

# **THE ALASKA DAIRY INDUSTRY REPORT AND RECOMMENDATIONS**

## **Dairy Industry Ad Hoc Committee Members**

**Ginger Blaisdell**

Staff to Senator Lyda Green, District G

**Mac Carter**

Board of Agriculture and Conservation  
Creamery Corporation, Chairman

**Wes Eckert**

Darigold Corporation (*retired*)

**Ernie Hall**

Alaska Furniture Manufacturers

**Paul Huppert**

Palmer Produce

**Don Lintelman**

Northern Lights Dairy

**Mark Neuman**

Representative, District 15

**Gail Phillips**

Former Speaker of the House

**Ken Sherwood**

Alaska Mill & Feed

**Joe Van Treeck**

Matanuska Maid

**David Wight**

Alyeska Pipeline Service Company (*retired*)

**Rhonda Boyles**

Board of Agriculture, Chair  
Dairy Industry Ad Hoc Committee Facilitator

**NOVEMBER 27, 2006**

## **AD HOC COMMITTEE PURPOSE**

Alaska's dairy industry, including dairy producers, Matanuska Maid (Mat Maid) and Northern Lights Dairy, Mt. McKinley Meat and Sausage (MMM&S), and other support industries are in jeopardy and are in need of immediate assistance. In an effort to identify strategies for success for this industry, the Alaska Department of Natural Resources (DNR) Commissioner created the Dairy Industry Ad Hoc Committee (Committee) to evaluate the situation facing Alaska's dairy industry and provide a factual, informative summary report and recommendations for the future of the dairy industry.

## **EXECUTIVE SUMMARY**

The Committee recognizes the tenuous circumstances and interdependencies of Alaska's dairy industry and believes that without an articulated policy and at least a short-term financial commitment from the State of Alaska, the dairy industry in Alaska will disappear in the near future. The Committee's recommendations focus on positioning the industry for success and require immediate action by the Palin/Parnell Administration. Included in this report are overall policy modifications, infrastructure requirements and the industry's specific needs. The financial support recommendations are based on the assumption the State will adopt a policy to preserve the dairy industry in the short-term as it examines solutions for the future.

## **DAIRY INDUSTRY BACKGROUND**

The dairy industry has been part of Alaska's agriculture industry for over 70 years. For the purposes of this report the dairy industry includes dairy producers and processors, slaughter facilities, as well as hay and grain. From a broad perspective, the challenges faced by the dairy industry are similar to those faced by many Alaska businesses and include a lack of economies of scale, high transportation costs, and limited markets. Increasing the severity of these challenges are vertically integrated businesses from the Lower 48 which provide similar dairy products at significantly lower prices. Essentially, the Alaska dairy industry competes directly with national and multi-national businesses that establish the shelf price for Alaskan produced goods including dairy, meat and vegetable products.

## **DAIRY INDUSTRY INFRASTRUCTURE**

The Alaska dairy industry infrastructure in use today includes the State owned and operated MMM&S plant and the Creamery Corporation dba Matanuska Maid. The State is the sole corporate shareholder of Mat Maid. This infrastructure is critical to all dairy producers in the State and cannot be independently evaluated without due consideration to the dairy producers. State ownership of this infrastructure places responsibilities usually reserved for the private sector on the State of Alaska and have fostered an ongoing discussion for over 20 years. Fundamental to the future of the dairy industry in Alaska is policy clarity as to the purpose of these State held assets.

## **THE VALUE OF DAIRY INDUSTRY IN ALASKA**

Given the size and young age of Alaska's agricultural industry it is difficult to estimate its monetary value. The Alaska Agricultural Statistics Service (USDA) reports annually on the farm economy in the State. For the period 2000-2005 they reported that Alaskan farm gate receipts have averaged \$30 million dollars per year. The median multiplier for the agricultural industry in the United States is 1.5. Using this median U.S. multiplier with the conservative monetary value of Alaska's agricultural industry implies the value of agriculture in Alaska can be estimated at a minimum of \$45 million annually. Other estimates reviewed by the Committee estimated the monetary value of the industry above \$80 million annually.

