

**State of Alaska
FY2004 Governor's Operating Budget**

**Department of Community & Economic Development
Investments
BRU/Component Budget Summary**

BRU/Component: Investments

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

The mission of the Division of Investments is to:

1. promote economic development through direct state lending within those industries that are not adequately served by the private sector; and
2. provide interagency and interdepartmental loan servicing of other loan portfolios.

Component Services Provided

Provides direct State lending in four active loan programs: Commercial Fishing, Fisheries Enhancement, Small Business Economic Development and the Rural Development Initiative Fund. These programs provide financing in industries and areas for which loans are not readily available from the private sector. The Division also services loans for eight inactive loan programs administered by the Department, as well as seven portfolios for the Alaska Industrial Development & Export Authority, the Departments of Health & Social Services, Environmental Conservation, and Military & Veterans Affairs. Loan servicing consists of processing assumption, refinance, and maintenance requests, such as subordinations, collateral releases, payment collection, credit reporting, commercial and mortgage loan accounting, delinquent loan collection, foreclosure and bankruptcy management, repossessed property management and resale, hazardous waste investigation, and investor remittance.

The Division offers loan servicing for other agencies because the combined functions of loan approval, servicing, collections, and data processing can be performed more efficiently when consolidated into one agency. The complexities involved in some of these functions (e.g., bankruptcies, foreclosure, hazardous waste investigation, and repossessed properties) require a level of expertise that is financially and logistically easier to support when consolidated.

As of June 30, 2002, the Division of Investments was servicing 3,420 accounts totaling \$211,328,600.00.

Component Goals and Strategies

To make loans directly to qualified residents for programs established by the Alaska Legislature.

- Encourage a predominantly resident fishery by providing loans for the purchase of limited entry permits, quota shares, vessels, and gear.
- Offer refinancing for commercial fishing vessel and gear loans.
- Offer loans for the operation of existing hatcheries.
- Create or save jobs through direct state lending to Alaskans.

To service efficiently the loan programs that are administered by the Department of Community & Economic Development, ensuring the greatest return on investment that is consistent with public policy.

- Collect money due the loan programs.
- Reduce or maintain the delinquency rates.
- Maintain the average processing times for loan and loan extension applications.
- Maintain the accuracy and timeliness of response to all customer service requests.

To act as a loan-servicing agency for many of the State's loan programs, ensuring the greatest return on investment that is consistent with public policy.

- Collect money due the loan programs.

- Reduce or maintain the delinquency rates.
- Maintain the average processing times for loan and loan extension applications.
- Maintain the accuracy and timeliness of response to all customer service requests.

Key Component Issues for FY2003 – 2004

COMMERCIAL FISHING INDUSTRY

The commercial fishing industry continues in flux as world markets adapt to the changing supply of fish from fish farms as well as the more traditional fishing fleets. The salmon markets have been significantly affected, and as a result they have been extremely volatile for the past several years. It is important that Alaska maintains its place in the worldwide salmon market during these changing times to assure our place for the future. Both the Commercial Fishing Revolving Loan Fund (CFRLF) and the Fisheries Enhancement Revolving Loan Fund (FERLF) depend heavily on the fish runs and the profitability of the fishing industry. It is difficult to project the cash flow for the CFRLF and the FERLF funds, as loan demand and repayments vary according to the level of success achieved by harvesters during the prior season. A large number of harvesters experienced extreme financial hardship in the 2002 season due to low salmon prices and limited commercial fishing opportunities in some fisheries.

NEW LOAN SERVICING SOFTWARE REPLACEMENT PROJECT

A \$550,000 capital request to replace the division's existing, antiquated Mortgage Loans Extended (MLX) loan servicing system was approved by the 22nd Alaska State Legislature. This project will add additional functionality not presently available in the area of loan origination (application tracking, document creation and management). The replacement software will also provide a greatly enhanced ability to track the status of new/modification loan applications, and provide improved servicing of loans during their repayment cycle. In addition, the project will increase the accuracy and productivity of work performed by the division and will make use of the Internet to allow borrowers to access loan account information.

Preliminary work, including a project plan, has been completed. The next step is to complete the procurement process to select the most appropriate software package available.

Major Component Accomplishments in 2002

REORGANIZATION

The Division completed a reorganization that merged the Lending and Collections branches into a single branch. Several positions were reclassified and two positions were moved to the Collections Section. The reorganization increased efficiency and provides additional flexibility to shift work within the Lending and Collections section as needed.

RURAL DEVELOPMENT INITIATIVE FUND

This fund was created in 2001 to provide financing to small businesses creating jobs in communities with populations of 5,000 or less. The Division approved and closed 17 loans totaling \$2,110,350.00. These loans resulted in the creation or retention of 89 jobs in rural communities.

