October 9, 2015

RE: Mt. McKinley Meats, Palmer, AK

While a shortage of small meat plants[i] across the U.S. has prompted the federal government to step in with grants to construct new facilities, the state of Alaska is considering shuttering or otherwise relinquishing control of an existing facility that could serve as a model for local and regional meat processing.

Mt. McKinley Meats, Palmer, Alaska

Alaska is rich in agricultural resources and formerly self-sufficient in food production. Now the state is dependent on places far from its borders for the most critical element for survival – food. In the interests of economic health and food security, Alaska needs to restore its ability to feed itself. Ken Meter study – Start small[ii]

Physical Plant

Mt. McKinley Meats is a well maintained and designed multi-species plant with the capacity to slaughter and cool at least 40 beef per day or 100 hogs, or various combinations of cattle, hogs, goats, lambs or even reindeer. If the carcasses are further processed, either into primal cuts for the wholesale market, or more fully into cut-and-wrap consumer ready cuts, the numbers would be approximately half compared to strictly beef carcass production, and somewhat less with hogs.

The plant has the added capacity to scald and scrape hogs, which is very desirable in marketing a high yielding whole hog carcass to both the wholesale and retail markets. The scald and scrape capacity allows for higher hog slaughter numbers than the slower process of skinning. Leaving the skin on[iii] the carcass captures higher dollar and nutritional values.

Scald and Scrap equipment in Mt. McKinley plant

Further processing fed cattle weighing around 1,200 pounds live weight to retail (standard bone-in cut) would generate additional gross income of around $600 per head, but would reduce daily capacity to approximately 20 head per day with a skilled cut crew.

> 40 head x $135/head gross income ($100 kill fee + $35 hide value) = $5,400 per day gross income.
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> 20 cattle per day fully processed into retail cuts, weighing 1,200 pounds on average, would generate potentially $14,700 per day gross income ($100 kill fee + $35 hide value + $600 minimum cut and wrap fee at 80 cents per pound of carcass wt.) = $735 per head.

Further processing into end consumer (standard bone-in cuts) freezer-ready cuts is by far the most profitable for both the producer and the plant. The average USDA reported price for retail beef is currently $6.35[iv] per pound. If a 1,200 pound fed beef yields 45% into retail cuts (standard bone-in) the saleable weight is 540 lbs. x $6.35/lb. = $3,429 per head or approximately $2,694 per head ($2.24 per pound live weight) back to the producer after paying the plant. October live cattle futures on Friday, October 2nd, 2015, were trading at $1.23 per pound live weight. The hog numbers show similar opportunity.

Carcass processing and packaging room at Mt. McKinley

It's generally understood that the highly concentrated global meat packers, food service companies, and big retailers have captured an unfair share of farm gate income while charging higher prices to consumers; but most people, including university professors, have no idea how much has been lost to this concentrated market power.

If the plant could provide a connection to the consumer market for livestock producers and supply wholesale cuts and carcasses to independent retail operators, the protein sector in Alaska could be transformed quickly into a thriving and prosperous economic sector, while having a significant positive effect on the overall commodity markets for Alaskan producers in general.

Knowledgeable and skilled management

Frank Huffman and Jim Crigger are long-time plant managers. Frank oversaw construction of the plant and sees it as "his baby". They both appear to be loyal and dedicated leaders, willing and able to provide the livestock community with high quality slaughter and processing services, while meeting the challenges of employing and training a high-turnover prison workforce. That being said, management salaries are crippling the plant. Management salaries currently total $363,486 for three managers. These salaries are two to three times what a meat plant manager would be paid at a comparable plant in the lower 48.

Enclosed livestock holding area at Mt. McKinley Meats

The prison worker program appears to offer no advantages in labor cost, and likely adds significant additional costs in training and lack of worker dependability. It should be recognized that the management and plant provides valuable career and workforce training to prisoners in an industry seriously lacking in skills and skills training.