The Committee believes there are not enough small renewable resource based businesses in Alaska for the State of Alaska to continue its passive policies regarding the dairy industry. Ignoring the dairy industry also ignores component parts of the industry including crop production, slaughter facilities, processing plants, and transportation and discounts the importance of agriculture in Alaska. State and local governments in conjunction with business associations have invested heavily in business diversification activities to broaden Alaska's economic base. The longstanding value provided to the State's economy by the dairy industry is threatened by significant changes in transportation and retail activity that has occurred over the last 20 years.

### **ADDITIONAL INFORMATION**

While this report is short and its recommendations broad, the report recommendations affecting the dairy industry are based on information reviewed during the Committee's examination of the industry. The policy recommendations are listed first and must be evaluated prior to considering implementation of the specific recommendations for hay and grain, dairy producers, Mat Maid and MMM&S.

The historical and statistical information examined by the Committee to formulate this summary report and recommendations are located online at the [Dairy Industry Ad Hoc Committee](http://www.dnr.state.ak.us/ag/ag_adhoc.htm) website (www.dnr.state.ak.us/ag/ag\_adhoc.htm). This documentation should be thoroughly reviewed prior to implementation of the Committee's recommendations. An index listing all of the documents reviewed by the committee is included in this report. Committee members are willing and able to expound on their recommendations and should be utilized as policies are considered. A Committee contact list is attached to this report. Public notices, agendas, minutes and notes are also available on the Dairy Industry Ad Hoc Committee website.

## **OVERALL RECOMMENDATIONS:**

### ➤ **FUNDING**

1. The Agricultural Revolving Loan Fund should be used solely for the purpose of lending money for agricultural development purposes and should not be used to fund the Division of Agriculture, Plant Materials Center, MMM&S or Mat Maid.

### ➤ **COLLABORATION**

1. For the dairy industry to be viable, dairy producers, processors, slaughter facilities, farm bureaus; the USDA; the State of Alaska Administration, including the Department of Natural Resources, the Division of Agriculture, the Department of Commerce, Community and Economic Development; and the Alaska State Legislature, should immediately start working together to promote the dairy industry in Alaska.
2. All parties involved in Alaska's dairy industry should participate in an organized structure, facilitated by the Board of Agriculture & Conservation with leadership and support from the Division of Agriculture.

### ➤ **EXPECTATIONS**

1. Due to the unique circumstances of the State's ownership relationships with MMM&S and Mat Maid, the purpose of these facilities must be specifically outlined.
2. The recommended long-term goal is for each entity to maintain a positive cash flow and to provide stable infrastructure for the dairy industry.

### ➤ **FINANCIAL SUPPORT**

1. Maintain the current milk production price support to the dairy producers of \$2 per hundred weight of milk for a period of not more than 3 years or until a State of Alaska based production support is implemented.
2. Design and implement a State agricultural production credit program with annual reviews every year for the next 5 years.
3. At a minimum, financial support will be needed to maintain Mat Maid and MMM&S, both State assets, over the short term until long-term solutions are identified.

### ➤ **RESULTS**

1. Any and all financial support for the dairy industry must be tied to specific measurement standards.
2. Annual results should be evaluated by the entities providing the support prior to continuing financial support of the industry.

### ➤ **RESEARCH**

1. The State of Alaska must support multiple aspects of the University of Alaska in expanding research applications to support farmers to increase productivity through production of higher quality feeds for animals with the goal of maximizing production across all areas on the farm. Investments in research should focus on delivering best practices and cutting edge technology through additional Cooperative Extension specialists, food science and food safety research and marketing assistance to the industry.

➤ **BOARD OF AGRICULTURE AND CONSERVATION (BAC)**

1. The State of Alaska Administration and Legislature should review and evaluate the BAC's composition, its statutory and regulatory authorities.
2. The BAC should be representative of today's agriculture industry in Alaska.
3. The BAC, along with the State of Alaska Administration and Legislature, should make a commitment to support a stable and growing dairy industry.
4. The BAC in its shareholder role, should elect the Creamery Corporation's directors from outside its membership.
5. The BAC should explore market opportunities in emerging markets such as natural and organic products as an opportunity to increase the return and margins in the Alaska agricultural industry.

