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MT. MCKINLEY MEAT AND SAUSAGE

White Paper

September 1, 2016

Purpose

The Division of Agriculture (Division) prepared this paper to clarify the sources of revenue and funding for Mt. McKinley Meat and Sausage (MMM&S). **No General Fund money is appropriated or used in the maintenance or operation of MMM&S.** Also included is the history and possible future of Mt. McKinley Meat & Sausage (MMM&S). This paper is a brief summary with detailed information available on the Division's website at www.dnr.state.ak.us/ag/ag_mmms.htm.

History

The Alaska 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 Agricultural Revolving Loan Fund (ARLF) obtained possession of the facility through a cooperative settlement resulting from a loan default.

Under a memorandum of agreement between the Alaska Department of Natural Resources (DNR) and the Alaska 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. DOC funded the MMM&S facility operations 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

MMM&S is an asset of ARLF, which is housed within the Division of Agriculture. ARLF makes loans to State of Alaska resident farmers to promote agriculture within the State and is a self revolving loan fund. Any revenue, interest income, and loan payoffs are reinvested into ARLF which is then used to finance new loans. ARLF was established in 1953 and has not

received any new appropriations from the General Fund since 1986. The Board of Agriculture and Conservation (BAC) is responsible for oversight of the fund. The Alaska Legislature approves the annual budget for the Division of Agriculture which includes ARLF spending and MMM&S subsidies.

MMM&S has revenue income from diverse sources. The majority of revenue is made from the purchase of boxed meat that is resold to DOC. Other sources of revenue include freight, kill floor fees, cut and wrap fees, custom processing, sale of processed meat, sale of animals hides and fat, and bone removal. Operating expenses include salaries for production management staff, a \$35,000 Reimbursable Services Agreement paid to DOC to cover all costs associated with inmate labor at MMM&S, inmate transportation, facility utilities, live animal purchases for resale, boxed meat purchases for resale, cleaning, disposal, USDA food safety inspections and all other costs associated with running a slaughter facility.

Below is a summary of the last five years Revenues and Expenses for MMM&S. Please see attachment for a ten-year summary:

	2015	2014	2013	2012	2011
Revenues:					
Services	\$166,232	\$151,519	\$119,879	\$111,484	\$113,730
Sale of Products	\$1,417,607	\$1,679,875	\$1,629,660	\$1,227,282	\$1,088,606
Freight	\$18,973	\$19,687	\$15,230	\$10,636	\$9,521
Total Revenues:	\$1,602,812	\$1,851,081	\$1,764,769	\$1,349,402	\$1,211,857
Expenses:					
Personal Services	\$363,486	\$362,010	\$341,188	\$313,817	\$311,345
Contractual Services	\$207,808	\$188,842	\$176,421	\$160,215	\$157,296
Commodities	\$1,186,534	\$1,257,742	\$1,355,894	\$966,897	\$865,146
Total Expenses:	\$1,757,828	\$1,808,594	\$1,873,503	\$1,440,929	\$1,333,787
Net Earnings					
(Loss):	(\$155,016)	\$42,487	(\$108,734)	(\$91,527)	(\$121,930)

In FY2015, the appropriation to subsidize MMM&S approved by the Legislature was \$2,047,500. With expenses of approximately \$1,757,828 and a revenue generation of approximately \$1,602,812, the remaining cost to run MMM&S was \$155,016 which was paid for by the ARLF with a net zero cost to the state general fund. The Legislature has approved an appropriation of \$2,047,500 for FY2016.

Current Staffing Level

The facility is currently staffed with three Division of Agriculture Production Managers who are paid approximately \$363,486 per year. The amount of inmate labor staff provided by DOC varies but the maximum is 13 inmates. MMM&S also utilizes Division of Agriculture and Financial Services support staff.

Disposal Attempts

The BAC, the Division, the Department of Natural Resources (DNR), and members of the agricultural industry have discussed the future of Mt. McKinley Meat & Sausage (MMM&S) at length on many occasions. The Division previously initiated three Requests for Proposals (RFPs) in 2000, 2002 and 2006 to facilitate transferring the facility from State ownership to private or Cooperative ownership. Each of these disposal attempts required the new owner(s) to keep the kill floor open and accept all healthy Alaskan livestock for slaughter. Past disposal offerings included purchase, lease or lease with purchase options. No acceptable offers were tendered to the BAC.

