discrimination, if that is requested by any official or agency of the State of Alaska; participating in meetings; submitting periodic reports on the equal employment aspects of present and future employment; assisting in inspection of ADI's facilities; and promptly complying with all state directives considered essential by any office or agency of the State of Alaska to insure compliance with all federal and state laws, regulations, and policies pertaining to the prevention of discriminatory employment practices.

13. ADI and the Alaska Quality Dairy Cooperative, Inc. agree that they will not discriminate between members and non-members in the purchase or sale by the creamery of raw material or products. Alaska Quality Dairy Cooperative,

Inc. will offer membership on equal terms to all dairy farmers whose farms are located south of the Alaska Range.

14. ADI, through the creamery employees, will provide quarterly financial reports and quarterly written narrative reports to the ARLF Board in a form determined by the ARLF Board, within 30 days after the end of the quarter. ADI, through the creamery employees, will prepare monthly financial reports of the creamery operation within 20 days of month end.
15. ADI may not arrange for or begin plant and/or equipment expansions without ARLF Board approval. ADI may not arrange for or perform repairs on the plant and/or equipment if the cost will exceed \$30,000 except in an emergency.
16. ADI will arrange to add itself as a named insured to the following insurance policies and any successor policies:

Industrial Indemnity
Policy No. CN882-7673

Insurance Co. of North America
Policy No. D1416425A

Chubb Group of Insurance Company
Policy No. B78316110

F.E. Beatties
Policy No. FEB 3143

17. ADI agrees that any action of indulgence or delay, failure to act, or failure to exercise any right or remedy by ARLF shall not affect or impair the obligations of ADI, or be construed as a waiver by ARLF or, otherwise affect ARLF's rights under this Agreement.

18. ARLF may assign this agreement after written notice to ADI.
19. This agreement will be construed by the laws of the State of Alaska.
20. ADI and ARLF agree that if any of the provisions hereof should be invalid or unenforceable, such unenforceability or invalidity shall void this Agreement in its entirety.
21. The date of this Agreement is _____.

DATED: _____

ALASKA DAIRY INC.

By: _____

Its: _____

DATED: _____

ALASKA QUALITY DAIRY
COOPERATIVE INC.

By: _____

Its: _____

DATED: _____

STATE OF ALASKA
AGRICULTURAL REVOLVING
LOAN FUND

By: _____

Its: _____

Consented To: _____
Commissioner of
Natural Resources

KASHWITNA FARMS, Inc.
c/o 1340 W. 23rd Ave., A
Anchorage, AK 99503
3 May 1988

Representative Sam Cotton
Co-Chairman, Resources Committee
Attn: Lisa Weissler
Alaska State Legislature
P.O. Box V (MS3100)
Juneau, AK 99811

Dear Representative Cotton:

Thank you for giving attention to: CSSB 23; SB 192; SB 484; SB 472;
and both the work on production dates and on product preference.

SB 472:

We are interested in seeing SB472 pass in the House because the farmers' problems with Mat Maid start with the fact that the processing plant is managed by the Board of the State of Alaska Agricultural Revolving Loan Fund (ARLF), under the Agricultural Division of the Department of Natural Resources (DNR), and the management they have contracted. Chief among these problems is that the management of Mat Maid does not involve the producers.

Instead the producers and processing plant should be considered as one entity. It is necessary that they together establish a market for a regional area. (A regional area is defined as one that can be reached/contacted in a single 24-hour period.) When realizing that we are in an geographically isolated, regionally definable area in Alaska, particularly Central Alaska, it is untenable that at present we have only 21 percent share of the market.

Best either pass SB 472 or shut down Mat Maid entirely because present actions of the ARLF Board (to foreclose on farmers and to kill off Pt. MacKenzie and the rest of Alaskan agriculture) indicate that the group seeks to retain this badly and inefficiently run Mat Maid (managed in an unbusiness-like manner resulting in an extremely high cost of processing fresh milk) and bring milk up from Washington State to be processed here and sold as 'fresh' milk. The dairy farmers feel that this present attitude of the Board conflicts with the intent of the Alaska State Legislature: locally produced milk processed by a local plant.

There are several groups of Southcentral producers selling, or potentially selling, fresh milk to Mat Maid: Those around Palmer including the University Farm; the well-financed Tucker and James Farms; plus six other farms with troubled loans also regularly producing milk: Karen Lee; Tom and Jean Rogers; S. Wright; Harvey Baskin; Bob Thom; and Ray Hendershot; plus two farms planned to milk regularly, Harry and 'Connie' Wassink and 'Bud' Johnson. The rest (Tracts 16 and 29 as well as the remaining producers' tracts) wish to start or increase production, thus becoming a source of an increased production which could double the quantity of local fresh milk within two years.

SB 484:

The problems that the Point MacKenzie project and its farmers have are: land; money; and market.

The land and land title --
For whatever reason DNR has considered the land far too valuable to sell to the farmers. The title of Ag rights only is not suitable security for anything except with which to obtain loans from the ARLF; and we have all seen what that has led to! Therefore, to obtain enough financing to establish, develop, and operate farms we have to talk about restructuring (SB 484).

Money and security for money --
As stated elsewhere there are no other available lending agencies because of our 'ag-rights' status. Therefore, farmers here cannot use what has been classically used by farmers elsewhere in the USA -- their land, as collateral. This fundamental fact has not as yet been really understood, I fear, by the electorate.

Market and market regulations --
The ARLF has the Point MacKenzie farmers in a 'Catch-22' situation: lack of a developing market, caused as we see it by a group of highly paid functionaries in control, who haven't the incentives that the farmers have to enlarge the market for Mat Maid, much less set market regulations in motion. We need also passage of SB 472 to effect a change in order to carry out legislative intent.

We believe that nearly all the producers (actual and potential) are in court or are considering some legal action. The fact that we have not been restructured or offered restructuring is apparently related to the fact that the restructuring proposal of June 1987 has been ruled in violation of law by the Department of Laws.

CSSB 23:

So far as we are aware, Tracts 12, 13, and 24 are not -- and never have been, suppliers of fresh milk from regularly milked cows, but have met, in some as yet undefined sense, 'compliance' standards (88-1). A lack of market has been indicated by the pricing statement of Mat Maid, dated 15 April 1988. We are concerned that 'compliance' barn owners are being held up as stewardly farmers and will be, by default, representative of "successes" -- hardly what the State Legislature intended as a renewed and growing dairy industry with regular milking as a criterion for successful farming operations. For this reason we need passage of CSSE23.

SB 192:

The membership of the ARLF Loan Board (from Dec. 1984 to the present), which produced this 'illegal' restructuring package and has tried hard for more than a year to force it down the farmers' throats, currently does not include working farmers with a substantial farm investment. In addition, the Board is a five-member body with no experience in dairy farming being represented. We farmers are in the Alaska dairy business. In order to carry out our responsibilities, we should be represented in the management of Mat Maid and involved with the 'prudent lender.'

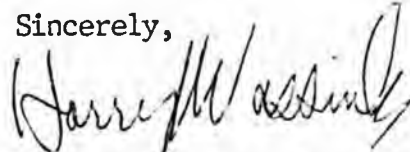
When considering the Governor's recent reappointment of three part-time farmers or gardeners, one sees that the composition of today's Board fails in complying with the law, which states that there shall be at least three who are full-time farmers. This causes a problem in that the Board of the ARLF is not operating "in the State's interest" to encourage the Point MacKenzie project and to place full-time farmers, including a representative from Pt. MacKenzie, on the Board. Given as a reason for exclusion is that the farmers have ARLF Loans (only ones they can get). SB 192 should be modified to remove this onerous exclusionary clause.

Prior to the present Board, membership was one made up of farm experience but evidently one of substantial and significant conflicts of interest. (See the 1985 Audit of the ARLF and various Ombudsman reports and the testimony given at the 12 March 1987 ARLF Teleconference on proposed restructuring.) We agree with the idea that integration of capital with the producers, the processors, and the market development is necessary. What we object to is that of the use of ag rights to remove the farmers from participating in the development of the industry in which by their own investment they have such a large stake.

To sum up, because of the critical problems highlighted in our discussion we see the need for urgent attention to the solution of these three important elements of the agricultural dilemma:

- 1) Appropriate legislation to provide for loan restructuring (SB 484);
- 2) Passage of SB 192, CSSB 23, and SB 472; and
- 3) If the Ag Division sees as its principal duty that of assisting the Washington State milk industry develop a larger market in central Alaska, we do not see the DNR agency operating in response to legislative intent (to promote Alaskan agriculture) and feel its Ag interest should be abolished. Certainly the project farmers would see benefits with the replacement of the Ag Division and the ARLF by a form of the old Agricultural Action Council (within the Department of Commerce and Economic Development); here was a group which formerly was more responsive to its publics than are today's agricultural operatives in Palmer. Economic development is what we and other large dairy farms are most interested in, not trying to outguess the next ploy that the ARLF and the Agricultural Division are going to throw out as the DNR changes another policy.

Sincerely,



Harry W. Wassink, Vice-Pres.

MATANUSKA-MAID, INC.

June 4, 1984

Truman Torgerson

The outlook for Matanuska-Maid is indeed a bleak one. They are not currently a good candidate for a loan by a lending institution. The only ghost of a chance for resurrection lies in debt forgiveness, equity write-off, producer price reduction, significant plant cost reduction, increased producer volume, increased sales and astute management. In all our deliberations it must always be remembered that Mat-Maid and the producers are one. Therefore, we must look at the whole - not just Mat-Maid, not just producers.

To protect its huge investment in agriculture - Point McKenzie in particular - and its encouragement to farmers to invest in dairying, the State of Alaska must take the major responsibility in seeing to it that there is a viable fluid milk organization to service this production. That is, provide a means of receiving, processing and marketing this perishable product.

One approach could well be for the State to take over and operate Matanuska-Maid lock, stock and barrel for the producers as an integral part of the Point McKenzie project.

The other approach would be for the State to make it feasible for a lending institution to loan Matanuska-Maid the

necessary funds. This would involve totally forgiving Matanuska-Maid its \$2.5 million debt to the State and to further subsidize both the producers and Mat-Maid (which is the producers) until both are soundly established.

The subsidy to new producers could be done by subsidizing the difference in the transportation costs (48¢ per cwt.) until the new road across the inlet is built.