➤ **DIVISION OF AGRICULTURE**

1. The BAC's participation in the selection of the Director of the Division of Agriculture should be increased for the express purpose of attracting a high level of professionalism to work on behalf of the agriculture industry.
2. The Division of Agriculture, with the support of the Department of Commerce, Community and Economic Development, and DNR should review State of Alaska purchasing contracts to identify opportunities for growth.

## HAY AND GRAIN

### Opportunities

- Demand exceeds the supply of Alaska produced hay. Dairy producers are purchasing all the hay grown in Alaska that is available. There is not enough hay and grain produced locally to meet their needs.
- Producing better quality hay is possible through best production practices (fertilizing, irrigation, time of harvest), but is more expensive.
- Hay and grain can be augmented to get the best feed quality.
- Access to quality hay and grain could improve the production of dairy cows.
- Locally produced agronomy, or forage and grains, currently represents 60% of the Agricultural Revolving Loan Fund portfolio and the performance of these loans is excellent.

### Challenges

- Compared to the Lower 48, the choice of feeds available in Alaska is limited.
- The quality of hay in Alaska used to feed dairy cows is often good provided the weather cooperates and fertilizer is applied. Sometimes though, the quality of hay used here is lower than that of hay fed to similar cows in confinement in the Lower 48. One problem in particular is the difficulty of producing alfalfa in Alaska and the prohibitive cost of shipping it in. Alfalfa is high in protein and standard dairy cow feed in the lower 48 states.
- By 2010 USDA will have to reduce the amount of cropland in the Conservation Reserve Program (CRP) from 29,000 acres to 16 – 19,000 acres. This reduction may result in much of that acreage moving into hay and grain production.

### Recommendations

1. Consider offering production credits for increased production of dairy cow hay based on continued quality and quantity increases.
2. Explore production credits available in Alaska through the proposed 2007 Farm Bill.

## DAIRY PRODUCERS

### Opportunities

- The economic multiplier value of the dairy industry is part of the estimated \$83 million impact of the overall agriculture industry in Alaska.
- Locally produced milk has market potential as evidenced by Northern Lights Dairy and Mat Maid's strong consumer support.
- Dairying is a renewable resource industry in Alaska.

### Challenges

- A few of the State's dairy producers in the Point McKenzie area maintain a high debt load.
- There is a lack of current, efficient infrastructure for use by dairy producers (veterinarians, hoof trimmers, breeders, equipment support, etc.).
- The State of Alaska, specifically the Department of Natural Resources, the Department of Commerce, Community and Economic Development, and the Alaska State Legislature have not demonstrated an understanding of the value of a healthy agricultural program and have not made a commitment to one.
- The Canadian border closure does not allow the ground transportation of bred replacement heifers to Alaska adding significant costs and exacerbating the existence or growth of the industry.
- There is a limited market for cull dairy cows.
- Dairy producers in Alaska lack economies of scale.

### Recommendations

1. Direct financial support for dairy producers, beyond the competitive price for milk, should not come from the Agricultural Revolving Loan Fund, creameries, or MMM&S, but instead from other sources.
2. The State of Alaska FY08 budget should include additional funds to maintain the current \$2.00 per hundred weight financial support to dairy producers, as well as to pay the subsidy (price over market value) currently being provided to local producers by Mat Maid. The current appropriation allocated for the \$2 per hundred weight program is estimated to be expended in April of 2007.
3. Financial support must be tied to annual measurement standards over a period of 5 years that provide incentives for the greatest production of milk. Annual assessments of each dairy should be conducted by the entities providing the financial support to ensure best management practices are used. Measurements should include cost per hundred weight (CWT) of milk, the production cost, per animal productivity cost, milk/feed ration, composition of milk product, total farm performance and return on investment.

