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MATANUSKA MAID

A White Paper

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Purpose

The Division of Agriculture produced this White Paper on the history of Matanuska Maid and the current status of the Creamery Corporation to provide information in response to questions and concerns regarding the operation, privatization and financial status of the Creamery Corporation raised by members of the public. This synopsis does not portend to provide the detailed information that the files contain regarding independent audits, reports, appraisals, industry perspectives, financial records, public hearings, privatization attempts, and findings based on the results of previous attempted privatization.

History

Matanuska Maid Inc. (Mat Maid) began as a farmer cooperative in 1936. Mat Maid borrowed two million dollars from the Agricultural Revolving Loan Fund (ARLF), utilizing Anchorage real estate as collateral, to finance an expansion of the creamery in response to the State of Alaska's first disposal at Point MacKenzie.

Subsequently a lawsuit forced a several year delay and reoffer that resulted in no additional milk production to repay Mat Maid's loan. In November 1983, Mat Maid filed for Chapter 11 bankruptcy protection. The financial failure of the facility put the State's investment (ARLF money) at risk. In November 1984, the bankruptcy court permitted the State of Alaska to take over the operations of Mat Maid. The economic importance of Mat Maid's creamery operation to the agricultural industry and the State in general made it clear that continued operation of the Creamery was necessary.

A trustee/manager was hired to continue the operations of Mat Maid. The \$5,332,674 ARLF debt incurred prior to bankruptcy petition was settled in 1985, when the ARLF obtained title to all real property and assets of Mat Maid. The Division of Agriculture continued to manage Mat Maid in support of the agricultural industry and to secure a positive return on the State's investment.

Creamery Corporation

The Creamery Corporation was established by the State of Alaska on December 5, 1988 and continues in operation today. The ARLF holds all outstanding shares of the corporation. The corporation has a manager that is responsible for operations. The manager reports to the Creamery Board comprised of a seven-member board of directors, who are selected by the Board of Agriculture and Conservation (BAC). Currently four members of the BAC serve on the Creamery Corporation Board.

I. Operations

The current primary business of the Creamery Corporation (dba Mat Maid) is the operation of a creamery in Anchorage. Mat Maid operations also include a bottled water operation in Anchorage, and a blow mold operation to manufacture plastic bottles in the Palmer facility. Mat Maid has over 50 employees and generates a payroll of approximately ten million dollars into the Alaska economy through its operations. The Mat Maid management provides a report of the financial status of the corporation at each meeting of the Creamery Board (Mat Maid Board). Management also provides an audited annual report to the Creamery Board and to the BAC at the annual Creamery Corporation shareholder meeting and an audited annual report at the annual Creamery Corporation shareholder meeting (BAC serves as the shareholders). The year ended December 31, 2004 and 2005 audited reports are on file at the Division of Agriculture office in Palmer.

A. Milk Processing

There are 8 operating Grade A dairies in the State of Alaska. Six of these dairies are in the Mat Su area and two are in Delta. Mat Maid purchases and processes all the milk produced in the Mat Su area. Additional purchases of milk from out-of-state sources are required to meet consumer demand. In 2004, 39 percent of the milk processed at Mat Maid was from Alaskan producers. In 2004, Mat Maid purchased in excess of 11.4 million pounds of milk from Alaskan producers resulting in payments in the amount of \$2,396,590 million dollars. Northern Lights Dairy in Delta purchases bulk milk from Mat Maid to supplement their demand for milk as needed. Mat Maid also distributes plastic bottles and dairy supplies to Northern Lights dairy.

B. Distribution System

Mat Maid provides regular milk pick-up services to the Mat-Su area dairies. This milk is transported in bulk to the Anchorage operation for processing. The out-of-state milk is also supplied through bulk shipments to Anchorage and processed at the Anchorage operation. After processing, the milk and other dairy products are distributed from the centralized location to the local and state markets.

C. Financial Status

The Creamery Corporation has operated without financial assistance from the ARLF since 1988 and continues to provide a return on the investment through increased equity value.

- 2002(June) Equity Value \$4,894,715
- 2003(June) Equity Value \$5,274,449
- 2004(June) Equity Value \$5,250,046
- 2005(June) Equity Value \$5,199,365
- 2006(June) Equity Value \$4,972,316

D. Asset Status

- There has not been an appraisal of the Mat Maid operation since 1990.
- The Municipality of Anchorage indicates that the B-3 commercial zoning of the property would not allow any other manufacturing, warehousing or storage type distribution operation on the property should the milk processing operation be discontinued.
- Development of the site for other than its present operations would require sufficient parking to accommodate any future development.