As supply of livestock numbers increase with state commitment and plant stability, more non-prison full-time workers may need to be hired to ensure the plant is meeting the required throughput of increased livestock production. Barriers to hiring non-prison labor to work with prison labor will need to be addressed.

The plant appears to be an underutilized source of education and career development for reskilling people in the lost art of slaughtering and meat processing. Article on deskilling[v]. The prison labor currently being utilized represents both a benefit and a barrier. Current plant management is uniquely both knowledgeable and skilled in meat slaughtering and processing, while also being willing to train new workers. The program, while providing potentially valuable career training to inmates is also very demanding on management and overall operations, and currently appears sporadic and undependable. Better understanding of the plant's costs related to the inmate workforce and training and improved buy-in from the local prison leadership could improve the program. Costs associated with this training program, including a large portion of the management salaries, should be identified and allocated to the state prison system, not the plant's overhead.

Carcass splitting area on kill floor

Connecting producers more directly with consumers by providing more custom slaughter and further processing will enable increased direct producer-consumer sales, where producers earn a higher percent of consumer spending and consumers receive the valuable benefit of safe, high quality, affordable local meats.

One thing to keep in mind is that other privately owned further processing businesses depend on Mt. McKinley Meats for the slaughter component. That said, full cost accounting should be applied to ensure that Mt. McKinley is not unfairly undercutting carcass customers on prices for further processing and retail products. Mt. McKinley should be used to facilitate closer producer connections to consumers while also working with existing local meat markets and value-added processors selling locally produced meats to the public. Private meat purveyors that add value and broader retail access, including cut and wrap services, can be a critical component in building consumption of local meats.

An option the plant might consider is transitioning from federal to state inspection, which could offer some administrative advantages and make it a thoroughly Alaskan product.

A water pre-treatment system would address the water quality issues causing excessive scaling in the boiler and on equipment, lowering long-term costs of maintaining and replacing equipment.

The plant is generally well equipped. There is need for some additional and larger vacuum packaging equipment and other fairly minimal equipment additions and repairs.

Conclusion

The plant is currently a valuable and critical state owned asset. Significant new infrastructure of this kind is needed in the U.S. and in Alaska in particular. The problem is too big to expect a private entity to build or operate a plant like Mt. McKinley. The dilemma is threefold; inability to get retail shelf-space, nearly total absence of competitive livestock markets and the resulting low livestock numbers. Without a dependable market and more direct connection to the consumer, livestock numbers will not increase and Alaska's valuable and abundant feed resources will go to waste. This valuable asset should be maintained under state ownership and control, serving the interests of all Alaskans, both producers and consumers, and local meat retailers.


Hog and cattle carcasses in cooler at Mt. McKinley Meats

It would be a mistake to sell or transfer to private control such a critical component in the rebuilding of Alaska's domestic food system. The state should maintain ownership of the plant and offer it for lease to a private operator. To ensure that the plant continues to operate as a public service, a Board of Directors comprised of key stakeholders should be created to advise and oversee operations.

Again, we want to emphasize that while decision makers in Alaska are contemplating closing or selling this well designed and functional meat packing plant with its knowledgeable management, the rest of the U.S., including Hawaii, is either building new facilities, employing mobile slaughter units, or making plans to rebuild local/regional processing capacity, in many cases with the help of government grant money.

Mt. McKinley Meats should be treated as a prized asset, offering up-to-date processing services. With a coordinated plan of committed state ownership and good management, significant growth in livestock and local meat production is possible. The plant has the potential to be a key component in building a strong and sustainable livestock food sector in Alaska.

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[i] http://www.foodandwaterwatch.org/insight/where%E2%80%99s-local-beef
[ii] http://www.crcworks.org/akfood.pdf
[iii] http://www.foodrepublic.com/2015/09/24/heres-why-you-should-be-cooking-with-bones-fat-and-skin/
[iv] http://www.ers.usda.gov/data-products/meat-price-spreads.aspx
[v] http://nobull.mikecallicrate.com/2012/06/01/deskilling-on-the-disassembly-line-technological-change-and-its-consequences-in-beef-packing-since-the-1960s/