Matanuska-Maid should be subsidized to assist it in meeting its inherent higher cost due to small milk volume and recapturing market share of business. Even if new producers double and quadruple present Mat-Maid milk volume, it will be far from adequate to obtain the economies of scale enjoyed by the large processors (Carnation, Darigold and Safeway) with which it must compete.

The subsidy could be tailored as an indirect "Buy Alaska" subsidy by paying it to the retailer who would be required to lower retail price of Matanuska-Maid by a like amount. This would be calculated to make Mat-Maid milk more competitive, perhaps 4½¢ a quart and 18¢ per gallon subsidy during this resurrection period. Possibly 3 to 5 years. Such a commitment by the State would have the further benefit of discouraging a price war, for the competing processors would be less apt to take on the State. It would benefit consumers who "Buy Alaska" and the Alaskan economy.

On the producer side, there must also be some positive action. It is recommended that the \$2.2 million in patron equities be written off. Also, the approximately \$500,000 in Capital Reserve Certificates. These have both been dissipated

by the losses incurred. These losses were acquiesced to by the Board as producer representatives. A possible compromise here - if an entrance fee is established - would be to allow current producers who contributed to use the necessary proportion to pay their entrance fees.

Of course, the debt to the unsecured creditors must be negotiated downward to the lowest possible level.

Another tough but necessary action to assist in putting the affairs of Mat-Maid in better order is to reduce the producer pay price. This price has been far beyond Mat-Maid's ability to pay and still compete in the market. It must be recognized that the overpayment has been and continues to be a great contributor to Mat-Maid losses.

It is unsound and impractical to base the pay price on the Puget Sound Class I price plus the cost of transportation of either bulk or packaged milk from Seattle to Anchorage. That simply will price Mat-Maid out of the market. Its declining sales in contrast to competition's growing sales is stark evidence. It is recommended that these prices be established on the basis of a competitive price to the retailer. After much study and consultation with producers, state officials and management it is recommended that a price of \$18.22 per 100 be established with appropriate Fed Order announced fat differential. This is a reduction of \$4.00 per cwt. or 17%. Mainland producer members of profitable cooperatives have taken an 8% cut. It is further recommended that if a loan is made by a financial institution that this price may be changed only on its approval or that of their designee.

An observation here is appropriate. It is the judgement of this writer that Mat-Maid can never achieve the economies of distribution that accrue to the captive chain receiving only full trailer loads of product and favored counter space. This coupled with the comparatively small and over-sized plant will long be a burdensome handicap.

While not pertaining to the finances of Mat-Maid, I believe it important that a financial lender get assurances from the State that it will initiate and enforce a more rigorous quality inspection program. This should enhance Mat-Maid's ability to compete. Especially with producer-handlers from the State of Washington. Such a program would aid materially in promoting "Buy Alaska" as well as protecting Alaskan consumers.

The program could include the requirement that all packages of dairy products must be dated with date of packaging, better still, would be a comparatively short pull date, say six or eight days. Included in this program would be rigorous enforcement at the store level and a checking there to see that bacterial counts meet established standards. Those not meeting the standard should be ordered off the shelf until corrections are made. This would necessarily be a greater burden to outside milk.

In a similar vein, it is recommended that Mat-Maid establish a formal on the farm quality program by employing a farm specialist whose duty it would be to serve as a liason between the producer and Mat-Maid, to build a quality program and assist in mastitis control and the like. This specialist might well be a veterinarian who could also provide other valuable services to the producer. Such a program has been of the utmost importance

in every successful cooperative endeavor.

Note: Mr. Truman Torgenson is currently a consultant to the Dairy Industry, is the retired Chief Executive Officer of Lake to Lake Creamery (Wisconsin) and has served as the Secretary to the Board of Directors for Land of Lakes Creamery (Wisconsin).

State of Alaska
Agricultural Revolving Loan Fund Board
P. O. Box 2470
Palmer, Alaska 99645

February 12, 1988

Curt Menard
Alaska House of Representatives
P. O. Box V (MS 3100)
Juneau, Alaska 99811

RE: Teleconference - Tuesday, February 9, 1988 with
ARLF Board

Dear Mr. Menard:

This letter is the promised follow-up to our teleconference.

You inquired regarding the Board's reaction to a cash production credit payment to all agricultural producers. The Board is opposed to any disbursement of loan fund money to producers who are not borrowers.

We followed this with comments on three other pieces of legislation:

by Cogn. 11 - Ke. + Lu

SB 353 Extension of Production Credits. First we point out that Loan Fund assets have already been reduced by production credits as follows: 1986 - \$346,000, 1987 - \$540,000, and to date in 1988 - \$322,000. These amounts have simply been wiped from our loanable funds under current legislation in force. If this legislation is extended this massive drain will continue.

The Board, in consultation with the Loan Fund Manager and the Director of Agriculture, offer this counter proposal for any renewal of production credits:

1. Limit production credits to borrowers in good standing, to borrowers who are current in their payments. Exclude restructured borrowers since they have already received substantial benefit in interest relief.

2. Limit the credit to only a portion of the interest so that the entire interest payment is not excused.

The thinking that goes into this counter proposal is that production credit then becomes an incentive to good borrowers by reducing their interest due. It is not a debt write-off as is the current legislation. It does not apply to restructures, they have already received substantial relief. This proposal is in the best interest of the State because it rewards borrowers in good standing with a reduced interest and an incentive to remain in good standing, and thus to keep funds revolving back into the Loan Fund.

MEMORANDUM

State of Alaska

DEPARTMENT OF NATURAL RESOURCES - DIVISION OF AGRICULTURE

TO: Mark Weaver
Director

DATE: February 4, 1968

FILE NO:

TELEPHONE NO: 745-7200

THRU: SUBJECT: HE 415

FROM: Hal K. Ward
Loan Manager

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

1985.....\$511,241.28

1986.....\$636,047.83

1987.....\$823,628.61

Total retroactive loss \$1,970,917.72.

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

Curt Menard
February 12, 1988
Page Two

HB 415 Retroactive Production Credit to Dairy Producers. The Board opposes this legislation. It is not in the best interest of the State. It is a debt relief program which rewards production without regard to efficiency and provides no payback to the loan fund. I am attaching "an analysis of the financial effect" on the Fund prepared by the Loan Fund Manager. Please be specifically aware that the Fund currently has loanable funds of about \$7 million. This proposal would wipe out almost \$2 million of that working balance.

SB 192 Expansion of the Loan Board from five to seven members. The Board is opposed to this legislation for the following reasons:

1. A seven member board increases from three to four the number of members that must be present for a working meeting.
2. Both of the added members must be producers. a) It is very difficult to find producer who do not have a disabling conflict of interest, i.e., a loan with the loan fund, or a financial interest that precludes them from acting on a particular loan application. b) This takes us back to the problem of a quorum on a particular application; and further c) the failure to fill these positions would leave us with a quorum requirement of four and less likelihood of meeting it. *Who Knows Better?*
3. An increase in the number of board members requires more preparation on the part of an already overburdened loan fund staff, lengthier meetings and more staff time spent on meetings, and a general increase in the cumbersomeness of the process.
4. Additional cost to the fund for per diem, travel expenses and other related costs, all of which must come from a shrinking operating budget.

The Board feels the current staff and board are dealing as efficiently as possible with the loan fund workload. Adding two functioning producer board members would be difficult to achieve and would reduce the efficiency and effectiveness of the process at this time. SB 192 is not in the best interests of the State.

by Kerstin
Thank you for alerting us to the proposed legislation. We hope our comments on it and other ag legislation is understood to come from a group who have particular familiarity with the issues and their resolution in the best interest of the State.

Sincerely,
Charles G. Forck
CHARLES G. FORCK, Chairman
Agriculture Revolving Loan Fund

Curt Menard
February 12, 1988
Page Three

cc: Judy Brady
Mark Weaver
Hal Ward
Senator Coghill
Senator Kertulla
Representative Herrmann
Representative Shultz
Member Dinkel
Member Stewart
Member Tatka
Member M. Ward

CGF/pd

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

SB 472
STEVE COWPER, GOVERNOR

400 WILLOUGHBY AVE.
JUNEAU, ALASKA 99801-1736
PHONE: (907) 465-2400

May 5, 1988

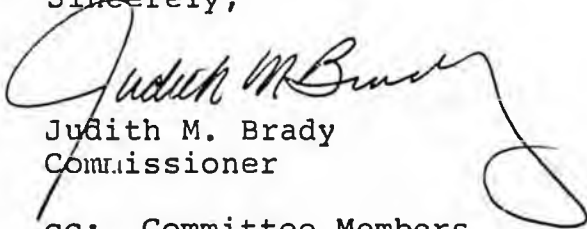
The Honorable Sam Cotten
Co-Chair, House Resources Committee
P.O. Box V
Juneau, AK 99811

Dear Representative Cotten:

I appreciate the House Resources Committee's consideration of agricultural problems and support the committee's substitute of SB 484. I assure you that the Department of Natural Resources and the Agricultural Revolving Loan Fund Board will not sell the Matanuska Maid Creamery during the one-year term of the creamery management agreement with Alaska Dairy, Inc. We hope that in one year Point MacKenzie farm operations will have stabilized to the point where dairy farmers are able to take on the obligation of a creamery purchase.

Please let me know if you would like additional information about the creamery.

Sincerely,



Judith M. Brady
Commissioner

cc: Committee Members
Rod Swope
Ron Clarke
Bob Evans
Mark Weaver
Senator Kerttula
Senator Szymanski
Representative Menard
Representative Larson

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE COTTEN

NAME: FRANK SCHEIBL

TITLE:

ADDRESS: P O BOX 2546

CITY: PALMER

PHONE: 745-9927

BILL NO: SB 472

SUBJECT: LEASE AND SALE OF MATANUSKA MAID CREAMERY

MESSAGE: STATE EMPLOYEES CAN ONLY LOSE MORE MONEY BY FORCING FORECLOSURE ON MCKENZIE DAIRIES INSTEAD OF PROMOTING AGRICULTURE. HOWEVER, THE STATE'S LOSS IS IMMATERIAL IF FORECLOSURE TICKLES EMPLOYEES WHO COULD HAVE IT IN FOR MCKENZIE DAIRYMEN. MAT MAID, INC.'S INTERESTED OPERATORS OPERATED PROCESSING FOR SOME 40 YEARS -- TIMELY PAYMENT ADJUSTMENTS WOULD HAVE KEPT IT GOING ANOTHER 40.