On May 9th, 2016 the Division of Agriculture issued a new Request for Proposal for Lease with Option to Purchase MMM&S with a deadline for proposals due July 11th, 2016. Terms of the RFP included a five-year lease at a lease rate of \$1.00 per month for the first two years and then the lease rate would increase to \$1,600 per month for the remaining three years. The facility would have to remain as a USDA inspected slaughter facility over the five year lease. The Option to Purchase could be exercised at any time during the lease. The Division received one proposal which was reviewed and declined by the BAC at the August 17th, 2016 meeting. The BAC declined the proposal for the following reasons: the proposal fails to show that Inlet Processing Company, Inc. has the present financial ability to pay the short term operating expenses of the meat plant; the business plan is predicated on speculation that meat producers will increase their stock of animals for slaughter over time thereby providing adequate income to meet current and long term operating expenses; although this may in fact occur, it is unlikely that any increase in production will come in time to provide the income necessary to meet the short term expenses of the plant. A new RFP is in the process of being reissued that will not require the property remain a USDA inspected slaughter facility or have specific lease terms. However, preference will be given to offerors who plan to continue operating the property as a meat processing and slaughter facility. The BAC will consider the lease proposal with the best terms.

The Alaska Legislature provided a one- time increment of funding MMM&S by ARLF for fiscal year 2017 with the purpose of “allowing appropriate time for negotiations between a private entity and the BAC for the lease or sale of MMM&S.” If a buyer is not found, the plant is anticipated to close no later than July 1st, 2017.

The MMM&S facility provides more than just an outlet for the slaughter, purchase, and processing of livestock. The facility also provides training opportunities in several vocations and provides actual work experience for inmates working at the facility, which helps to reduce recidivism. The Division is committed to disposing of MMM&S as instructed by the Legislature with as little negative impact to the meat industry in Alaska as possible. Meanwhile, the Division continues reviewing operations at MMM&S to increase efficiencies and minimize shortfalls wherever possible while the facility is under State ownership.

Amanda Swanson
Agricultural Revolving Loan Fund (ARLF)
ARLF Loan Officer

Mt McKinley Meat and Sausage Plant
AGRICULTURAL REVOLVING LOAN FUND
Statement of Revenues and Expenses
For fiscal years ended June 30, 2005-2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues:											
Services	\$ 166,232	\$ 151,519	\$ 119,879	\$ 111,484	\$ 113,730	\$ 120,590	\$ 105,170	\$ 92,739	\$ 72,355	\$ 60,629	\$ 61,655
Sale of Products	1,417,607	1,679,875	1,629,660	1,227,282	1,086,606	918,549	894,888	856,026	1,115,693	1,302,897	1,284,064
Freight	18,973	19,687	15,230	10,636	9,521	29,354	34,100	37,806	26,879	26,594	28,379
Total Revenues	1,602,812	1,851,082	1,764,769	1,349,402	1,211,857	1,068,493	1,034,168	1,086,532	1,214,706	1,393,120	1,374,107
Expenses:											
Personal Services	363,486	362,010	341,188	313,817	311,345	299,275	292,318	277,450	270,216	253,454	276,769
Travel	-	-	-	-	-	-	59	-	-	-	-
Contractual Services	207,808	188,842	176,421	160,215	157,296	168,323	189,000	178,144	199,329	238,954	209,223
Commodities	1,186,534	1,257,742	1,365,894	966,897	865,146	731,845	667,219	719,137	834,604	1,096,424	1,012,456
Total Expenses	1,757,827	1,808,594	1,873,503	1,440,929	1,333,787	1,197,443	1,159,096	1,221,198	1,304,148	1,588,832	1,498,448
Net Earnings / (Loss)	\$ (155,016)	\$ 42,488	\$ (108,734)	\$ (91,528)	\$ (121,930)	\$ (128,950)	\$ (124,928)	\$ (134,566)	\$ (89,442)	\$ (195,712)	\$ (124,341)