## MT. MCKINLEY MEAT & SAUSAGE

### Opportunities

- MMM&S is the sole USDA certified custom kill floor in Southcentral Alaska.
- Many FFA and 4-H students use MMM&S.
- The Department of Corrections is the primary customer at representing approximately 75% of MMM&S's revenue. Approximately 16% of MMM&S's FY 06 revenue came from cull dairy cows.
- Training of Correctional inmates.
- Securing State of Alaska contracts under the local preference provisions would bolster the market for dairy producers' cull cows and a red meat industry.

### Challenges

- MMM&S is a State owned and operated facility and is dependent on the financial cycles of State budgeting.
- The Agricultural Revolving Loan Fund has been required to provide approximately \$200,000 in annual financial assistance to support MMM&S operating losses.
- The MMM&S facility and equipment are aging and the facility is too big for the market it serves. The plant was originally designed to slaughter and process 50 animals a day and currently does about 20 per week.
- MMM&S provides a service critical to the financial underpinning to dairy producers and others in the meat business. In FY 06 alone, the economic effect of MMM&S for dairy producers was approximately \$168,000 (272 dairy cull cows in State fiscal year 2006).
- The Department of Corrections, MMM&S's largest customer, continues to have a significant amount of accounts receivable which significantly impacts MMM&S's cash flow.
- State agencies do not make price allowances for the purchase of locally produced and manufactured products.

### Recommendations

1. The State of Alaska, Division of Agriculture, Department of Corrections and the Alaska State Legislature should articulate the purpose of MMM&S.
2. Financial support for MMM&S should come from sources other than the Agricultural Revolving Loan Fund.
3. Options to consider for MMM&S:
  - a. Build a new, smaller, more efficient facility with a kill floor only (USDA certified);
  - b. Have the Department of Corrections operate MMM&S again. They are the largest client and also have a training program on the Pt. MacKenzie Farm that may dovetail into their objectives;
  - c. Have inmates pay for their education;
  - d. Review management structure and operations for increased efficiencies;
  - e. Eliminate box meat purchases and sales allowing private industry to compete for markets MMM&S currently holds;
  - f. Privatize facility;
  - g. Identify private sector operated facility and sell MMM&S without conditions.
4. The BAC should be proactive in communicating its management and operational goals for MMM&S to the Division of Agriculture staff since MMM&S is currently an Agricultural Revolving Loan Fund asset.

## MATANUSKA MAID

### Opportunities

- Value added product and lines to include juice and water if profitable.
- Maintain or increase the high rate of market share in Southcentral Alaska which is estimated at 40% due to excellence in quality, diversification of products, good marketing and the historical ties to Alaska.
- Mat Maid sells Northern Lights Dairy packaged products, bottles and other materials, and raw milk which helps them remain successful in the interior marketplace.
- Securing State of Alaska contracts under the local preference provisions would bolster the industry.

### Challenges

- Since 2003, locally produced milk has decreased 42% over the same time period (January-September).
- New Homeland Security and food safety rules require immediate infrastructure upgrades.
- Mat Maid must maintain a competitive wholesale price, yet has no control over the retail price.
- State agencies like the Department of Corrections, school districts and the University do not make price allowances for the purchase of locally produced and manufactured products.
- Funding challenges in 2005 for the federally funded Women's Infants and Children (WIC) program managed by the Alaska Department of Health and Human Services resulted in policy changes which requires program recipients to purchase the cheapest dairy products available in an effort to maximize benefits available to Alaskans in need.
- The price paid to producers cannot be increased. If the price increment to producers increases the creamery's cash flow will be negative. A portion of the price paid to producers is a subsidy by one segment of Alaska's dairy industry to another.
- If Mat Maid closes, there will not be a market or process facility for the raw milk in Southcentral Alaska. On two previous occasions the State tried to sell Mat Maid, but the deal killer both times was the price paid to the producer for milk (similar to the restrictions on the sale of MMM&S).
- Building a new creamery could be very expensive. It would have to be relocated to a new, larger lot to meet today's requirements for safety and security in food production.