POMID: 14165522

DATE: 05/02/88

TIME: 16:55:22

LIONAME: MAT-SU LIO

COPIES: REPRESENTATIVES REPRESENTATIVES SENATORS

ADAMS	BARNES	ABOOD
EOUCHER	BOYER	BINKLFY
BROWN	CATO	COGHILL
COLLINS	DAVIDSON	DUNCAN
DAVIS	DONLEY	ELIASON
ELLIS	FRANK	FAHRENKAMP
FURNACE	GOLL	FAIKS
GRUENBERG	GRUSSENDORF	FANNING
HANLEY	HERRMANN	FISCHER
HOFFMAN	HUDSON	HALFORD
KOPONEN	LARSON	HENSLEY
MARTIN	MENARD	JONES
MILLER	NAVARRE	JOSEPHSON
PEARCE	PETTYJOHN	KELLY
PHILLIPS	FOURCHOT	KERTTULA
RIEGER	SHULTZ	RODEY
SPRINGER	SUND	STURGULEWSKI
SWACKHAMMER	TAYLOR	SZYMANSKI
ULMER	WALLIS	UEHLING
ZAWACKI		ZHAROFF

PUBLIC OPINION MESSAGE

DEAR: REPRESENTATIVE COTTEN

NAME: LEONARD MOFFITT

TITLE:

ADDRESS: P03 748

CITY: PALMER

PHONE: 745-3384

BILL NO: SB 472

SUBJECT: LEASE AND SALE OF MATANUSKA MAID CREAMERY

MESSAGE: PROCESSING PLANT NEEDS DAIRYMEN'S SUPERVISION: DAIRYMEN ARE SUBSIDIZING PROCESSING PLANT WHEN THE STATE OVERCHARGES (UNDERPAYS) DAIRYMEN FOR PROCESSING & DISTRIBUTION BY SOME 20% DIFFERENT THAN NATIONAL AVERAGE. STATE PROCESSOR RECENTLY ALERTED DAIRYMEN TO EXPECT TO MAKE FURTHER SUBSIDIES (PAY REDUCTIONS). THIS LONG-TERM SUBSIDIZING OF THE PROCESSOR WILL SLOWLY BREAK ALL DAIRYMEN.

POMID: 14165802

DATE: 05/02/88

TIME: 16:58:02

LIONAME: MAT-SU LIO

COPIES: REPRESENTATIVES SENATORS

DAVIDSON	COGHILL
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SPRINGER	ZHAROFF
SUND	FAHRENKAMP
BOUCHER	KELLY
DONLEY	SZYMANSKI
ELLIS	UEHLING
FURNACE	
KOPONEN	
MENARD	

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COV. R, GOVERNOR

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

Land and Clearing Debt Restructuring Completed to Date

- | | |
|-------------|--|
| (a) Nelson | Not in CRP or any other federal program |
| (b) Schultz | CRP, land and clearing and ARLF debt
restructured (no write down of ARLF
debt) |
| (c) Green | CRP on <u>other</u> parcel |
| (d) Carlyle | Clearing debt only restructured |
| (e) Strong | Clearing debt only restructured |

-All actions including waiver of the leasing step and including CRP have been suspended.

-No more relinquishments will be processed except in strict compliance with SB 349, which will sunset on June 30, 1988.

-All actions on land and clearing debt will be reported to the Senate Finance Committee.

Offered: 3/17/88
Referred: Finance

5-1589L

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

1 IN THE SENATE BY THE RESOURCES COMMITTEE

2 CS FOR SENATE BILL NO. 472 (Resources)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

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

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

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

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

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

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

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

21 * Sec. 2. LEASE-PURCHASE AUTHORIZED. The commissioner of natural
22 resources ~~may~~ ^{SHALL} enter into a one-year lease ^{PURCHASE} with a cooperative composed of
23 Alaska dairy product producers for the ^{OWNERSHIP} management and operation of the
24 former Matanuska Maid Creamery at 814 Northern Lights Boulevard, in
25 Anchorage. The commissioner and the cooperative shall agree on the compo-
26 sition and membership of the board of directors that manages the Matanuska
27 Maid Creamery unless the commissioner chooses not to retain veto authority
28 over the composition and membership of the board. The lease is renewable
29 annually for 14 years if the lessee has complied with health, product

1 quality, and other terms and conditions of the lease and has managed the
2 former Matanuska Maid Creamery economically, profitably, and efficiently
3 under the terms of the lease. The lease shall ^{PURCHASE} require the lessee to treat
4 each producer of dairy products equally. The lease may be negotiated by
5 the commissioner of natural resources at any time before July 1, 1989, but
6 it is the intent of the legislature that the lease be in effect on July 1,
7 1989. The lease ^{PURCHASE} payment due from the lessee is an amount equal to \$.50 per
8 hundredweight of milk processed per month at the creamery or \$13,000 per
9 month, whichever is greater, and the lease ^{PURCHASE} payment shall be applied to the
10 purchase price. If the cooperative composed of dairy product producers has
11 continuously operated the former Matanuska Maid Creamery under a lease
12 granted under this section through June 30, 1999, the commissioner of
13 natural resources shall, at the request of the lessee at any time after
14 June 30, 1999, but before June 30, 2004, ^{SELL} ^{LAND AND BUILDING} transfer the creamery to the
15 lessee. In valuing the assets of the former Matanuska Maid Creamery for
16 the purposes of a ^{SALE} transfer under this section, the building ~~shall be valued~~
17 ~~at its fair market value at the initiation of the lease and the land shall~~
18 be valued at its fair market value on the date of the request by the lessee
19 for a ^{SALE} transfer under this section.

Linda Bell-

4/28/88

Matanuska-Maid Assets: Estimated Values

<u>Assets to be immediately valued under SB 472</u>	Estimated Range of Values In Millions		
Receivable	1.1	---	1.35
Inventory	0.2	---	0.2
Prepaid	0.1	---	0.1
Fixtures	0	---	0.3
Equipment	0	---	0.75
Intangibles	0	---	1.0
Payables	(0.3)		(0.3)
	1.1		3.35
 <u>Assets to be valued at time of sale</u>			
Land (current est.)	0.5		1.0
Building (current est.)	<u>0</u>		<u>?</u>
	1.6 ?		4.35 ?

Note: Some assets have value only if the business is to be operated by a purchaser as a creamery. The building, for example, is probably of no value for other uses.. This may also be true for other assets, including the business name.

MATANUSKA MAID DATA
BALANCE SHEET

CONFIDENTIAL

NOT FOR DISTRIBUTION
CONFIDENTIAL
INFORMATION

FEBRUARY 29, 1988

ASSETS

Current assets

Cash		85,571.45
Receivables:		
Trade	1,398,389.12	
Notes receivable	364,649.89	
Other Receivables	322,934.40	
	2,085,973.41	
Less allowance for doubtful account	(205,523.00)	
Net receivables		1,880,450.41
Due from Matanuska Maid, Inc.		7,400.02
Inventories		599,784.67
Prepaid expenses		100,953.01
Total current assets		2,674,159.96

Property plant and equipment

Land		2,360,000.00
Buildings and improvements	319,278.95	
Machinery and equipment	663,051.26	
Office furniture and fixtures	2,000.00	
Office equipment	7,793.40	
Automotive equipment	236,319.93	
Computer equipment	34,570.00	
	1,263,013.54	
Less accumulated depreciation	(543,166.47)	
		719,847.07
Total property plant & equip.		3,079,847.07

5,754,006.63

Note to current assets

The amount indicated in "Due from Matanuska Maid, Inc." consists of labor, supplies and other costs incurred in the administration of the bankrupt estate

HAC can explain the acct table

CONFIDENTIAL

FEBRUARY 29, 1988

CONFIDENTIAL

LIABILITIES AND EQUITY

Current liabilities		
Producers payable		218,986.67
Accounts payable		242,100.55
Due to Matanuska Maid, Inc.		65.00
Current portion long term debt		169,102.89
Accrued liabilities		
Salaries and benefits	108,595.85	
Taxes other than income	(1,410.38)	
Insurance		
Interest		
Other expenses	735.03	
Total accrued liabilities		107,920.50
Income taxes		
Total current liabilities		738,175.61
Long term debt less current portion		116,759.40
Stockholders equity		
Common stock		
Paid in capital	5,837,565.00	
Retained earnings	(938,493.38)	
Total equity		4,899,071.62
Total liabilities and equity		5,754,006.63

STATEMENT OF INCOME
FOR THE MONTH ENDING

CONFIDENTIAL

FEBRUARY 29, 1988

	MONTH TO DATE	YEAR TO DATE
Sales - Creamery	745,530.95	1,528,577.21
Cost of sales - Creamery	716,915.53	1,394,764.11
	28,615.42	133,813.10
Sales-Cultured products	81,035.85	158,300.74
COS-Cultured products	72,675.86	137,982.11
	8,359.99	20,318.63
Sales - Palmer	137,311.63	271,238.41
Cost of sales - Palmer	145,489.56	289,021.51
	(8,177.93)	(17,783.10)
Gross margin	28,797.48	136,348.63
Sales expenses	14,211.81	30,784.88
Delivery expenses	50,355.53	104,956.72
General and administrative expenses	31,044.53	56,567.80
Interest expense	3,268.94	6,755.30
	98,880.81	199,064.70
Profit (Loss) from operations	(70,083.33)	(62,716.07)
Interest & service charge income	2,341.96	5,850.52
Gain (Loss) sale of assets		
Cash discounts taken	(301.11)	(248.60)
Other income	507.71	1,944.71
	2,548.56	7,546.63
Provision for Bad Debts	1,500.00	3,000.00
Other expense		
	1,500.00	3,000.00
Gain (Loss) before income taxes	(69,034.77)	(58,169.44)
Income taxes		
Net income (Loss)	(69,034.77)	(58,169.44)

