

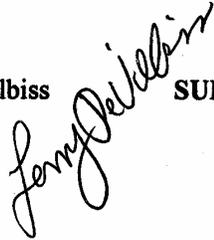
**MEMORANDUM STATE OF ALASKA**  
DEPARTMENT OF NATURAL RESOURCES - DIVISION OF AGRICULTURE

**TO:** Board of Agriculture & Conservation

**DATE:** November 1, 2005

**FROM:** Larry DeVilbiss  
Director

**SUBJECT:** Mt McKinley Meat & Sausage



**Background**

On August 11, 2005 the Board of Agriculture and Conservation (BAC) authorized the Division of Agriculture to begin the process to dispose of the Mt McKinley Meat & Sausage (MMM&S) facility. With two motions the BAC authorized staff to:

- (1) obtain an appraisal or letter of opinion based on fair market value of the property as-is-where is assuming no restrictions on future use of the property; and
- (2) begin the process to sell MMM&S and to close the State directed operation October 15, 2006.

The BAC held a public hearing October 14, 2005 pursuant to 11 AAC 39.700 (b) requiring a public hearing prior to disposal of an Agricultural Revolving Loan Fund (ARLF) asset that could have a significant effect on the agricultural industry. Written comments were also gathered by the Division. Prior to the disposal of the facility, the BAC must address comments received in a decisional document.

More than twenty-nine individuals and organizations participated in the public hearing, submitting public testimony and/or written comments. The following is a brief summary of the comments received and the Division's responses. In this regard, and for purposes of providing a complete packet of information, prior relevant documents have been attached. After review and comment by the BAC, this document may serve as the decisional document as required by 11 AAC 39.700 (b).

## Comment Summary

**Close the kill floor at a later date than October 15, 2006 in order to fully address fall slaughter.**

To provide sufficient time to address fall livestock slaughter and close the facility in an orderly manner, all MMM&S purchasing should cease October 30, 2006, the kill floor should close November 30, 2006 and the State directed operation should then close December 31, 2006.

**The ARLF should offer purchase financing for MMM&S.**

The ARLF is not offering contract financing for the disposal of MMM&S. This allows the property to be sold and have recovery proceeds returned to the ARLF for future lending purposes. However, anyone can apply for regular ARLF loans under standard qualifying guidelines for all ARLF loan types which include purchase, operating, processing, etc. Total outstanding balances of ARLF loans for a borrower may not exceed \$1,000,000 and are limited to 75% loan to value of the collateral.

**The dairy industry will be negatively impacted by the loss of MMM&S dairy cull cow purchases.**

The number of cull cows processed by the facility has been declining over the years. In FY05 MMM&S purchased 201 cull dairy cows providing \$126,733 in revenue to dairy producers. The market should be able to absorb these numbers through custom exempt sales. We hope to mitigate the impact by providing more than a year advance notice of the MMM&S closing so that alternative plans can be made by all affected parties.

**Can expenses be reduced further or fees increased to address the operating shortfall?**

While the operational efficiency of the plant has substantially improved in the past year, additional cost saving measures would have minimal impact on the total operating losses. It would be cost prohibitive to producers to increase fees sufficient to cover losses.

There are several significant reasons that the facility cannot be self-sufficient while in State ownership. Most significantly, the age, size and location of the facility are impediments to self-sufficiency. Additionally, the current policy of accepting all Alaskan livestock and the restriction of not marketing products which would compete with private enterprise are detrimental to gaining self-sufficiency.

**Could the MMM&S sale be stopped if other operational funding sources were available?**

Addressing the operating losses is only one of the sale objectives. The other objectives of the sale are:

1. To relieve the State of the management of what should be a private enterprise business,
2. return the sale proceeds to the ARLF as a loan loss recovery and
3. provide future agricultural loans from ARLF.

**Can disposal be delayed until another entity such as a co-op is available to operate the facility?**

The State has managed MMM&S for over twenty years with the goal to transition the facility into private ownership. At least three attempts to dispose of MMM&S have been made in recent years and failed. As long as the State is operating MMM&S, there is no incentive for a new more appropriate meat plant. With a certain closure date a year in advance, there is sufficient time for a new start-up.

**Department of Corrections Rehabilitation Program effects.**

The Department of Corrections (Corrections) supplies inmate labor at MMM&S. If the State discontinues management of MMM&S, with an appropriate Private Section Partnership agreement, Corrections can make inmates available as part of a workforce for MMM&S or new meat processing facility.

In FY 05 Corrections purchased a total of \$560,239.00 from MMM&S which represents between 30% - 40% of Correction's annual expenditures for meat products purchased from all sources. Corrections continues to purchase meat for use at its facilities at a similar rate this year (FY 06). Correction's current food vendor contracts allow for additional volume to be purchased with relatively little financial impact if operation of MMM&S changes.

Corrections operates a Pt. McKenzie farm which raises cattle, swine and raises and butchers chickens and turkeys. Since the BAC announced its intent to dispose of MMM&S, this farm has ceased growing its cattle herd. It is important to note that the Pt. McKenzie farm does not have program receipt authority to collect receipts for its operations. The Pt MacKenzie farm does not generate revenues for the State or Corrections.

## Recommendation

We understand that the closing of MMM&S will affect the MMM&S employees, the Corrections inmate training program, livestock and dairy industries, 4-H programs and the agricultural community at large. However, the MMM&S FY2005 reconciliation indicated a loss of \$142,099, as well as a continued declining trend of livestock numbers being processed at the facility. Closing the facility will stop the drain on the ARLF, encourages private enterprise to move in and fill a need and removes the impediment to marketing the products.

We encourage all interested parties to consider alternatives for the services that have been provided by MMM&S for many years. A modern slaughter facility built to meet current demands could be funded numerous ways. This may include a combination of private financing, State capital funding, ARLF loans and federal funding or grants. A new facility could operate as a cooperative, a training facility or participate with other organizations.

It is our recommendation that the BAC proceed with MMM&S disposal and closure as it unanimously decided at its August 11, 2005 meeting with the minor revision that the State directed operation closure date be extended to December 31, 2006.

We further recommend that in accordance with 11 AAC 39.700 (b), the BAC adopt this memorandum including attachments as a decisional document addressing comments received prior to disposal of the fund asset MMM&S.

**Attachments:** MMM&S September 21, 2005 Appraisal  
MMM&S October 14, 2005 Public Hearing verbal/written comments  
MMM&S FY05 Statement of Revenues & Expenses  
BAC August 11, 2005 MMM&S Motions  
Director DeVilbiss/BAC August 1, 2005 MMM&S Memo  
MMM&S Review & Recommendations December 1, 2003 Report