### Recommendations

1. Invest \$1-1.5 million to make sure Mat Maid will be in compliance with new Homeland Security and food safety compliance rules. The State FY 08 budget should include a capital appropriation for the required improvements.
2. The amount of subsidy (over market value) currently being provided to local producers by Mat Maid should be identified. Once identified, an alternative funding source for this amount should be secured;
3. Allow Mat Maid to consider its future options, as well as provide a market for locally produced milk. The Creamery Corporation Board of Directors should evaluate the following options:
  - a. Determine the State's interest and commitment in their continued ownership of Mat Maid;
  - b. Privatize Mat Maid;
  - c. Relocate facility (new location, size, technology, security);

- d. Purchase additional land at current location for required facility improvements and process efficiencies.
- 4. The Board of Agriculture and Conservation (BAC) should appoint members to the Creamery Corporation Board who have the necessary skills and experience to ensure the success of the corporation. Additionally, the BAC should avoid any perception of conflict of interest by not appointing any of its members to the Creamery board.
- 5. The Division of Agriculture and the Board of Agriculture should work with the dairy industry, Department of Health and Social Services, along with the Eat Smart Alaska Coalition and the Alaska Dietetic Association to identify opportunities to overcome challenges presented by WIC funding.

## COMMITTEE ROSTER

Blaisdell, Ginger Staff to Senator Lyda Green	Phone: 907-465-6600 Email: <a href="mailto:ginger_blaisdell@legis.state.ak.us">ginger_blaisdell@legis.state.ak.us</a>
McLaren (Mac) C. Carter, Member Board of Agriculture & Conservation	Phone: 907-520-5999 Email: <a href="mailto:maccarter@starband.net">maccarter@starband.net</a>
Wesley E. Eckert Darigold, <i>retired</i>	Phone: 425-641-4120 Email: <a href="mailto:wes_joanne@msn.com">wes_joanne@msn.com</a>
Ernie Hall Alaska Furniture Manufacture	Phone: 907-562-2257 Home Email: <a href="mailto:ernie.afm@ak.net">ernie.afm@ak.net</a> Work Email: <a href="mailto:erhall@alaskalife.net">erhall@alaskalife.net</a>
Paul Huppert, Owner Palmer Produce	Phone: 907-745-3875 Email: <a href="mailto:produce@att.net">produce@att.net</a>
Don Lintelman, Owner Northern Lights Dairy	Phone: 907-895-4824 Email: None
The Honorable Mark Neuman Alaska House of Representatives	Phone: 907-376-2679 Email: <a href="mailto:Rep_Mark_Neuman@legis.state.ak.us">Rep_Mark_Neuman@legis.state.ak.us</a>
Gail Phillips Former Speaker of the House	Phone: 907-722-4867 Email: <a href="mailto:gailphil@alaska.net">gailphil@alaska.net</a>
Ken Sherwood Alaska Mill & Feed	Phone: 907-279-4519 Email: <a href="mailto:ken.akgarden@acsalaska.net">ken.akgarden@acsalaska.net</a>
Joseph Van Treeck, Manager Matanuska Maid Dairy	Phone: 907-561-5223 Email: <a href="mailto:jvt@matmaid.com">jvt@matmaid.com</a>
David Wight Alyeska Pipeline Service Company, <i>retired</i>	Phone: 907-344-3983 Email: <a href="mailto:davidgwight@mac.com">davidgwight@mac.com</a>
Rhonda Boyles, Chair Board of Agriculture & Conservation	Phone: 907-388-2606 Email: <a href="mailto:boyles@gci.net">boyles@gci.net</a>

## DOCUMENT INDEX

NOTE: These documents available online at [www.dnr.state.ak.us/ag/ag\\_adhoc.htm](http://www.dnr.state.ak.us/ag/ag_adhoc.htm)

