

MEMORANDUM
DEPARTMENT OF NATURAL RESOURCES

State of Alaska
DIVISION OF AGRICULTURE
1800 Glenn Highway, Suite 12
Palmer, Alaska 99645-6736

TO: Board of Agriculture and Conservation **DATE:** June 25, 2010
THRU: Franci Havemeister, Director 
FROM: Ray Nix, Asset Manager  **TELEPHONE NO.:** 761-3870
SUBJECT: ARLF Asset Report
June 2010

Palmer Feed Mill Property:

The Palmer Feed Mill Property is still available to purchase in an Over-the-Counter offering as indicated in the ARLF Sealed Bid Sale #09-01 brochure with a minimum bid of \$975,000.

Mat Maid Underground Storage Tank

We received correspondence from counsel for Matt Bobich regarding an UST (ADEC#2318) previously located at the Mat Maid facility located on Northern Lights Boulevard in Anchorage. The tank was removed about 20 years ago; however a permanent closure report was not completed. We worked through DEC to resolve the 20 year old problem and received notice of permanent closure from DEC on June 14, 2010.

Hartman

I accompanied the process server to the Hartman property. They posted the legal notice as required and I took some pictures. Property has a significant amount of unusable stuff scattered throughout the property.

Loan Servicing

Provided loan servicing assistance as necessary including but not limited to, warrant requests and disbursements.

Mt. McKinley Meat & Sausage:

The FY10 Statement of Revenue and Expenses ending May 31, 2010 (available in the Financial Reports Section of the packet) indicates that MMM&S revenues exceeded expenditures resulting in May 2010 cash earnings of \$12,186; and that the net loss for YTD FY10 is \$117,723 (the MMM&S chart is available in the Financial Services monthly reports).

The Asset Manager drafted and submitted an article (see below) for the Newsletter as requested by the board. The only comments received were from BAC Member Stu Davies (see below). Please provide direction if further action is warranted at this time.

Mt. McKinley Meat & Sausage
A Thing of the Past or a Stepping Stone into the Future

THE PAST

The Alaska Agricultural Action Council financed the construction of Mt. McKinley Meat & Sausage (MMM&S) in the early 1980s. MMM&S was privately operated from 1983 until 1985. The Agricultural Revolving Loan Fund (ARLF) obtained possession of the facility in 1985 through a settlement agreement as a result of a loan default.

Under an agreement between the Department of Natural Resources (DNR) and the Department of Corrections (DOC), MMM&S was reopened in December 1986. DOC operated the plant for the Division of Agriculture, using it as a training opportunity for inmates while continuing to provide a slaughter facility for Alaskan farmers and residents. DOC and MMM&S revenues funded the MMM&S facility operations until 2001 when budget shortfalls occurred. In 2001, the ARLF began to assume some of the financial obligations of operating the plant and as time passed the financial obligations of the ARLF increased. In 2003, DOC indicated their plans to cease operations at MMM&S unless the ARLF would provide funding of \$350K for personal services and provide funding for all operational losses.

As a result, the Division of Agriculture (Division) completed a detailed review of the operation of MMM&S to ascertain actual operating costs. This report made recommendations that would increase the efficiency of the plant while in State ownership and further recommended that the State eventually transfer the facility to the private sector. The December 1, 2003 MMM&S report with Review & Recommendations can be viewed or downloaded on the Division's website at http://int.dnr.alaska.gov/ag/ag_mmms.htm. On December 1, 2003, operation of the plant was taken over completely by the Division. The operational efficiency of the plant was substantially improved through increasing revenues, decreasing expenditures and implementing items identified in the 2003 study.

THE PRESENT

The Board of Agriculture and Conservation (BAC) is responsible for the administration of the ARLF. The last official action taken (December 2006) regarding the continued operation of MMM&S included keeping the facility open and remaining receptive to evaluating any alternative proposal to operating or privatizing the facility. This decision was based on many positive services and support provided by MMM&S to the agricultural industry, some of which are included below:

- MMM&S is the only USDA Inspected slaughter facility in South Central AK;
- Purchases, Slaughters and Markets Alaska Grown livestock;
- Custom Slaughters/Processes Alaska Grown livestock;
- Slaughters and Processes Alaska Grown 4-H/FFA livestock;
- Provides an outlet for the slaughter/purchase of cull livestock;
- Supplements Alaska Grown product w/locally purchased product to increase MMM&S revenue;
- Provides slaughter, processing, USDA/HACCP education for those involved in the industry; and
- Provides education, training and work opportunities for DOC inmates.

THE FUTURE

The BAC, the Division, the DNR and members of the agricultural industry have discussed the future of MMM&S at length on many occasions. The Division has made three attempts since 2000 to facilitate transferring the facility from State ownership to private or Cooperative ownership without success. The BAC is responsible for the administration of the ARLF, including the future direction with regard to MMM&S operations. ARLF funds are being utilized to supplement operational costs at MMM&S and have done so since the 2003 transition to the Division. The BAC has continually recognized and supported the industry need for a USDA kill floor in Southcentral Alaska. The operational efficiency of the plant has been substantially improved since the report was issued, but the plant continues to operate at a deficit. MMM&S losses have averaged about \$110,000 annually over the last 3 Fiscal years (2007-2009). Operation expenses at MMM&S are not expected to decrease and most likely will continue to increase as wages, utilities, facility maintenance, etc. continue to increase.

There is support for continued MMM&S operations. The BAC recognizes that the value of the services provided far exceeds the losses incurred. We believe inmate training is instrumental in providing inmates increased opportunities for gainful employment upon their release from incarceration. However, the issue comes back to the operational losses and who should pay for the services provided. Based on the BAC's direction; the ARLF continues to provide financial support until a private enterprise or cooperative offers an alternative solution. The Board of Agriculture and Conservation would like to receive your comments. Written comments can be submitted to the board by email to ray.nix@alaska.gov or by mailing comments to:

Board of Agriculture and Conservation
Attention: Ray Nix
1800 Glenn Highway #12
Palmer, Alaska 99645

Ray -

You paint a very rosy picture for this operation. I doubt that the BAC will get very many comments let alone suggestions for what to do with this facility. Try not to let your feelings intervene as I make some points that should have been included in your assessment. I do not believe this is an accurate assessment of this facility relative to local Alaskan Grown meat processing.

First and foremost, this is an ARLF facility with operational funds being directly infused to support this operation. The ARLF's mission is not to support this facility with this kind of ongoing support.

The DOC is not a partner in this operation and provides no financial assistance. They have ignored BAC requests for help.

You failed to mention that the recommendation of the 2003 report and subsequent directors' recommendations have been to close this facility to stem the losses.

And finally, most of the meat processed at this facility is not Alaskan Grown. While this is a financial bright spot there are no contractual relationships that I am aware of to support the institutional sale of this product to DOC, API, etc.

I believe the ARLF/BAC and the Division of Ag. should be working diligently to move this facility into the private sector and we should be getting suggestions from agriculture and specifically, the meat industry to do this.

Sorry for the harangue but thanks for your efforts,

Stu Davies