PRODUCTION COST REPORT
FOR THE MONTH ENDING

CONTINUED

FEBRUARY 29, 1988

	MONTH TO DATE		YEAR TO DATE	
Creamery Sales	745,530.95	90.20%	1,528,577.21	90.62%
Creamery cost of production:				
Labor	86,583.90	10.48%	175,029.77	10.38%
Operating expense	64,769.91	7.84%	128,977.34	7.65%
Milk cost	475,183.39	57.49%	909,359.47	53.91%
Milk transport	21,730.00	2.63%	45,056.00	2.67%
Material cost	68,648.33	8.31%	136,341.53	8.08%
	716,915.53	86.73%	1,394,764.11	82.68%
Gross Margin Creamery	28,615.42	3.46%	133,813.10	7.93%
Cultured product sales	81,035.85	9.80%	158,300.74	9.38%
Cultured product COS	72,675.86	8.79%	137,982.11	8.18%
Gross Margin	8,359.99	1.01%	20,318.63	1.20%
Selling expense	14,211.81	1.72%	30,784.89	1.82%
Delivery expense:				
Labor	19,229.72	2.33%	42,323.90	2.51%
Operating expense	10,127.53	1.23%	19,886.52	1.18%
Third party delivery	20,998.28	2.54%	42,746.30	2.53%
	50,355.53	6.09%	104,956.72	6.22%
General & admin expense:				
Labor	19,905.12	2.41%	39,863.03	2.36%
Operating expense	14,139.41	1.71%	22,704.77	1.35%
G & A allocated	(3,000.00)	-.36%	(6,000.00)	-.36%
	31,044.53	3.76%	56,567.80	3.35%
Net operating profit (loss)	(58,636.46)	-7.09%	(38,177.67)	-2.26%
MILK SALES IN CWT	21,630.15		44,113.52	
MILK COST PER CWT	22.97		21.64	
PROCESSING COST PER CWT	10.42		10.10	
SALES RETURN PER CWT	34.47		34.65	

PRODUCTION COST REPORT
FOR THE MONTH ENDING

CONFIDENTIAL

FEBRUARY 29, 1988

	MONTH TO DATE		YEAR TO DATE	
Sour cream sales	22,874.30	28.23%	45,546.90	28.77%
Cottage cheese sales	37,182.50	45.88%	74,174.04	46.86%
Yogurt sales	20,979.05	25.89%	38,579.80	24.37%
Total sales	81,035.85	100.00%	158,300.74	100.00%
Labor	4,992.04	6.16%	9,922.25	6.27%
Materials Sour Cream	13,403.38	19.01%	29,958.01	18.92%
Materials Cottage Cheese	35,502.68	43.81%	66,481.54	42.00%
Materials yogurt	15,898.76	19.62%	29,218.31	18.46%
Equipment rental	879.00	1.08%	2,402.00	1.52%
Total cost of sales	72,675.86	89.68%	137,982.11	87.16%
Gross margin	8,359.99	10.32%	20,318.63	12.84%

PRODUCTION COST REPORT
FOR THE MONTH ENDING

CONFIDENTIAL

FEBRUARY 29, 1988

MONTH
TO DATE

YEAR
TO DATE

Palmer Sales	137,311.63	100.00%	271,238.41	100.00%
Palmer cost of production:				
Labor	19,064.69	13.88%	38,025.19	14.02%
Operating expense	12,719.62	9.26%	28,945.98	10.67%
Materials	110,705.25	80.62%	216,050.34	79.65%
	142,489.56	103.77%	283,021.51	104.34%
Gross margin	(5,177.93)	-3.77%	(11,783.10)	-4.34%
G & A allocated	3,000.00	2.18%	6,000.00	2.21%
Net operating profit (loss)	(8,177.93)	-5.96%	(17,783.10)	-6.56%

MATANUSKA MAID DAIRY
BUDGET & VARIANCE REPORT
FOR THE MONTH ENDING

CONFIDENTIAL

FEBRUARY 29, 1988

DIVISION OF AGRICULTURE

TEL NO.

745 7112 Apr 29, 88 8:19 P.06

	MONTH TO DATE			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Reamery Sales:						
Milk sales	746,043	740,800	5,243	1,532,434	1,648,600	(116,166)
Discounts and returns	(3,631)	(3,918)	287	(9,242)	(7,651)	(1,591)
Cultured product sales	81,036	79,584	1,452	158,301	156,368	1,933
Misc product sales	3,120	2,710	(410)	5,385	5,600	215
Total sales	826,567	812,176	14,391	1,686,878	1,802,917	(116,039)
Product cost:						
Milk cost	475,183	481,400	6,217	909,359	996,000	86,641
Milk transport	21,730	21,272	(458)	49,056	44,010	(5,046)
Cost of Containers & Ingredient	68,648	62,968	(5,680)	136,342	140,131	3,789
Production labor	86,584	76,907	(9,677)	175,030	150,153	(24,877)
Repairs bldg & equipment	21,496	12,810	(8,686)	35,443	29,010	(6,433)
Utilities	16,179	18,774	2,596	41,427	36,654	(4,773)
Chemicals	4,945	5,145	200	10,665	10,045	(620)
Other operating expenses	4,639	3,946	(693)	7,325	7,806	481
Depreciation bldg & fixed eq	14,714	14,773	59	29,427	29,546	119
Misc products COS	2,798	1,957	(841)	4,691	4,049	(642)
Milk production cost	716,916	699,952	(16,964)	1,394,764	1,443,404	48,640
Cultured product cost	72,676	60,803	(11,873)	137,982	124,832	(13,150)
Gross margin	36,975	54,421	(17,446)	154,132	234,681	(80,549)
Delivery labor						
Delivery labor	19,230	18,777	(453)	42,324	36,659	(5,665)
Delivery operating expense	3,759	3,750	(9)	7,141	7,450	309
Delivery depreciation	3,609	3,609		7,217	7,218	1
Third party delivery	20,998	22,260	1,262	42,746	43,462	716
Trucks	2,764	9,000	6,236	5,528	9,000	3,472
Total delivery	50,336	57,396	7,060	104,957	103,789	(1,168)
Sales labor						
Sales labor	6,859	6,746	113	13,928	13,892	(36)
Sales operating expense	402	878	476	854	1,756	902
Advertising	6,951	15,000	8,049	16,003	30,000	13,997
Total sales expense	14,212	22,824	8,612	30,785	45,648	14,863
General & adm expense:						
Labor	19,905	19,039	(866)	39,863	37,182	(2,681)
Operating expense	11,468	7,550	(3,918)	17,362	15,100	(2,262)
Insurance	1,864	2,200	336	3,728	4,400	672
Depreciation	807	800	(7)	1,614	1,600	(14)
Depreciation & A allocated	(3,000)	(3,000)		(6,000)	(6,000)	
Total general & admin expense	31,045	26,389	(4,656)	56,568	52,282	(4,286)
Debt service	(38,636)	(52,388)	(13,752)	(38,178)	32,962	(71,140)

MATANUSKA MAID DAIRY
BUDGET & VARIANCE REPORT
FOR THE MONTH ENDING

CONFIDENTIAL

FEBRUARY 29, 1988

DIVISION OF AGRICULTURE TEL NO. 745 7112 Apr 29, 88 8:20 P.07

	MONTH TO DATE			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Other Sales:						
farm product sales	138,742	149,971	(11,229)	274,577	291,993	(17,416)
discounts and returns	(1,430)	(2,000)	570	(3,337)	(4,000)	661
Total sales	137,312	147,971	(10,659)	271,238	287,993	(16,755)
Product cost:						
material cost	110,705	116,977	6,272	216,050	227,734	11,704
labor	19,065	19,302	238	38,025	42,015	3,990
utilities	2,753	2,457	(296)	5,381	4,914	(467)
operating expense	3,539	3,090	(449)	10,053	6,180	(3,873)
repairs bldg & equip	3,043	4,100	1,057	6,743	8,200	1,457
insurance	2,371	1,626	(745)	4,742	3,252	(1,490)
depreciation bldg & fixed eq	1,014	921	(93)	2,028	1,841	(187)
Total product cost	142,490	148,473	5,983	283,022	294,156	11,135
Gross margin	(5,178)	(502)	(4,676)	(11,783)	(6,163)	(5,620)
Allocated O & A	3,000	3,000		6,000	6,000	
Net service	(8,178)	(3,502)	(4,676)	(17,783)	(12,163)	(5,620)

1 MATANUSKA MAID DAIRY
BALANCE SHEET

JANUARY 31, 1988

CONFIDENTIAL

ASSETS

Current assets

Cash		57,714.15
Receivables:		
Trade	1,455,741.74	
Notes receivable	378,676.63	
Other Receivables	333,711.86	
	2,168,130.23	
Less allowance for doubtful account	(204,023.00)	
Net receivables		1,964,107.23
Due from Matanuska Maid, Inc.		7,400.02
Inventories		582,574.88
Prepaid expenses		113,172.32
Total current assets		2,724,968.60

Property plant and equipment

Land		2,360,000.00
Buildings and improvements	316,388.45	
Machinery and equipment	663,051.26	
Office furniture and fixtures	2,000.00	
Office equipment	7,793.40	
Automotive equipment	236,319.93	
Computer equipment	34,570.00	
	1,260,123.04	
Less accumulated depreciation	(520,231.55)	
		739,891.49
Total property plant & equip		3,099,891.49

5,824,860.09

Note to current assets

The amount indicated in "Due from Matanuska Maid, Inc." consists of labor, supplies and other costs incurred in the administration of the bankrupt estate.