II. Value

For purposes of this White Paper, the value of Mat Maid is inclusive of both the Anchorage and Palmer operations and property. It should be noted however, that the Palmer property has never been included in Mat Maid's audited financial statements or the equity value of the stocks (see financial services memo of 02-07-05 located in the Matanuska Maid Additional Information www.dnr.state.ak.us/ag/ag_aghoc.htm)

A. Tax Assessed Value

1. 2003

• Palmer:	Land	\$197,600; Improvements	\$23,600;	Total	\$221,200
• Anchorage:	Land	\$682,400; Improvements	\$1,925,400;	<u>Total</u>	<u>\$2,607,800</u>
					\$2,829,000

2. 2004

• Palmer:	Land	\$197,600; Improvements	\$23,900;	Total	\$221,500
• Anchorage:	Land	\$682,400; Improvements	\$2,022,400;	<u>Total</u>	<u>\$2,704,800</u>
					\$2,926,300

3. 2005

• Palmer:	Land	\$197,600; Improvements	\$25,500;	Total	\$223,100
• Anchorage:	Land	\$930,500; Improvements	\$2,690,200;	<u>Total</u>	<u>\$3,620,700</u>
					\$3,843,800

4. 2006

• Palmer:	Land	\$197,600; Improvements	\$25,500;	Total	\$223,100
• Anchorage:	Land	\$668,300; Improvements	\$3,208,393;	<u>Total</u>	<u>\$3,876,693</u>
					\$4,099,793

B. Fair Market Value (Fee Simple)

It is important to note that past appraisals of Mat Maid have indicated that should the plant discontinue milk-processing operations, the market value would be substantially reduced. The presence of asbestos material was not determined at time of appraisal. The appraised value does not consider the negative impact on value should asbestos be discovered.

- 1984 \$2,059,931 Mat Maid Independent Report¹
- 1990 \$1,800,000 Anchorage Creamery Property Appraisal²

C. ARLF Book Value

- 2005 \$5,199,365 Mat Maid equity as of June, 2005
- 2006 \$4,972,316 Mat Maid equity as of June, 2006

III. Privatization

The Division of Agriculture has offered the Matanuska Maid facilities for sale several times since acquisition in 1985. After consideration and review of the proposals received, the State determined that the proposals submitted were not in the best interest of the State (excluding Mat Maid Historical³ which was sold).

Year	Type	Property Offered	Results
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IV. Present Disposal Authority

The BAC was established effective July 15, 2000, under AS 03.09.010 and became the authority under AS 03.10.050 for the administration of the ARLF, including disposal of assets owned by the fund. Regulations relating to the disposal of ARLF assets can be found at 11 AAC 39.700.

¹1984 Report by Altex Enterprises

²1990 Appraisal by Affiliated Appraisers of Alaska

³In 1996, the Palmer property was subdivided to facilitate disposal of the historical buildings (Tract B-2), subject to covenants requiring restoration to historic standards within a specified timeline. The remaining ARLF property (Tract A-1) is an integral part of the Mat Maid operations.

⁴In 1986, the ARLF requested proposals for purchase of the Mat Maid business, creamery, feed mill and adjacent property with buildings. ARLF advertised statewide and nationally, receiving 83 requests for the business information packet. Only four offers were actually submitted. The DNR and ARLF board reviewed the offers. Each proposal was rejected. The proposals were lacking in one or more of the evaluation criteria and were not in the best interest of the State. The 1986 offering alone generated over 8,000 copies. The copies, postage and advertising cost in excess of \$8,000. Legal support fees, appraisals, consultation fees, financial report review etc., cost in excess of \$20,000. This does not include any employee time.

⁵The 1990 RFP offering allowed for proposals to Purchase, Lease, Lease w/Option to Purchase, or any Reasonable form of Proprietorship. The RFP method was used to ensure stability to the industry; provide a stable market to Alaskan producers; protect and maintain the property; and, provides a Return on Investment to the State. The review committee, Division staff, the Loan Board, representatives of the Division of Audit and Management Services and the Legislative Budget and Audit Committee each reviewed the proposal.

⁶In December 2000, title to Tract B2 was transferred to Heritage Properties subject to the historic covenants. Subsequently a fire in February 2003 destroyed one of the historical buildings. Discussion with the AGO and SHPO is ongoing.