



MEMORANDUM

Department of Natural Resources

STATE OF ALASKA
Division of Agriculture

TO: Board of Agriculture and Conservation

DATE: 8-01-5

THROUGH: Thomas Irwin, Commissioner

TELEPHONE: 745-7200

FROM: Larry DeVilbiss, Director

SUBJECT: Mt. McKinley Meat & Sausage (MMM&S)

We believe the goals of BAC and DNR (Department) are the same when it comes to Mount McKinley Meat and Sausage (MMM&S). We both want a viable slaughter facility for Alaska farmers. Since 1985 the State of Alaska (State), through various agencies, has preserved MMM&S operations at a significant cost to the Agricultural Revolving Loan Fund (ARLF) and other public monies. In addition to the significant financial investment the State has made over the years, the Department has offered MMM&S for disposal with incentives to maintain the slaughter function of the facility multiple times.

The Department, through the BAC, should not be actively managing the plant, considering the losses to the ARLF. The objective of a sale of MMM&S is to relieve the State of its management of the plant and the ARLF from sustaining continuing losses and in turn provide opportunities for other agricultural loans for Alaskans.

RECOMMENDATION

Based on the Department's extensive experience with previous disposal attempts and operation of MMM&S, we recommend the following for the BAC's consideration:

1. Authorize the Division to sell MMM&S no later than June 30, 2006 "as is, where is."
2. Authorize an appraisal of MMM&S with the appraisal based on Fair Market Value "as is, where is," assuming no restrictions on future use of the property to facilitate sale by June 30, 2006.

HISTORY

The Agricultural Action Council, through an appropriation from the Alaska Legislature, financed the construction of MMM&S in the early 1980s. MMM&S was privately operated from 1983 until 1985. The facility was then repossessed by the ARLF as a result of a loan default. Under a memorandum of agreement between the Alaska Department of Natural Resources and the Alaska Department of Corrections (DOC), MMM&S was reopened in December of 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.

DOC was the funding agency for the facility until 2001 when budget shortfalls occurred. In 2001, the ARLF took over some of the financial obligations of operating the plant. On December 1, 2003, operation of the plant was taken over completely by the Division of Agriculture as DOC discontinued its financial and management support. Funding for MMM&S operations is now included within the ARLF's budget.

SALE JUSTIFICATION

In 2003, the Division of Agriculture completed a detailed review of the operation of MMM&S. The report, entitled **Mt. McKinley Meat & Sausage Company Review and Recommendations**, made recommendations to 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 operational efficiency of the plant has been substantially improved since the report was issued, but the plant continues to operate at a deficit. The State is again looking at disposal.

The sale of MMM&S is appropriate for these reasons:

1. The State agreed to manage MMM&S during the transition to private ownership. The State has managed MMM&S for **20 years** (1985 - Current);
2. The State should not own and operate a business that under usual circumstances would be considered a private enterprise;
3. Current livestock numbers do not allow revenues to exceed expenditures.

Since assuming operation of the plant, the goal of the Department has been to make the facility break-even so its attractiveness to potential operators would increase. While progress has been made, there are still several reasons MMM&S will not achieve self-sufficiency while in State hands. These include:

1. Maintaining the facility as it continues to age;
2. The scale of the facility;
3. The requirement to maintain a kill floor;
4. The requirement to accept essentially all Alaskan livestock; and
5. The restrictions on marketing products.

The ARLF is financially responsible for the plant and the Division of Agriculture (Division) is responsible for managing the plant. The ARLF is being depleted through its use as a funding source for Division operations and programs and is not in position to continue to assume this long-term financial burden. The ARLF was not intended to hold assets or operate businesses. The sale of the plant would help slow the decline of the ARLF corpus, which would allow the ARLF to continue the lending activities for which the fund was originally created.

The most recent status (See attached memo) for MMM&S shows an adjusted FY 05 loss of \$44,537. This loss does not reflect the additional cost of overhead such as financial and administrative support provided by the Division.

Returning MMM&S to the private sector has been the intention of the State for some time. The State has made at least three attempts to sell MMM&S. Each of these disposal attempts required the new owner keep the kill floor open and accept all healthy Alaskan livestock for slaughter regardless of quality. Past offerings have included purchase, lease and lease with purchase options.

The conditions for use that have been a part of each disposal effort have not resulted in any acceptable offers. Without the requirement to slaughter, it is possible, and maybe even likely, that the eventual purchaser may elect to discontinue the operation of the facility as a slaughter plant. In fact, it is almost certain that the kill floor will be closed unless the plant is purchased by a group interested in slaughter such as a group of Alaskan farmers.