BALANCE SHEET

JANUARY 31, 1988

CONFIDENTIAL

LIABILITIES AND EQUITY

Current liabilities		
Producers payable		253,027.29
Accounts payable		194,235.56
Due to Matanuska Maid, Inc.		45.00
Current portion long term debt		182,940.55
Accrued liabilities		
Salaries and benefits	103,964.42	
Taxes other than income	(1,366.46)	
Insurance		
Interest		
Other expenses	734.94	
Total accrued liabilities		103,332.90
Income taxes		
Total current liabilities		733,581.30
Long term debt less current portion		123,172.40
Stockholders equity		
Common stock		
Paid in capital	5,837,565.00	
Retained earnings	(849,458.61)	
Total equity		4,968,106.39
Total liabilities and equity		5,824,860.09

TANUSKA MAID DAIRY
STATEMENT OF INCOME
FOR THE MONTH ENDING

CONFIDENTIAL

JANUARY 31, 1988

	MONTH TO DATE	YEAR TO DATE
Sales - Creamery	783,046.26	783,046.26
Cost of sales - Creamery	677,848.58	677,848.58
	105,197.68	105,197.68
Sales-Cultured products	77,264.89	77,264.89
COS-Cultured products	65,306.25	65,306.25
	11,958.64	11,958.64
Sales - Palmer	133,926.78	133,926.78
Cost of sales - Palmer	143,531.95	143,531.95
	(9,605.17)	(9,605.17)
Gross margin	107,551.15	107,551.15
Sales expenses	16,573.07	16,573.07
Delivery expenses	54,601.19	54,601.19
General and administrative expenses	25,523.27	25,523.27
Interest expense	3,486.36	3,486.36
	100,183.89	100,183.89
Profit (Loss) from operations	7,367.26	7,367.26
Interest & service charge income	3,508.56	3,508.56
Gain (Loss) sale of assets		
Cash discounts taken	52.51	52.51
Other income	1,437.00	1,437.00
	4,998.07	4,998.07
Provision for Bad Debts	1,500.00	1,500.00
Other expense		
	1,500.00	1,500.00
Gain (Loss) before income taxes	10,865.33	10,865.33
Income taxes		
Net income (Loss)	10,865.33	10,865.33

17. ANNUAL MILK DATA
 PRODUCTION COST REPORT
 FOR THE MONTH ENDING

CONFIDENTIAL

JANUARY 31, 1988

	MONTH TO DATE		YEAR TO DATE	
creamery Sales	783,046.26	91.02%	783,046.26	91.02%
creamery cost of production:				
Labor	88,445.87	10.28%	88,445.87	10.28%
Operating expense	64,207.43	7.46%	64,207.43	7.46%
Milk cost	434,176.08	50.47%	434,176.08	50.47%
Milk transport	23,326.00	2.71%	23,326.00	2.71%
Material cost	67,693.20	7.87%	67,693.20	7.87%
	677,848.58	78.79%	677,848.58	78.79%
Gross Margin Creamery	105,197.68	12.23%	105,197.68	12.23%
cultured product sales	77,264.89	8.98%	77,264.89	8.98%
cultured product CGS	65,306.25	7.59%	65,306.25	7.59%
Gross Margin	11,958.64	1.39%	11,958.64	1.39%
Selling expense	16,573.07	1.93%	16,573.07	1.93%
Delivery expense:				
Labor	23,094.19	2.68%	23,094.18	2.68%
Operating expense	9,758.99	1.13%	9,758.99	1.13%
Third party delivery	21,748.02	2.53%	21,748.02	2.53%
	54,601.19	6.35%	54,601.19	6.35%
General & admin expense:				
Labor	19,957.91	2.32%	19,957.91	2.32%
Operating expense	8,565.36	1.00%	8,565.36	1.00%
G & A allocated	(3,000.00)	-.35%	(3,000.00)	-.35%
	25,523.27	2.97%	25,523.27	2.97%
Net operating profit (loss)	20,458.79	2.38%	20,458.79	2.38%
MILK SALES IN CWT	22483.37		22483.374	
MILK COST IN CWT	20.35		20.35	
PROCESSING COST PER CWT	10.04		10.04	
SALES RETURN PER CWT	34.83		34.83	

MILKMAKERS' DAIRY
 PRODUCTION COST REPORT
 FOR THE MONTH ENDING

CONFIDENTIAL

JANUARY 31, 1988

	MONTH TO DATE		YEAR TO DATE	
Sour cream sales	22,672.60	29.34%	22,672.60	29.34%
Cottage cheese sales	36,991.54	47.88%	36,991.54	47.88%
Yogurt sales	17,600.75	22.78%	17,600.75	22.78%
Total sales	77,264.89	100.00%	77,264.89	100.00%
Labor	4,930.21	6.38%	4,930.21	6.38%
Materials sour cream	14,554.63	18.84%	14,554.63	18.84%
Materials cottage cheese	30,978.86	40.09%	30,978.86	40.09%
Materials yogurt	13,319.55	17.24%	13,319.55	17.24%
Equipment rental	1,523.00	1.97%	1,523.00	1.97%
Total cost of sales	65,306.25	84.52%	65,306.25	84.52%
Gross margin	11,958.64	15.48%	11,958.64	15.48%

I TANUSKA MAID DAIRY
 PRODUCTION COST REPORT
 FOR THE MONTH ENDING

CONFIDENTIAL

JANUARY 31, 1988

	MONTH TO DATE		YEAR TO DATE	
Palmer Sales	133,926.78	100.00%	133,926.78	100.00%
Palmer cost of production:				
Labor	18,960.50	14.16%	18,960.50	14.16%
Operating expense	16,226.36	12.12%	16,226.36	12.12%
Materials	105,345.09	78.66%	105,345.09	78.66%
	140,531.95	104.93%	140,531.95	104.93%
Gross margin	(6,605.17)	-4.93%	(6,605.17)	-4.93%
G & A allocated	3,000.00	2.24%	3,000.00	2.24%
Net operating profit (loss)	(9,605.17)	-7.17%	(9,605.17)	-7.17%

JANUARY 31, 1988

CONFIDENTIAL

	MONTH TO DATE			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Creamery Sales:						
Milk sales	786,391	907,800	(121,409)	786,391	907,800	(121,409)
Discounts and returns	(5,610)	(3,733)	(1,877)	(5,610)	(3,733)	(1,877)
Cultured product sales	77,265	30,784	(3,519)	77,265	30,784	(3,519)
Misc product sales	2,265	2,890	625	2,265	2,890	625
Total sales	860,311	987,741	(127,430)	860,311	987,741	(127,430)
Product cost:						
Milk cost	434,176	514,600	80,424	434,176	514,600	80,424
Milk transport	23,325	22,738	(588)	23,325	22,738	(588)
Containers & ingredients	67,693	77,163	9,470	67,693	77,163	9,470
Production labor	88,446	73,246	(15,200)	88,446	73,246	(15,200)
Repairs bldg & equipment	13,947	12,200	(1,747)	13,947	12,200	(1,747)
Utilities	25,248	17,890	(7,358)	25,248	17,890	(7,358)
Chemicals	5,720	4,900	(820)	5,720	4,900	(820)
Other operating expenses	2,685	3,860	1,175	2,685	3,860	1,175
Depreciation bldg & fixed eq	14,714	14,773	59	14,714	14,773	59
Misc products COS	1,893	2,092	199	1,893	2,092	199
Milk production cost	677,849	743,452	65,603	677,849	743,452	65,603
Cultured product cost	65,306	64,029	(1,277)	65,306	64,029	(1,277)
Gross margin	117,156	180,260	(63,104)	117,156	180,260	(63,104)
Delivery labor						
Delivery labor	23,094	17,832	(5,262)	23,094	17,832	(5,262)
Delivery operating expense	3,386	3,700	314	3,386	3,700	314
Delivery depreciation	3,609	3,609		3,609	3,609	
Third party delivery	21,748	21,202	(546)	21,748	21,202	(546)
Cases	2,764		(2,764)	2,764		(2,764)
Total delivery	54,601	46,393	(8,208)	54,601	46,393	(8,208)
Sales labor						
Sales labor	7,069	6,946	(123)	7,069	6,946	(123)
Sales operating expense	452	878	426	452	878	426
Advertising	9,052	15,000	5,948	9,052	15,000	5,948
Total sales expense	16,573	22,824	6,251	16,573	22,824	6,251
General & adm expense:						
Labor	19,958	18,143	(1,815)	19,958	18,143	(1,815)
Operating expense	5,894	7,550	1,656	5,894	7,550	1,656
Insurance	1,864	2,200	336	1,864	2,200	336
Depreciation	807	800	(7)	807	800	(7)
G & A allocated	(3,000)	(3,000)		(3,000)	(3,000)	
Total general & admin expense	25,523	25,693	170	25,523	25,693	170
Debt service	20,459	85,350	(64,891)	20,459	85,350	(64,891)

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TEL No.

DIVISION OF AGRICULTURE

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JANUARY 31, 1988

	MONTH TO DATE			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Palmer Sales:						
Farm product sales	135,835	142,022	(6,187)	135,835	142,022	(6,187)
Discounts and returns	(1,909)	(2,000)	91	(1,909)	(2,000)	91
Total sales	133,927	140,022	(6,095)	133,927	140,022	(6,095)
Product cost:						
Material cost	105,345	110,777	5,432	105,345	110,777	5,432
Labor	18,961	22,713	3,752	18,961	22,713	3,752
Utilities	2,628	2,457	(171)	2,628	2,457	(171)
Operating expense	6,514	3,090	(3,424)	6,514	3,090	(3,424)
Repairs bldg & equip	3,700	4,100	400	3,700	4,100	400
Insurance	2,371	1,626	(745)	2,371	1,626	(745)
Depreciation bldg & fixed eq	1,014	921	(93)	1,014	921	(93)
Total product cost	140,532	145,683	5,151	140,532	145,683	5,151
Gross margin	(6,605)	(5,661)	(944)	(6,605)	(5,661)	(944)
Allocated G & A	3,000	3,000		3,000	3,000	
Debt service	(9,605)	(8,661)	(944)	(9,605)	(8,661)	(944)

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DIVISION OF AGRICULTURE

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() MATANUSKA MAID DAIRY ()
BALANCE SHEET

OCTOBER 31, 1987

ASSETS

Current assets		
Cash		43,605.24
Receivables:		
Trade	1,674,690.05	
Notes receivable	380,991.54	
	<u>2,055,681.59</u>	
Less allowance for doubtful account	(199,523.00)	
Net receivables		1,856,158.59
Due from Matanuska Maid, Inc.		7,400.02
Inventories		758,594.32
Prepaid expenses		23,229.26
		<u>2,688,987.43</u>
Total current assets		
Property plant and equipment		
Land		2,360,000.00
Buildings and improvements	312,856.76	
Machinery and equipment	629,882.84	
Office furniture and fixtures	2,000.00	
Office equipment	7,793.40	
Automotive equipment	236,319.93	
Computer equipment	34,570.00	
	<u>1,223,422.93</u>	
Less accumulated depreciation	(451,426.79)	
		<u>771,996.14</u>
Total property plant & equip		3,131,996.14
		<u>5,820,983.57</u>

Note to current assets

The amount indicated in "Due from Matanuska Maid, Inc." consists of labor, supplies and other costs incurred in the administration of the bankrupt estate.

