

**MEMORANDUM**  
DEPARTMENT OF NATURAL RESOURCES

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

**TO: Board of Agriculture & Conservation**

**DATE: January 27, 2006**

**THRU: Michael Menge, Commissioner**

**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 begin the process to dispose of the Mt McKinley Meat & Sausage (MMM&S) facility. The BAC held a public hearing to gather comments on October 14, 2005, pursuant to 11 AAC 39.700(b). More than twenty-nine individuals and organizations participated in the hearing, submitting testimony and/or written comments.

On November 8, 2005, the BAC confirmed its decision to proceed with MMM&S disposal but extended the facility closure date to December 31, 2006. The BAC considered the testimony and written comments and adopted a decisional document in support of its modified decision.

**Subsequent Comments and Requests**

In response to comments given directly to the DNR Commissioner and several legislators, the Division has been asked to draft a transition plan for review and consideration by the BAC that will give the additional time and support necessary to transition MMM&S into a private meat plant.

**Transition Plan**

A detailed outline of the transition plan can be found beginning on page 4. It is noted that:

1. The transition plan is in rough outline form;
2. A Request for Proposals (RFP) will be developed by the Division following the principles as outlined;
3. The RFP will require that offerors submit a business plan; and

4. If adopted, the transition plan would not expunge the board's previous decision to sell the property. If there are no responsive proposals, the MMM&S property will be sold as previously decided.

#### **Minimum Price**

Alaska Statute 03.10.050 requires that property disposals must maximize the return to the state. As is discussed in more detail below, the contributory value of the continued operation of a livestock slaughter/processing facility is paramount to the growth and development of the Alaska agricultural industry. The competitive nature of the RFP will allow the greatest overall return to the ARLF, while keeping the kill floor open and transferring the facility to the private sector. As such, the recommended minimum price for the real and personal property is nominal in nature.

BAC regulations provide that the board will establish a minimum price for real property of the fund prior to disposal. 11 AAC 39.710(a) requires that factors must include:

- (1) the assessed, appraised, or market value;
- (2) the length of time that the fund has owned the property;
- (3) the length of time that the property has been on the market; and
- (4) the management costs of the property to the state.

The board must also establish the minimum price for personal property prior to disposal. Factors to be considered under 11 AAC 39.710(c) may include the appraised, surveyed, replacement or market value of the personal property and the cost of managing the property to the state.

The property was appraised at 1.3 million dollars in September 2005. The 2005 tax assessment indicates a tax value of \$460,300, broken down as \$129,600 for the real property and \$330,700 for the improvements. These appraisals do not take into consideration the value an open kill floor has to the agriculture industry. The state has owned this property for over 20 years. Significant losses to both the Department of Corrections (Corrections) and ARLF have been incurred since State repossession and operation began. The projected annual loss of MMM&S operations is expected to approach and likely exceed \$150,000 in FY06 and represent a significant drain on the ARLF. As of December 31, 2005, FY06 YTD losses stand at \$177,936 (excluding outstanding accounts payable/receivable). The Division has unsuccessfully attempted to sell this property numerous times with the requirement that the kill floor remain open. In 2002 the lease price was set at \$1 conditioned on the kill floor remaining open. There were no takers. It is recommended that a minimal disposal price for the real property be set to gather as much interest in the facility as possible.

The MMM&S personal property has not recently been appraised. The last appraisal, conducted in 2000, indicated the personal property had a value of \$250,000. Since that time, some of the property has become obsolete and value has most likely decreased due to wear. It is recommended that no independent value be placed on the personal property, and that the minimum price set for the facility include both the real and personal property.

**Conclusion**

The Division of Agriculture recommends the board authorize the Division to implement the transition plan as a possible solution to provide the industry time and support to transition into a private meat plant.

**Recommendation**

Move to amend the previous authorization given to

“recommend 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” by adding,

“provided, however, that the facility be first submitted for competitive proposals which would attempt to privatize MMM&S pursuant to the outline entitled ‘Mt. McKinley Meat & Sausage Transition Plan 2006’”.

Approve   ✓   Decline           

Subject to:   EK  

With the exception of removing the incentive awards listed for June 30, 2008, June 30, 2009 and June 30, 2010.

BAC CHAIRPERSON   Ed Kern     02-07-06  

Ed Kern

Date