We expect that closure of the kill floor will have a negative impact on Alaska farmers and ranchers. Specifically, cull dairy cows are a concern. In FY 05, MMM&S purchased 274 bovine, providing \$166,559 in revenue to livestock/dairy producers. Our hope is to mitigate the impact on farmers by notifying them of the sale in advance which will allow farmers to make alternative plans. Alternatives may include the development of new, private slaughter plant correctly sized to the Alaskan market or the development of an Alaskan farmer group willing and able to bid for the facility. Other options may arise from the public or by the BAC that would mitigate the negative effects of the sale of MMM&S.

It is based on this history that the Department recommends the BAC authorize sale of MMM&S through public auction, preferably no later than June 30, 2006. As previously stated, we recommend selling the facility "as is" without conditions on its future use. Further, we recommend ARLF not finance the sale. This type of sale provides the best assurance that the property will finally be sold and a reasonable return accrues back to ARLF for future lending purposes.

If the BAC chooses to sell MMM&S as recommended, 11 AAC 39.710 requires an appraisal that is less than two years old. The last MMM&S appraisal was completed on 5/12/2002. The plant, including equipment, was appraised at \$750,000. The 2005 assessment from the MatSu Borough is \$460,300.

11 AAC 39.700(b) requires a public hearing before the disposal of an asset that will have a significant affect on the agricultural industry. The sale of MMM&S clearly falls under this regulation. The timing of the public hearing can be determined by the BAC. We recommend these hearings take place as soon as possible.

A proposed timeline to meet the June 30, 2006 sale date is:

August 2005	Solicit an updated appraisal of MMM&S (completion anticipated in 3-4 months).
August 2005	Set, advertise public hearing(s)
September/October 2005	Hold public hearing(s)
December 2005	Finalize sale terms and conditions and issue a sale brochure
January 2005	Issue sale brochure.
As soon as possible	Conduct disposal as soon as possible, but no later than June 30, 2006.

BAC ACTION

Recommended Actions:

1. Authorize the Division to sell MMM&S no later than June 30, 2006 via by public auction “as is, where is.”
2. Authorize an appraisal of MMM&S with the appraisal based on Fair Market Value “as is, where is,” assuming no restrictions on future use of the property.

Approve _____ **Decline** _____

Conditions _____

BAC CHAIR _____ **DATE** _____

Attachments

- Property Profile
- 2002 Equipment List
- SOA Investments (1981-Present)
- June 2005 Status Report

PROPERTY PROFILE
MMM&S

May 12, 2002 Appraisal:

\$750,000. The appraisal is available at the Palmer Division of Agriculture office

Legal Description:

Lot H-2C-2, Palmer Industrial Park, according to Plat 84-2, Palmer Recording District

Location:

385 Inner Springer Road, Palmer, Alaska

Lot Size:

3.5 Acres

Improvements:

Total estimated building area - 16,000 sf

Freezer space - 5,000 sf

Cooler space - 5,000 sf

Loading docks - 3 bay doors and 3 docks

Processing area - 2,400 sf

Smoking area - 500 sf

One fully equipped processing line

Number of structures - 3 (main building, maintenance shed, storage shed)

Present Use:

Slaughter and processing facility

Road Access:

Glenn Hwy Via Inner Springer Road

2002 EQUIPMENT LIST MMM&S

In addition to the items listed in the chart below, the equipment includes:

1. All ARLF meat processing equipment and fixtures located within the main building.
2. All fixtures attached to the Maintenance Shed and Storage Shed.