(TANUSKA MAID DAIRY
BALANCE SHEET

OCTOBER 31, 1987

LIABILITIES AND EQUITY

Current liabilities		
Producers payable		235,896.19
Accounts payable		507,932.85
Due to Matanuska Maid, Inc.		7,721.70
Current portion long term debt		121,127.81
Accrued liabilities		
Salaries and benefits	92,383.58	
Taxes other than income	(917.24)	
Insurance		
Interest		
Other expenses	1,405.38	
Total accrued liabilities		92,871.72
Income taxes		
Total current liabilities		965,550.27
Long term debt less current portion		142,025.53
Stockholders equity		
Common stock		
Paid in capital	5,538,565.00	
Retained earnings	(825,157.23)	
Total equity		4,713,407.77
Total liabilities and equity		5,820,983.57

Note to current liabilities

The amount indicated in "Due to Matanuska Maid, Inc." consists of proceeds from the sale of parts inventories of the bankrupt estate which have not been fully collected from the buyer and cash receipts received for the estate that have not been reimbursed.

(ATANUSKA MAID DAIRY
STATEMENT OF INCOME
FOR THE MONTH ENDING

OCTOBER 31, 1987

	MONTH TO DATE	YEAR TO DATE
Sales - Creamery	772,992.15	7,608,194.58
Cost of sales - Creamery	709,862.20	7,396,694.76
	<u>63,129.95</u>	<u>211,499.82</u>
Sales-Cultured products	76,346.27	635,640.13
COS-Cultured products	64,753.76	605,281.91
	<u>11,592.51</u>	<u>30,358.22</u>
Sales - Palmer	151,263.92	1,735,098.37
Cost of sales - Palmer	150,799.69	1,747,754.90
	<u>464.23</u>	<u>(12,656.53)</u>
Gross margin	75,186.69	229,201.51
Sales expenses	34,062.06	260,465.75
Delivery expenses	52,953.63	488,626.39
General and administrative expenses	24,003.67	247,524.70
Interest expense	3,165.63	38,508.28
	<u>114,184.99</u>	<u>1,035,125.12</u>
Profit (Loss) from operations	(38,998.30)	(805,923.61)
Interest & service charge income	3,337.13	23,839.70
Gain (Loss) sale of assets		988.92
Cash discounts taken	2.70	336.45
Other income	1,394.12	6,795.32
	<u>4,733.95</u>	<u>31,960.39</u>
Provision for Bad Debts	1,500.00	18,195.30
Other expense		(3,190.00)
	<u>1,500.00</u>	<u>15,005.30</u>
Gain (Loss) before income taxes	(35,764.35)	(788,968.52)
Income taxes		
Net income (Loss)	<u>(35,764.35)</u>	<u>(788,968.52)</u>

(MATANUSKA MAID DAIRY
 PRODUCTION COST REPORT (
 FOR THE MONTH ENDING

OCTOBER 31, 1987

	MONTH TO DATE		YEAR TO DATE	
Creamery Sales	772,992.15	91.01%	7,608,194.58	92.29%
Creamery cost of production:				
Labor	89,862.18	10.58%	843,327.71	10.23%
Operating expense	52,714.18	6.21%	580,899.80	7.05%
Milk cost	486,166.14	57.24%	5,055,888.47	61.33%
Milk transport	22,876.00	2.69%	223,215.30	2.71%
Material cost	58,243.70	6.86%	693,363.48	8.41%
	-----		-----	
	709,862.20	83.58%	7,396,694.76	89.72%
	-----		-----	
Gross Margin Creamery	63,129.95	7.43%	211,499.82	2.57%
Cultured product sales	76,346.27	8.99%	635,640.13	7.71%
Cultured product COS	64,753.76	7.62%	605,281.91	7.34%
	-----		-----	
Gross Margin	11,592.51	1.36%	30,358.22	.37%
Selling expense	34,062.06	4.01%	260,465.75	3.16%
Delivery expense:				
Labor	19,689.28	2.32%	201,589.71	2.45%
Operating expense	11,000.12	1.30%	84,231.67	1.02%
Third party delivery	22,264.23	2.62%	202,805.01	2.46%
	-----		-----	
	52,953.63	6.23%	488,626.39	5.93%
General & admin expense:				
Labor	19,672.53	2.32%	197,640.76	2.40%
Operating expense	7,331.14	.86%	79,883.94	.97%
G & A allocated	(3,000.00)	-.35%	(30,000.00)	-.36%
	-----		-----	
	24,003.67	2.83%	247,524.70	3.00%
	-----		-----	
Net operating profit (loss)	(36,296.90)	-4.27%	(754,758.80)	-9.16%
	=====		=====	
MILK SALES IN CWT	22,212.89		217,081.56	
MILK COST IN CWT	22.92		23.67	
PROCESSING COST PER CWT	9.04		9.76	
SALES RETURN PER CWT	34.80		35.05	

MATANUSKA MAID DAIRY
 PRODUCTION COST REPORT
 FOR THE MONTH ENDING

OCTOBER 31, 1987

	MONTH TO DATE		YEAR TO DATE	
Sour cream sales	26,302.25	34.45%	246,081.32	38.71%
Cottage cheese sales	34,623.16	45.35%	296,554.58	46.65%
Yogurt sales	15,420.86	20.20%	93,004.23	14.63%
Total sales	76,346.27	100.00%	635,640.13	100.00%
Labor	4,919.51	6.44%	50,402.75	7.93%
Materials sour cream	16,533.11	21.66%	162,090.39	25.50%
Materials cottage cheese	27,259.98	35.71%	315,527.87	49.64%
Materials yogurt	15,162.16	19.86%	68,470.90	10.77%
Equipment rental	879.00	1.15%	8,790.00	1.38%
Total cost of sales	64,753.76	84.82%	605,281.91	95.22%
Gross margin	11,592.51	15.18%	30,358.22	4.78%

STANUSKA MAID DAIRY
 PRODUCTION COST REPORT
 FOR THE MONTH ENDING

OCTOBER 31, 1987

	MONTH TO DATE		YEAR TO DATE	
Palmer Sales	151,263.92	100.00%	1,735,098.37	100.00%
Palmer cost of production:				
Labor	24,751.88	16.36%	213,226.11	12.29%
Operating expense	17,799.45	11.77%	123,479.41	7.12%
Materials	105,248.36	69.58%	1,381,049.38	79.59%
	147,799.69	97.71%	1,717,754.90	99.00%
Gross margin	3,464.23	2.29%	17,343.47	1.00%
G & A allocated	3,000.00	1.98%	30,000.00	1.73%
Net operating profit (loss)	464.23	.31%	(12,656.53)	-.73%

MATANUSKA MAID DAIRY
BUDGET & VARIANCE REPORT
FOR THE MONTH ENDING

OCTOBER 31, 1987

	MONTH TO DATE			YEAR TO DATE		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Creamery Sales:						
Milk sales	774,930	944,418	(169,488)	7,630,584	9,040,624	(1,410,040)
Discounts and returns	(4,479)	(8,122)	3,643	(41,240)	(77,636)	36,396
Cultured product sales	76,346	89,838	(13,492)	635,640	760,091	(124,451)
Misc product sales	2,541	3,930	1,389	18,851	27,970	9,119
Total sales	849,338	1,030,064	(180,726)	8,243,835	9,751,049	(1,507,214)
Product cost:						
Milk cost	486,166	589,932	103,766	5,055,888	5,620,320	564,432
Milk transport	22,876	25,063	2,187	223,215	253,206	29,991
Containers & ingredients	58,244	84,998	26,754	693,363	813,678	120,315
Production labor	89,862	71,228	(18,634)	843,328	702,951	(140,377)
Repairs bldg & equipment	15,188	13,200	(1,988)	144,317	130,200	(14,117)
Utilities	19,744	18,964	(780)	191,592	187,054	(4,538)
Chemicals	6,520	4,730	(1,790)	58,610	46,655	(11,955)
Other operating expenses	(3,988)	3,822	7,810	39,686	38,037	(1,649)
Depreciation bldg & fixed eq	13,124	12,719	(405)	130,911	127,190	(3,721)
Misc products COS	2,126	2,947	821	15,784	20,974	5,190
Milk production cost	709,862	827,603	117,741	7,396,695	7,940,265	543,570
Cultured product cost	64,754	71,657	6,903	605,282	601,744	(3,538)
Gross margin	74,722	130,804	(56,082)	241,858	1,209,040	(967,182)
Delivery labor						
Delivery labor	19,689	23,607	3,918	201,590	232,852	31,262
Delivery operating expense	5,913	4,293	(1,620)	42,232	43,277	1,045
Delivery depreciation	3,609	3,478	(131)	36,085	34,780	(1,305)
Third party delivery	22,264	19,136	(3,128)	202,805	188,771	(14,034)
Cases	1,479	9,000	7,521	5,915	45,000	39,085
Total delivery	52,954	59,514	6,560	488,626	544,680	56,054
Sales labor						
Sales labor	6,949	6,695	(254)	67,466	67,459	(7)
Sales operating expense	407	878	471	5,924	8,780	2,856
Advertising	26,706	10,000	(16,706)	187,076	100,000	(87,076)
Total sales expense	34,062	17,573	(16,489)	260,466	176,239	(84,227)
General & adm. expense:						
Labor	19,673	19,534	(139)	197,641	199,551	1,910
Operating expense	1,402	6,620	5,218	55,719	70,100	14,381
Insurance	5,196	2,324	(2,872)	16,871	23,240	6,369
Depreciation	733	818	85	7,294	8,055	761
G & A allocated	(3,000)	(3,000)		(30,000)	(30,000)	
Total general & admin expense	24,004	26,296	2,292	247,525	270,946	23,421
Debt service	(36,297)	27,421	(63,718)	(754,759)	217,175	(971,934)

MATANUSKA MAID DAIRY
BUDGET & VARIANCE REPORT
FOR THE MONTH ENDING

OCTOBER 31, 1987

	-----MONTH TO DATE-----			-----YEAR TO DATE-----		
	ACTUAL	BUDGET	VARIANCE	ACTUAL	BUDGET	VARIANCE
Palmer Sales:						
Farm product sales	153,093	194,148	(41,055)	1,754,711	1,728,235	26,476
Discounts and returns	(1,830)	(2,000)	170	(19,613)	(20,000)	387
Total sales	151,264	192,148	(40,884)	1,735,098	1,708,235	26,863
Product cost:						
Material cost	105,248	151,435	46,187	1,381,049	1,348,022	(33,027)
Labor	24,752	21,261	(3,491)	213,226	203,207	(10,019)
Utilities	830	2,665	1,835	20,144	26,650	6,506
Operating expense	3,499	3,132	(367)	30,074	31,320	1,246
Repairs bldg & equip	8,387	4,200	(4,187)	50,254	42,000	(8,254)
Insurance	4,069	1,626	(2,443)	13,242	16,260	3,018
Depreciation bldg & fixed eq	1,014	921	(93)	9,766	9,210	(556)
Total product cost	147,800	185,240	37,440	1,717,755	1,676,369	(41,086)
Gross margin	3,464	6,908	(3,444)	17,343	31,566	(14,223)
Allocated G & A	3,000	3,000		30,000	30,000	
Debt service	464	3,908	(3,444)	(12,657)	1,566	(14,223)

March 23, 1988

The title of Senate Bill 472, "An Act Authorizing the Department of Natural Resources to Transfer the Creamery Formerly Owned by Matanuska Maid, Inc.", is a lot more than that.