VOLUNTEER TAX AND LOAN PROGRAM

The Division supported the Volunteer Tax and Loan Program (VTLP) through a contract with the Alaska Business Development Center, Inc. (ABDC). During FY02, 56 communities were visited in seven Alaskan regions (Interior, Pribilofs, Yukon Delta, Western, Southeast, Bristol Bay and Kodiak). Teams comprised of advanced accounting students, IRS tax supervisors and ABDC consultants traveled to each community to provide tax preparation and loan package assistance as well as business and financial counseling. Overall, ABDC's VTLP assisted 3,628 individuals and prepared 1,881 returns. The Division received national recognition in August of 2001 when the VTLP was selected by the National Association of Development Organizations (NADO) to receive a 2001 Innovation award.

Statutory and Regulatory Authority

AS 45.88.010-.050,.500

Alternative Energy Revolving Loan Fund

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AS 44.33.240-.275	Child Care Facility Revolving Loan Fund
AS 16.10.300-.370	Commercial Fishing Loan Act
AS 16.10.500-.620	Fisheries Enhancement Revolving Loan Fund
AS 45.98.010-.070	Historical District Revolving Loan Fund
AS 27.09.010-.060	Mining Loan Fund
AS 45.89.010-.070,,500	Residential Energy Conservation Fund
AS 45.95.010-.080	Small Business Revolving Loan Fund
AS 26.15.010-.170	WWII Veterans Revolving Fund
AS 44.88.400-.430	Small Business Economic Development Revolving Loan Fund
AS 44.47.800-.820	Rural Development Initiative Fund
AS 44.33.020	Department of Community and Economic Development
3 AAC 41.010-.900	Veterans Loan Assumptions
3 AAC 77.010-.900	Reposessed Property
3 AAC 78.010-.900	Alternative Energy Loans
3 AAC 79.010-.900	Residential Energy Conservation
3 AAC 80.010-.900	Commercial Fishing Loans
3 AAC 81.010-.900	Fisheries Enhancement Loans & Grants
3 AAC 82.010-.900	Child Care Facility Loans
3 AAC 83.010-.900	Historical District Loans
3 AAC 86.010-.900	Small Business Loan Assumptions
3 AAC 87.010-.900	Mining Loans
3 AAC 89.010-.900	Fisheries Enhancement Tax Appropriation
3 AAC 99.800-.820	Small Business Economic Development Loans
3 AAC 170.010-.900	Rural Development Initiative Fund

Key Performance Measures for FY2004

Measure:

The number of new or retained jobs in the state per loan made from the Small Business Economic Development Revolving Loan Fund.

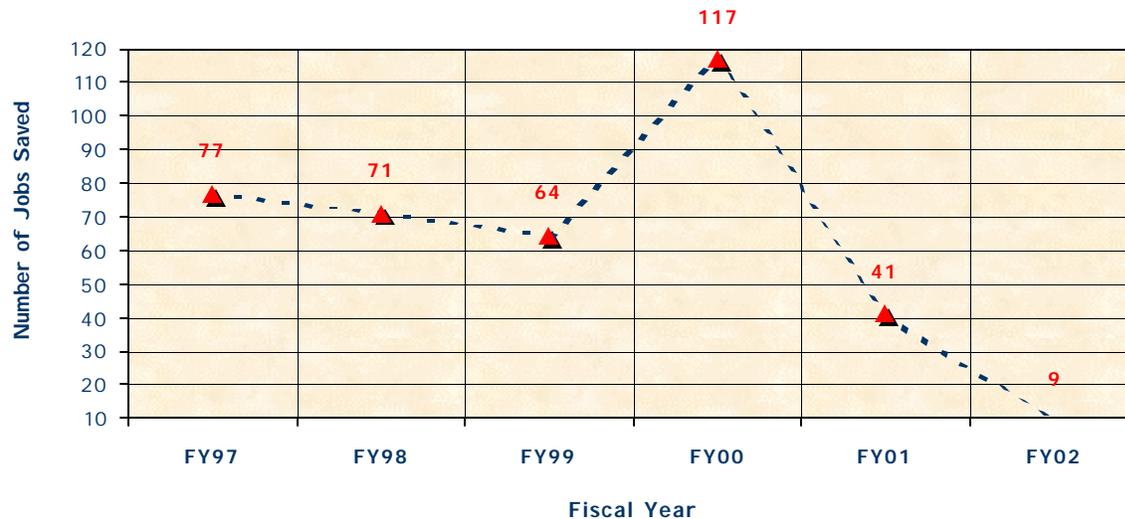
Sec 27(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

During fiscal year FY02, \$200,000 was loaned to Alaska small businesses. There were 9 new jobs created. Currently, the majority of grant funds have been utilized. The division will continue to make loans from repayments received on existing loans.