PropDesc1	PropDesc2	Serial	AcqDate
ACCU WEIGH MODEL D-100PK		2-C12686	0387
AIR SAW, BEST & DONOVAN TYPE 275	BREAST SPLITTER	A7994	0387
BACON SLICER BERKEL MDL 180GS	INCLUDES CONVEYOR AND STAND	9184-0721-01668	0598
BIRO MDL 44 MEAT BANDSAW		8296	0398
BIRO MDL AFMG52 MEAT GRINDER (10HP)		55266	0598
BLOOD PUMP, SANDPIPER SA2-A	TYPE DB-3-C1	131313	0387
BOSS DEHAIRER	THE CINCINNATION	NONE	0287
CLARK 4,000LB CAP FORKLIFT	MDL 2306223	LA-35	0402
CLARK MDL 2306223, 4000 LB CAPACITY		LA37	0986
COMPLETE HOBART 5216 SN 11081451	TRANSFER TO MEAT 11/2/88 TR 27023	11081451	1075
YAMATO SCALE		61WC1130	?
ELECTRIC PALLET JACK			
HOBART 403 MEAT TENDERIZER			
TENDERIZER PRO 9 SIR STEAK BIRO			1002
ALL OFFICE SUPPLIES, OFFICE MACHINES	AND FURNITURE IN MAIN BLDG.		
ALL COMPUTER EQUIPMENT	ON PREMISES		
ALL COMMUNICATION SYSTEMS EQUIP	ON PREMISES		
ALL TABLES	ON PREMISES		
ALL CHAIRS	ON PREMISES		
ALL BOOKCASES/CABINETS/LOCKERS	ON PREMISES		
ALL RACKS AND STALLS	ON PREMISES		
ALL REFRIGERATORS			
ALL WASHERS & DRYERS			
KITCHEN AID MIXER			
PRESSURE WASHER			
DISHWASHER			
WALK IN COOLER/KOCH FREEZER	UNASSEMBLED		
DEHIDER, AIR OPERATED	BEST & DONOVAN MODEL MAGNUM 1000	4-3536	1287
DEHIDER, AIR POWERED	BEST & DONOVAN NODL# MAGNUM 1000	H6187	0487
DEHIDER, AIR POWERED	BEST & DONOVAN MODEL# MAGNUM 1000	H6194	0487
DYNASTY 4 BURNER RANGE W/S.S. HOOD		N/A	0402
ELECTRIC STOVE, JENN-AIR MODEL#C-221		30286262	0287
ELECTRONIC SCALE, WEIGH TRONIX	MODEL# DS-20, DIGITAL	005278	0387
FIRE PROOF CABINET (YELLOW)			0693
GENERAL SLICER MDL #SM12		D71985G98	0693
HEAD WASH CABINET, KOCH MODEL UNK		NONE	0387
HEWLETT PACKARD MDL 3100XI FAX MACH		USBC093191	1099
HIDE PULLER	KOCH 100 280	831310-6	0287
HOBART MDL 5212		27-059-626	0384
HOBART SCALE		510247	1189
HOG SPLITTER, BEST AND DONOVAN	TYPE 764?S	U7996	0387
HOLLYMATIC MDL 180 MIXER-GRINDER		5524	0298
HOLLYMATIC MDL SUPER54 PATTY MACHINE		52998	1196

PropDesc1	PropDesc2	Serial	AcqDate
HOLLYMATIC MDL SUPER54 PATTY MACHINE		53207	1196
HOLLYMATIC PATTY MAKER MDL #580		5801879	0693
HOLLYMATIC SAUSAGE MACHINE MDL #180		180771672	0693
HUEBSCH MODEL# 37CGL		STKC-239485RG	1287
KENT MASTER CARCASS SPLITTER #BM3SD		A2544	0693
KNIFE SHARPENER, CUTLERY GRINDER	ATLANTIC HOOK EYE	8323814	0387
KOCH AIR LIFT (MAN)	MDL 100346	83130-S	0402
KOCH BRINE PUMP			0693
KOCH MULTI VAC #AG800 LARGE VACUUM	SEALER	3649	1189
LOW VOLTAGE BEEF STIMULATOR		NONE	0487
MEAT BANDSAW, HOBART MODEL# 5801		27101-264	0787
MEAT CONVEYOR	BIRO MODEL# 210	63100458	1287
MEAT GRINDER/MIXER	HOLLYMATIC MODEL 180	180.77.1672	1287
MEAT TENDERIZER	ROSS MODEL# TC700EM	M3398EM	0287
MEAT TENDERIZER BIRO SIR-STEAK PRO9		66680	0398
NEW HOLLAND SKID LOADER	MDL L-35	UNK	0402
PATTY MACHINE--HOLLYMATIC MDL 8-65	W/11 PATTY PLATES & KNOCKOUT CUPS	525	1298
PAUNCH TRUCK, KOCH MODEL 100348	AIR OIL PLATFORMOLD PCN 2006575	83130-9	0387
PITNEY BOWES D-750 COPIER		1030187	0591
PLATFORM SCALE, 120' X 96' 20000 CAP	WEIGHTRONIX MODEL WI-110	3032A	0387
RADIUS PORTRAIT 15 PIVOT MDL M151-02		BTA409A10275	0195
SCALD VAT	KOCH MODEL# 194	7592716 ON THERMOMETER	0287
SCOTT 2.2 AIRPAK		39800397	0893
SCOTT 2.2 AIRPAK	PER PHYSICAL INVENTORY 04/02	39801863	0893
SCOTT 2.2 AIRPAK	PER PHYSICAL INVENTORY 04/02	39801861	0893
SCOTT 2.2 AIRPAK	PER PHYSICAL INVENTORY 04/02	39800404	0893
SCOTT PRESSURE PAC 2.2	PER PHYSICAL INVENTORY 04/02	N1093	1086
SMOKE GENERATOR FOR KOCH SMOKEHOUSE	KOCH MDL KLE-100	32022210-97-2	0598
SMOKE GENERATOR FOR KOCH SMOKEHOUSE	KOCH MDL KLE-100	32022210-97-1	0598
STAINLESS STEEL TABLE WITH BIN AND	WOOD COUNTER	NONE	0387
STEAM-IT STEAM KETTLE AND PRESSURE	COOKER, MODEL ST-AS	G11213	0886
TENDERIZER - BIRO SIRSTEAK PRO-9-HD		00067013	0898
WESTINGHOUSE MEAT GRINDER		1463F802	1194