1. IT IS A JOBS BILL because 125 Alaskans are directly employed by the dairy industry. When you add the multiplier effect, approximately 375 Alaskan jobs are dependent on the Alaska dairy industry.

2. IT IS THE LINCHPIN OF THE DAIRY FARMERS because the dairy farmer cannot survive long-term under state management and ownership. No business in fact could survive under state management on a sustained basis.

3. IT IS SUPPORTIVE OF AN ALASKAN CO-OP Alaska Quality Dairy, Inc. is a farmer owned co-op, with equal vote for each member, large or small producer, poor or rich. It is the phoenix of the old Mat Maid co-op which was serving Alaskans since the 1930's. A co-op by its very structure is designed to serve all its members equally, both those of today and those of future generations. The farmers' co-op is no different than Chugach Electric, Matanuska Electric, or Homer Electric and the things that you do today as legislators benefit all co-op members both today and generations to come.

4. IT IS A CONSUMER BILL because it will contribute to lower milk prices and also help guarantee a reliable supply of milk for Alaskan consumers in the Railbelt. On two occasions this year container ship delays left the Railbelt with only Matanuska Maid to rely on for fresh milk.

5. IT IS PROTECTION FOR ARLF ASSETS because the only way the ARLF can ever realize a return of the \$9,000,000 it has invested at Point Mackenzie, or a return on the \$6,000,000 it has invested in the creamery and the feedmill, is for the creamery to be competitive and viable. The assets secured by ARLF loans are worthless except as operating businesses.

6. IT IS AN INVESTMENT IN ALASKA'S FUTURE because the potential for growth of Mat Maid under aggressive management is at least double the current 27% market share.

7. IT IS A BILL THAT GETS GOVERNMENT OUT OF BUSINESS and places the farmers in business, providing them with an ability to control their own destiny. Government lost \$844,135 in 1987.

8. IT IS A BILL THAT STOPS THE CONTINUED DRAIN ON ARLF ASSETS so that future farmers will have a source of capital. During 1987 the ARLF advanced \$1,043,990 to the creamery.

9. IT IS A BILL THAT REMOVES THE UNCERTAINTY OF THE CREAMERY'S CONTINUED OPERATION because it set forth a plan for 15 years. The current uncertainty reduces the farmers ability to plan his future and also restrict the retailers ability to rely upon Mat Maid for a guaranteed long-term source of milk.

10. IT IS A BILL THAT REMOVES POLITICS FROM THE CREAMERY because it eliminates the absolute control of the creamery by the whims of a politically appointed ARLF Board, Director of Agriculture and Commissioner of Natural Resources.

I think to understand the importance of this bill one should compare the lost interest income to the ARLF versus the benefits to the ARLF, both current and future, the benefits to Alaskans, both current and future, and the benefits to the dairy industry, both current and future.

The estimated fair market value of the creamery based upon an ongoing income approach is \$2,750,000 according to DNR figures, therefore, the lost interest to the ARLF under the current bill would be:

1989	\$220,000
1990	207,520
1991	195,040
1992	182,560
1993	<u>170,080</u>
TOTAL	\$975,200

\$975,200 divided by 5 = \$195,040 average interest loss per year

The net loss to the ARLF if the sale were at fair market value and interest at 8% is an average of \$195,040 per year over 5 years. To put this in perspective, that is about 10% of the Division of Agriculture's budget. One should ask the question which creates the greatest benefit for Alaska and for Alaska agriculture?

The benefits to the ARLF and Alaska are approximately as follows:

Elimination of losses $\$844,135 \times 5 \times \frac{1}{2} =$	\$ 2,110,000
Loans to ARLF to Point MacKenzie farmers which would be uncollected $\$9,000,000 \times \frac{1}{2} =$	4,500,000
Loss in Alaska jobs direct and indirect $5 \times \$25,000 \times 375 =$	46,875,000
Elimination of replacement costs of equipment per DNR figures $\frac{1}{2} \times 4,600,000 =$	1,150,000
TOTAL	<u>\$54,635,000</u>

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

\$10,927,000	Benefit
<u>195,040</u>	Cost
\$10,731,960	Net gain per year

\$10,731,960 is my estimate of the minimal net gain because it takes into account no growth in market share. A normal state expenditure such as your jobs bill of \$75,000,000 will create less benefit to Alaskans than the \$195,040 that this bill costs the ARLF per year. The cost per job of the 195,040 is about 500.00 per job per year. To put it another way, the \$195,040 is about 25% of the ARLF's administrative costs per year. One should ask which creates the greatest benefit for Alaskans and for Alaska agriculture?

I would also tell you that I believe that dairy farming can work in Alaska and that I believe that long-term agriculture can play an important role in Alaska's future. I would like to end by asking your support for Senate Bill 472 and remind you that the spirit of assisting agriculture which I am asking you for today traces its ideology back to our country's formation when Washington said on December 6, 1796 in his final annual address to Congress:

"... with reference either to individual or national welfare, agriculture is of primary importance. In proportion, as nations advance in population and other circumstances of maturity, this truth becomes more apparent, and renders the cultivation of the soil more and more an object of public patronage."

ALASKA STATE SENATE

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



WHILE IN JUNEAU
P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4525

House Resources
April 27, 1988

SPONSOR STATEMENT ON CS SB 472 (Resources)

What would CSSB 472 do?

1. Directs DNR to enter into a one-year lease with a dairy producers' cooperative for management and operation of the Matanuska Maid Creamery.

2. Legislative intent is that a lease be in effect by July 1, 1989.

3. Monthly lease payment is equal to \$.50 per hundredweight of milk processed or \$13,000, whichever is greater.

4. Lease is renewable annually for 14 years, if lessee complies with health and quality standards as well as other terms of the lease, and has managed the Creamery economically, profitably and efficiently.

5. If Creamery is successfully operated for ten years, DNR shall offer to sell it to the lessee.

6. The lease payments shall be applied toward the purchase price.

7. Sale price for the building is set at fair market value at the time the lease is initiated; price for the land is set at the time sale is requested.

Why is this bill necessary?

1. Many have asked why the State is in the dairy business. This bill develops a rational process to transfer it to private industry.

2. Since the State's purchase of the Creamery in 1984, the Agricultural Revolving Loan Fund in DNR has pumped \$2,914,788 into the Creamery. The purpose of this bill is to remove that continuing financial drain.

3. DNR is currently working with Alaska Dairy Inc. (a subsidiary of the milk producers coop) to fashion a trial lease to manage the Creamery for one year. This trial, under DNR's watch, provides a smooth transition into the process set forth in SB 472. This bill provides the needed incentive and stability for the private sector to enter into this enterprise.

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

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

March 11, 1988

MAR 1

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

Dear Senator Coghill:

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

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

X o This bill requires the department to enter a lease/purchase contract with a cooperative of dairy producers but makes no provision for protecting state, ARLF, or non-dairy farm public interests, or the interests of dairy producers who are not in control of the cooperative. The department and the Agricultural Revolving Loan Fund (ARLF) Board currently have the authority and the responsibility to sell or lease the Matanuska Maid Creamery and feed mill under terms and conditions that are in the best interests of the state, the ARLF and the agricultural community.

o The \$1 per year lease/purchase option established by this bill makes no provision for a share of any revenue from the creamery or feed mill to be returned to the ARLF.

o The contract required by this bill would prevent other interested parties from purchasing the creamery for a period of twenty years, with no guarantee that the dairy cooperative would purchase the facilities during that time.

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

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

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

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

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

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

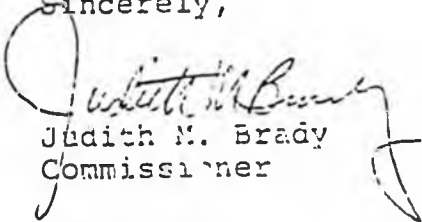
Senator Coghill

-3-

March 11, 1988

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

Sincerely,


Judith M. Brady
Commissioner

Enclosure

cc: Sponsors
Bob Evans
Rod Swope
Mark Weaver

ALASKA STATE SENATE

JOE P. JOSEPHSON
DISTRICT H ANCHORAGE
3111 C STREET, SUITE 510
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WHILE IN JUNEAU
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JUNEAU, ALASKA 99811
(907)465-4525

March 22, 1988

Judy Brady, Commissioner
Department of Natural Resources
400 Willoughby Ave.
Juneau, Alaska 99801

Dear Commissioner Brady:

I would like to thank you for meeting with Senator Coghill and myself last week on Senate Bill 472, the bill addressing the lease-purchase of the Matanuska Maid creamery. I believe your input was helpful in fashioning a better bill, and that many of your ideas are reflected in the Senate Resources substitute.

I am enclosing a copy of that substitute, along with the Committee's Letter of Intent. I invite you to continue to offer criticisms, additions and deletions as we proceed along the legislative path of this bill.

The bill is up before Senate Finance this Thursday, and I would be happy to talk with you further on any concerns you may have.

With best wishes, I am

Sincerely,

A handwritten signature in cursive script that reads "Joe P. Josephson".