### I. Dairy Industry Ad Hoc Report

### II. Letter from Commissioner Michael L. Menge

### III. Scope of Work

### IV. Meetings

#### A. Notices

#### B. Minutes

1. October 10, 2006\*
2. October 16, 2006\*
3. October 23, 2006\*
4. October 31, 2006\*

\*Will be available no later than December 15, 2006

### V. Dairy Producers

A. **Brief Summary:** *Alaska Dairy Producers and Milk Production – Milan Shipka, UAF, Cooperative Extension Service*

#### B. Additional Backup

1. Milk Production in Alaska 2005 – Bruce Godfrey, Utah State University
2. Alaska Grade A Milk Producers Financing – DNR, Division of Agriculture
3. ARLF Loan Portfolio by Category – DNR, Division of Agriculture
4. Alaska Agricultural Lenders & Loan Interest Rates – DNR, Division of Agriculture
5. Alaska Dairy Production price Support – DNR, Division of Agriculture
6. Division of Agriculture Budget/Funding/Expenditures – DNR, Financial Support Services
7. USDA Farm Service Agency Presentation - Chad Padgett, Director USDA Farm Service Agency

## **VI. Matanuska Maid**

**A. Brief Summary:** *Matanuska Maid Dairy – Joe Van Treeck, President/CEO  
Matanuska Maid*

### **B. Additional Backup**

1. Operations Review & Analysis Matanuska Maid 1990 – Roy C. Ferguson, Ferguson Group
2. Matanuska Maid A White Paper – DNR, Division of Agriculture
3. Memorandum Financial Services, DNR, Financial Support Services
4. Matanuska Maid Website
5. WIC Program Regulations – DNR, Division of Agriculture
6. Summary Report FSMIP Research Project – Greg Galik, Aadland Marketing
7. Matanuska Maid Milk Statistics – Joe Van Treeck, Mat Maid
8. Matanuska Maid Dairy 2005 Annual Report

## **VII. Mt. McKinley Meat & Sausage**

**A. Brief Summary:** *Mt. McKinley Meat & Sausage White Paper – DNR, Division of  
Agriculture*

### **B. Additional Backup**

1. Mt. McKinley Meat & Sausage Company Review & Recommendations 2003 – DNR, Division of Agriculture
2. Mt. McKinley Meat & Sausage Potential Interests in Slaughter Industry – DNR, Division of Agriculture
3. Mt. McKinley Meat & Sausage Slaughter Statistics by Fiscal Year & Type – DNR, Financial Support Services
4. ARLF Asset Inventory – DNR, Financial Support Services
5. Mt. McKinley Meat & Sausage Comprehensive Inventory – DNR, Division of Agriculture
6. Mt. McKinley Meat & Sausage Revenue & Expenses June 30, 2005 – DNR, Financial Support Services
7. Mt. McKinley Meat & Sausage Revenue & Expenses June 30, 2006 – DNR, Financial Support Services
8. Mt. McKinley Meat & Sausage Closure Impacts – DNR, Division of Agriculture

9. Percentage of Meat Production Mt. McKinley Meat & Sausage – DNR, Division of Agriculture
10. Mt. McKinley Meat & Sausage Multiplier – DNR, Division of Agriculture

### **VIII. Alaska Hay & Grain**

#### ***A. Brief Summary: Alaska Hay and Grain – DNR, Division of Agriculture***

#### ***B. Additional Backup***

1. Alaska Hay and Grain Summary Clarifications – DNR, Division of Agriculture
2. Barley Sales – DNR, Division of Agriculture
3. Agricultural Development Plan – UAF, Cooperative Extension Services & UAF, School of Natural Resources & Agricultural Sciences
4. Alaska Agricultural Statistics 2005 – USDA, National Agricultural Statistics Service, Alaska Field Office
5. Alaska Agricultural Statistics Bulletin 2006 - USDA, National Agricultural Statistics Service, Alaska Field Office
6. Alaska Cereal Grains Crops Profile – Thomas R. Jahns, Alaska Pests Management Coordinator, UAF, Cooperative Extension Service
7. Alaska Food & Farm Directory – DNR, Division of Agriculture
8. Southeast Fairbanks Census Area: Agriculture – Dept. of Commerce & Economic Development