During FY01, \$85,000 was loaned to Alaska small businesses. 41 jobs were created and 3 were saved.
 During FY00, \$507,522 was loaned to Alaska small businesses. 117 jobs were created and 8 were saved.
 During FY99, \$589,900 was loaned to Alaska small businesses. 64 jobs were created and/or saved.
 During FY98, \$919,300 was loaned to Alaska small businesses. 71 jobs were created and/or saved.
 During FY97, \$250,000 was loaned to Alaska small businesses. 77 jobs were created and/or saved.

Small Business Economic Development Revolving Loan Fund



Benchmark Comparisons:

There are no current statistics available at this time.

Background and Strategies:

In many areas of the state, individuals wishing to start a small business have had virtually no chance of receiving financing without assistance from a program such as this. In June 1988 the Economic Development Administration (EDA) approved the Alaska Department of Commerce and Economic Development's original application to establish a Revolving Loan Fund (RLF). The funding approved for the original RLF totaled \$600,000 (\$350,000 from EDA and \$250,000 from the State of Alaska). In 1992 the fund was recapitalized with an additional EDA Grant, in the amount of \$450,000 and matching state funds in the amount of \$200,000. The RLF program has proven to be a very useful tool in the Department's overall rural small business and economic development program. In 1998 the department applied for and was awarded a \$600,000 grant to recapitalize this program. The grant was awarded by the EDA and was matched with \$200,000 from the Alaska Industrial Development and Export Authority to provide a total of \$800,000 for new loans. Currently, the majority of grant funds received for this program have been utilized. The division anticipates requesting additional grants in the future and will continue to make loans from repayments received on existing loans. This division will continue to provide this financing by:

- Marketing this program through brochures, conferences, outreach visitation and the Alaska Business Development Center.
- Participating in the Economic Development Funding Forum, talking with other lenders regarding this program.
- Continuing to improve our presence on the Internet by making the loan program information available for viewing and downloading application forms.
- Utilizing the rural staff of the Division of Community and Business Development (CBD) to promote this program.

Measure:

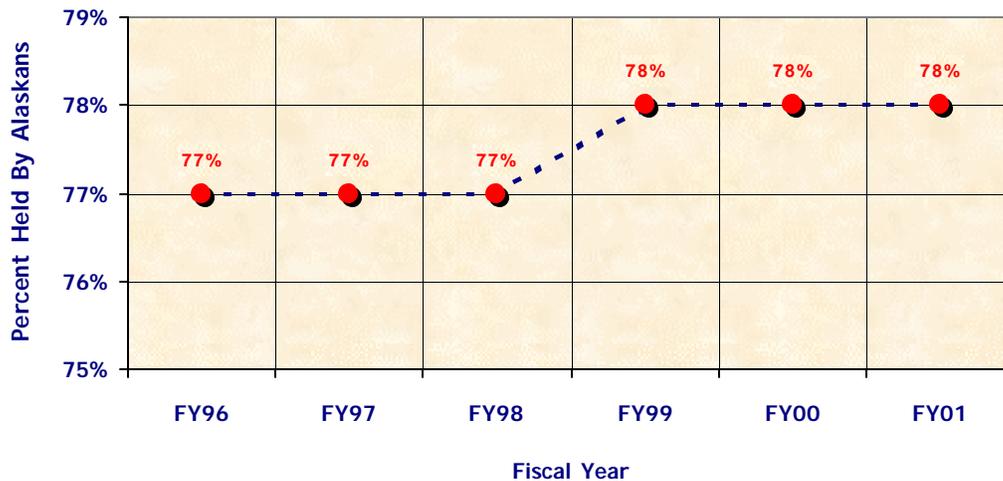
Whether the division maintains the proportion of commercial fishing permits held by Alaskans at 75% or higher through the Commercial Fishing Revolving Loan Fund.

Sec 27(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY01 (the most recent figures available), the proportion of permits held by Alaskans was 78%.

Commercial Fishing Permits Held By Alaskans



Benchmark Comparisons:

Other than our twenty-five year loan history, there are no other programs similar to this loan program.

Background and Strategies:

The commercial fishing industry continues in flux as world markets adapt to the changing supply of fish from fish farms as well as the more traditional fishing fleets. The salmon markets have been significantly affected, and as a result, they have been extremely volatile for the past several years. It is important that Alaska maintains its place in the worldwide salmon market during these changing times to assure our place for the future. This loan program offers a relatively modest financing program for Alaska resident commercial fishing harvesters. The division's effort is to maintain the proportion of commercial fishing permits held by Alaskans at 75% or higher. To achieve this goal this division will:

- Work with Alaska resident fishermen requesting financing for the purchase of permits.
- Work with Alaska resident fishermen requesting financing for gear, vessel upgrades and/or improvements.
- Travel to fishing communities all over the state to assist them in their planning for financing their on-going fishing businesses.
- Travel to fishing communities all over the state to assist them in solving tax related problems.
- Continue to work with the Alaska Business Development Center, assisting fishermen through our Fisheries Business Assistance Contract.