**STATE OF ALASKA INVESTMENT
MMM&S
Through August 1, 2005**

Description	Year	Amount	Total
ARLF Loan to Don Chemical by General Fund Appropriation	1981	\$2,000,000	\$2,000,000
ARLF Paid to First Nat'l Bank executed judgement on Don Chemical to protect ARLF collateral	1988	\$740,840	\$2,740,840
ARLF Paid for Building/Equipment Improvements	1986-1998	\$600,955	\$3,341,795
ARLF paid to DOT/PF Building repairs	2002	\$201,122	\$3,542,917
ARLF paid for operational expenses to Department of Corrections (DOC) by RSA	2002-2005	\$550,033	\$4,092,950
ARLF FY05 net loss	2005	\$50,000	\$4,142,950
Total		\$4,142,950	\$4,142,950*

* DOC operational expenses not reimbursed by ARLF are not reflected in this total. Once totaled the DOC expenditures on MMM&S will be included in a revised total.

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
THRU: Larry DeVilbiss, Director
FROM: Ray Nix, Asset Manager

DATE: July 19, 2005
PHONE NO.: 761-3870
SUBJECT: MMM&S June 2005 Status Report

Fiscal Year 2005 MMM&S Net Cash Earnings / (Loss) = \$(81,538)

Adjusted Fiscal Year 2005 MMM&S Net Cash Earnings / (Loss) = \$(44,537)

Please bear in mind that final closeout of MMM&S Revenue & Expenses is not anticipated until sometime in August. Though the numbers appear to be pretty close, there may be some reconciliation after all FY05 revenue and expenses have been accounted for.

Mt McKinley Meat Plant Animal Kill Numbers					
Year	Beef	Hogs	Sheep	Other	Total
2002	673	741	70	30	1519
2003	628	578	40	36	1282
2004	464	659	53	27	1203
Calendar YTD 2005	157	298	7	57	519

June 2005:

MMM&S PRODUCTION REPORT JUNE 2005

PRODUCT	KILLED	PURCHASED	CONDEMNED	AMT PAID TO PRODUCERS
BOVINE	37	37		30,861.96
SWINE	36	15		4,324.37
SHEEP				
TOTAL	73	52		\$35,186.33

Fiscal Year 2005:

MMM&S PRODUCTION REPORT (Fiscal Year 2005 to Date)

PRODUCT	KILLED	PURCHASED	CONDEMNED	AMT PAID TO PRODUCERS
BOVINE	476	274	4	166,559
SWINE	608	160	2	21,860
SHEEP	36	3		183
GOATS	13	8		626
REINDEER	57			
YAK	2			
TOTAL	1192	445	6	189,228

FY05 MMM&S Inventory by Month

07/01/04	=	143,875
08/01/04	=	91,133
09/01/04	=	115,181
10/01/04	=	No Inv. Performed
11/01/04	=	92,850
12/01/04	=	120,637
01/01/05	=	158,940
02/01/05	=	107,373
03/01/05	=	121,702
04/01/05	=	122,130
05/01/05	=	157,113
06/01/05	=	111,969
07/01/05	=	142,114

FY05 Monthly MMM&S Net Cash Earnings / (Loss)