Joe P. Josephson
State Senator

JPJ:jdf

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

February 5, 1988

Audit Control Number

10-4293-88-S

MAR 25 1988

Commissioner, Department of
Natural Resources

Judith M. Brady

Deputy Commissioner, Department
of Natural Resources

Lennie Boston-Gorsuch

STATE OF ALASKA

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

THE LEGISLATURE
BUDGET AND AUDIT COMMITTEE

February 5, 1988

Members of the Legislative Budget
and Audit Committee:

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

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

February 5, 1988

Audit Control Number

10-4293-88-S



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

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PURPOSE OF THE REPORT

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

AUDITOR'S CONCLUSION

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

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

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

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

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

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

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

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

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

HISTORY OF THE POINT MACKENZIE AGRICULTURE PROJECT

Concept Origination

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

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

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

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

Project Implementation

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

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

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

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

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

Project Statistics

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

Land Clearing and Farm Development

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

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

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

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

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

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

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

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

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

Development Costs: Estimated vs. Actual

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

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

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

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

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

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

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

MATANUSKA MAID DAIRY

Background

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

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

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

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

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

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

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

Milk Pricing: The Double Edged Sword

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

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

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

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

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

Marketing: Problems and Strategy

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

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

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

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

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

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

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

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

STATE OF ALASKA

DEPARTMENT OF NATURAL RESOURCES

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

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

March 17, 1988

RECEIVED

MAR 22 1988

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

LEGISLATIVE
AUDIT

Dear Mr. Welker:

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

You may wish to consider the following comments and observations:

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

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

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

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

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

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

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

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

Mr. Randy S. Welker

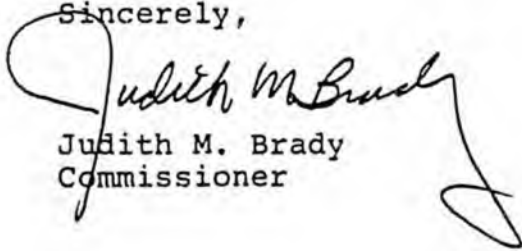
-3-

March 17, 1988

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

I hope these comments prove helpful.

Sincerely,

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

Judith M. Brady
Commissioner

3rd fiscal note

STATE OF ALASKA
1988 LEGISLATIVE SESSION

BILL VERSION: CSSB 472 Resources
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: 3/31/88
Title: Transfer Matanuska Maid Assets
Sponsor: Sen. Resources Committee
Requestor: Senate Finance Committee

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	(3222.2)	(222.2)	(222.2)	(222.2)	(222.2)

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

This fiscal note adjusts the revenue loss to the state related to transfer of the creamery to a dairy cooperative because the cash, accounts receivable, inventory and prepaid expenses will not be included in the transfer. (See attached explanation).

Prepared by: Hal Ward Phone: 745-7200
Division: Division of Agriculture Date: 3/31/88
Approved by Commissioner: [Signature] Date: 3/31/88
Agency: Natural Resources

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

Explanation for Revised Fiscal Note

CSSB 472 (Resources)

<u>FY 89</u>		<u>FY 90-93</u>
156.0	Lease Income	156.0 Lease Income
(148.2)	Loss of Opportunity for Sale	(148.2) Loss of Opportunity
(230.0)	Depreciation	(230.0) Depreciation
(3000.0)	Loss of Capital Improvements	
<hr/>		
(3222.2)	Loss for FY 89	(222.2) Loss per year FY 90-93

Lease payment income is projected to be \$156,000 per year (\$13,000 per month). The loss in income from immediate sale of the land and buildings in Anchorage over 20 years at 8% for the current tax value (March, 1988) is \$1,475,500 (\$148,200 per year). The loan fund would receive no repayment for the contribution of over \$3,000,000 in operating capital and plant improvements during the last three years.

The recently incorporated cooperative that is seeking to lease/purchase the creamery has no assets and no financial capacity to provide operating capital or plant maintenance. The exposure to the State of Alaska as owner of the facility would include working capital of 3,000,000 and replacement of equipment based on depreciation of \$230,000 per year for 15 years to offset obsolescence and provide for future expansion.

STATE OF ALASKA

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

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

February 5, 1988

SUMMARY OF: A Special Report on the Department of Natural Resources, Point MacKenzie Agriculture Project and the Matanuska Maid Dairy, February 5, 1988.

PURPOSE OF THE REPORT

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

AUDITOR'S CONCLUSION

In 1979 an administrative and legislative decision was made to salvage the dairy industry of southcentral Alaska through the development of a dairy project at Point MacKenzie. The economic feasibility of the project was based on assumptions developed from existing Matanuska-Susitna Valley dairy farms and a small test plot at Point MacKenzie. It was recognized at the time that the economic feasibility of the project was questionable. As stated in a 1980 study by the Office of Management and Budget: "Any combination of earlier interest payments, higher interest rates higher construction costs and/or lower than required milk production will substantially alter the time required before operations are financially sound... The margin for costly mistakes is minimal."

As discussed in this report, mistakes were made. The project has also been affected by circumstances unforeseen in 1980. The result has been that of the original nineteen dairy parcels sold, eight are producing, all of which are currently delinquent on state loans. Those eight dairies are meeting the production expectations for the entire project; however, at current production levels and at current milk prices all farms are not yet economically viable.

The Matanuska Maid creamery is in state ownership, run by contracted management. Although Matanuska Maid pays no debt service and sales in 1987 were in excess of \$12,000,000, the dairy operated at a loss of \$850,000, primarily due to state policy decisions to purchase more milk than demand required at a higher than market price.

The price of milk paid to the producers has been the basis of a difficult policy dilemma. The ability of Pt. MacKenzie dairy farmers to produce adequate income to cover operating costs and cover debt incurred, primarily to the Agricultural Revolving Loan Fund, is predominantly effected by the price they receive for milk produced. The ability of Matanuska Maid to be economically viable also depends on that entity's ability to adjust the price of milk paid to producers.

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

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

March 23, 1988

The title of Senate Bill 472, "An Act Authorizing the Department of Natural Resources to Transfer the Creamery Formerly Owned by Matanuska Maid, Inc.", is a lot more than that.

1. IT IS A JOBS BILL because 125 Alaskans are directly employed by the dairy industry. When you add the multiplier effect, approximately 375 Alaskan jobs are dependent on the Alaska dairy industry.

2. IT IS THE LINCHPIN OF THE DAIRY FARMERS because the dairy farmer cannot survive long-term under state management and ownership. No business in fact could survive under state management on a sustained basis.

3. IT IS SUPPORTIVE OF AN ALASKAN CO-OP Alaska Quality Dairy, Inc. is a farmer owned co-op, with equal vote for each member, large or small producer, poor or rich. It is the phoenix of the old Mat Maid co-op which was serving Alaskans since the 1930's. A co-op by its very structure is designed to serve all its members equally, both those of today and those of future generations. The farmers' co-op is no different than Chugach Electric, Matanuska Electric, or Homer Electric and the things that you do today as legislators benefit all co-op members both today and generations to come.

4. IT IS A CONSUMER BILL because it will contribute to lower milk prices and also help guarantee a reliable supply of milk for Alaskan consumers in the Railbelt. On two occasions this year container ship delays left the Railbelt with only Matanuska Maid to rely on for fresh milk.

5. IT IS PROTECTION FOR ARLF ASSETS because the only way the ARLF can ever realize a return of the \$9,000,000 it has invested at Point Mackenzie, or a return on the \$6,000,000 it has invested in the creamery and the feedmill, is for the creamery to be competitive and viable. The assets secured by ARLF loans are worthless except as operating businesses.

6. IT IS AN INVESTMENT IN ALASKA'S FUTURE because the potential for growth of Mat Maid under aggressive management is at least double the current 27% market share.

7. IT IS A BILL THAT GETS GOVERNMENT OUT OF BUSINESS and places the farmers in business, providing them with an ability to control their own destiny. Government lost \$844,135 in 1987.

8. IT IS A BILL THAT STOPS THE CONTINUED DRAIN ON ARLF ASSETS so that future farmers will have a source of capital. During 1987 the ARLF advanced \$1,043,990 to the creamery.

9. IT IS A BILL THAT REMOVES THE UNCERTAINTY OF THE CREAMERY'S CONTINUED OPERATION because it set forth a plan for 15 years. The current uncertainty reduces the farmers ability to plan his future and also restrict the retailers ability to rely upon Mat Maid for a guaranteed long-term source of milk.

10. IT IS A BILL THAT REMOVES POLITICS FROM THE CREAMERY because it eliminates the absolute control of the creamery by the whims of a politically appointed ARLF Board, Director of Agriculture and Commissioner of Natural Resources.

I think to understand the importance of this bill one should compare the lost interest income to the ARLF versus the benefits to the ARLF, both current and future, the benefits to Alaskans, both current and future, and the benefits to the dairy industry, both current and future.

The estimated fair market value of the creamery based upon an ongoing income approach is \$2,750,000 according to DNR figures, therefore, the lost interest to the ARLF under the current bill would be:

1989	\$220,000
1990	207,520
1991	195,040
1992	182,560
1993	<u>170,080</u>
TOTAL	\$975,200

\$975,200 divided by 5 = \$195,040 average interest loss per year

The net loss to the ARLF if the sale were at fair market value and interest at 8% is an average of \$195,040 per year over 5 years. To put this in perspective, that is about 10% of the Division of Agriculture's budget. One should ask the question which creates the greatest benefit for Alaska and for Alaska agriculture?

The benefits to the ARLF and Alaska are approximately as follows:

Elimination of losses \$844,135 x 5 x ½ =	\$ 2,110,000
Loans to ARLF to Point MacKenzie farmers which would be uncollected \$9,000,000 x ½ =	4,500,000
Loss in Alaska jobs direct and indirect 5 x \$25,000 x 375 =	46,875,000
Elimination of replacement costs of equipment per DNR figures ½ x 4,600,000 =	1,150,000
TOTAL	<u>\$54,635,000</u>

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

\$10,927,000	Benefit
<u>195,040</u>	Cost
\$10,731,960	Net gain per year

\$10,731,960 is my estimate of the minimal net gain because it takes into account no growth in market share. A normal state expenditure such as your jobs bill of \$75,000,000 will create less benefit to Alaskans than the \$195,040 that this bill costs the ARLF per year. The cost per job of the 195,040 is about 500.00 per job per year. To put it another way, the \$195,040 is about 25% of the ARLF's administrative costs per year. One should ask which creates the greatest benefit for Alaskans and for Alaska agriculture?

I would also tell you that I believe that dairy farming can work in Alaska and that I believe that long-term agriculture can play an important role in Alaska's future. I would like to end by asking your support for Senate Bill 472 and remind you that the spirit of assisting agriculture which I am asking you for today traces its ideology back to our country's formation when Washington said on December 6, 1796 in his final annual address to Congress:

"... with reference either to individual or national welfare, agriculture is of primary importance. In proportion, as nations advance in population and other circumstances of maturity, this truth becomes more apparent, and renders the cultivation of the soil more and more an object of public patronage."