July 04	=	(20,703)
August 04	=	9,998
September 04	=	(52,474)
October 04	=	54,831
November 04	=	(43,628)
December 04	=	(41,715)
January 05	=	(67,487)
February 05	=	(71,273)
March 05	=	(8,959)
April 05	=	(112,953)
May 05	=	(82,920)
June 05	=	114,334

MT. MCKINLEY MEAT & SAUSAGE
Statement of Revenues and Expenses
For Twelve Months ended June 30, 2005

Revenues:			<u>June</u>	<u>FYTD</u>
1082027064750	Kill Floor Fees	\$	6,627.75	38,456.49
1082027164750	Cut and Wrap Fees		599.18	21,930.12
1082027264800	Institution Sales-Processed		84,815.24	436,851.10
1082027364800	Institution Sales-Boxed		98,535.18	542,804.56
1082027464800	Private Sector Sales -Processed		27,650.54	203,480.51
1082027564800	Private Sector Sales-Boxed		1,597.15	39,031.70
1082027664560	Freight		3,743.88	27,780.41
1082027764750	Inspection Fee		0	1,178.28
	Revenues	\$	223,568.92	1,311,513.17
	State Agency Accounts Receivable	\$	37,000.80	
	Adjusted Revenue	\$	260,569.72	1,348,513.97

Expenses:			<u>June</u>	<u>FYTD</u>
71000 · Personal Services (DNR/MMM&S Wages)		\$	22,813	239,469
73025 · Education Services			0	
73029 · Membership Dues & Fees			0	95
73052 · Management Consulting			0	400
73061 · Penalties & Fees			0	
73062 · Interest Expense			0	4
73154 · Software Licensing			0	495
73226 · Freight & Delivery			0	24,212
73228 · Postage			0	10,500
73401 · Telephone/Long Distance			0	684
73402 · Telephone/Local Equip. Charges			196	1,764
73403 · Data lines/Dialup Charges			0	
73421 · DOT SEF – Fuel			1,008	4,046
73424 · DOT SEF Charges			650	6,061
73428 · DOT SEF – FC			48	778
73429 · DOT SEF - Unallowable FC			0	1,086
73452 · Promotion			0	161
73526 · Electricity			5,402	37,409
73527 · Water & Sewer			383	3,499
73528 · Trash Disposal			1,753	6,982
73529 · Natural Gas			558	11,456
73653 · Inspections/Testing			0	213
73660 · Other Repairs & Maintenance			760	7,018
73677 · Office Furniture & Equipment			0	588
73681 · Vehicle/Other Equip. Parts, Maintenance, Repair			9,970*	6,264
73690 · Vehicle Rental			0	
73691 · Rent/Lease – Tools/Equip/Mach			0	
73755 · Federal Inspections/Safety Services			0	1,604
73756 · Printing/Copying/Graphics			0	162
73804 · Professional Ser./Eco. Dev. (Inmate Wages)			0	28,453

		<u>June</u>	<u>FYTD</u>
73805 · IT-Non-Telecommunications	\$	32	1,441
73808 · Building Maintenance		0	
73809 · Mail		0	218
73810 · Human Resources		0	970
73814 · Insurance		0	5,144
73815 · Property Tax/Financial		461	9,337
73816 · ADA Compliance		0	104
73855 · Fuel Vendor		0	
74226 · Equip/Furn/Tools/Veh		0	75
74229 · Office Supplies		2,752*	12,054
74235 · Meat Purchases (animal)		34,386	161,403
74446 · Growth Promotion		0	8
74481 · Meat Purchases (boxed)/Food Supplies		25,041	649,735
74485 · Supplies – Janitorial/Cleaning		1,194	27,969
74490 · Institutional/Non-Food Supplies		332	11,730
74607 · Other Safety		0	191
74700 · Electrical		0	846
74701 · Plumbing		0	169
74752 · Lube/Oil/Grease/Sol		0	389
74754 · Parts & Supplies		172	7,936
74759 · Paint & Preservative		0	78
74820 · Small Tools/Minor Equip		0	96
	Total MMM&S Expenses: \$	109,234	1,393,051
	Net Cash Earnings / (Loss) –MMM&S	114,334	(81,538)

(44,537)

¹ Adjusted MMM&S Net Cash Earnings / (Loss) 151,335

¹ Per DNR/FSS; there are \$37,000.80 in State Agency Accounts Receivables in MMM&S invoices for June that will be processed in July.