Measure:

Whether the division provides hatchery-reared salmon to Alaska commercial fisheries at a harvest value of \$40,000,000 or more per year through the Fisheries Enhancement Revolving Loan Fund.

Sec 27(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

During calendar year (CY) 2001 (the most current information available), the harvest value of the hatchery-reared salmon was \$44.3M. Preliminary Alaska Department of Fish & Game figures for the 2002 season put the number somewhere around \$24.6M, a continuing decrease from prior years due to the decreasing price of salmon.

During CY00, the harvest value of the hatchery reared salmon was \$57million.

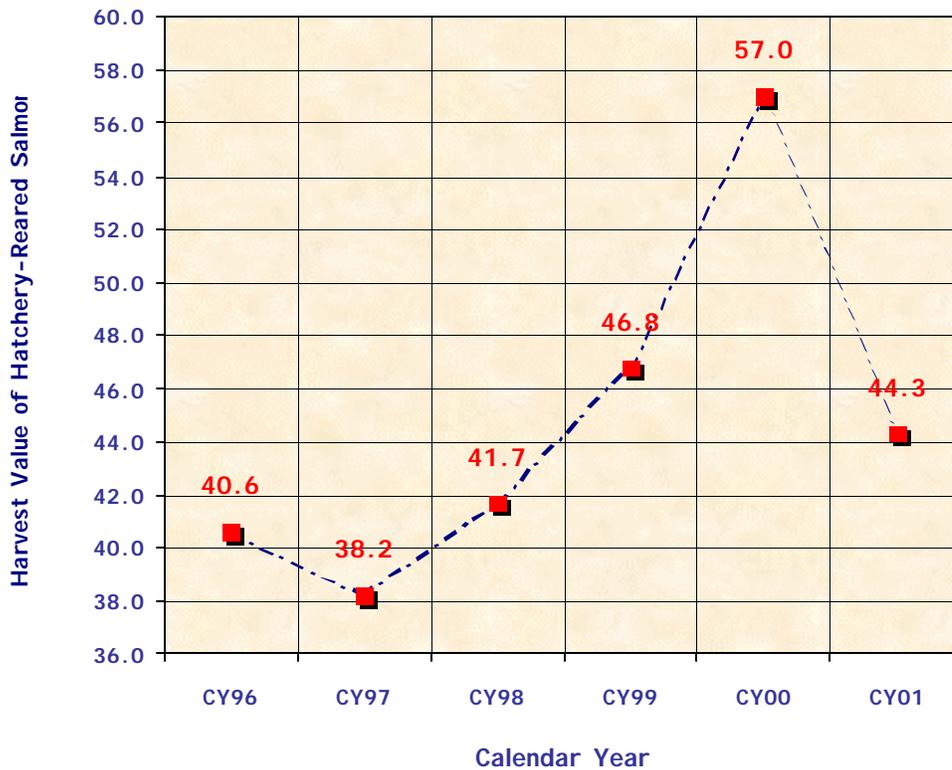
During CY99, the harvest value of the hatchery-reared salmon was \$46.8M.

During CY98, the harvest value of the hatchery-reared salmon was \$41.7M.

During CY97, the harvest value of the hatchery-reared salmon was \$38.2M.

During CY96, the harvest value of the hatchery-reared salmon was \$40.6M.

**Fisheries Enhancement Statistics
(In Millions)**



Benchmark Comparisons:

There is no comparable program.

Background and Strategies:

In 1976, the Alaska Legislature responded to the need for increased production of salmon by creating the Fisheries Enhancement Revolving Loan Fund (FERLF). The purpose of this program was to promote enhancement of the State's fisheries. This division will continue to promote this enhancement by:

- Granting long-term, low-interest loans for hatchery planning, construction and operation.
- Providing grants to Regional Corporations for organization and planning purposes.
- Work with hatcheries to insure that adequate funds are available for their continued operation.

Investments
Component Financial Summary

All dollars in thousands

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	2,221.4	2,465.7	2,543.6
72000 Travel	45.6	31.2	31.2
73000 Contractual	766.1	1,077.3	1,042.3
74000 Supplies	138.9	37.9	37.9
75000 Equipment	107.6	4.8	4.8
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	10.6	10.0	20.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	3,290.2	3,626.9	3,679.8
Funding Sources:			
1007 Inter-Agency Receipts	31.5	7.0	7.1
1035 Veterans Revolving Loan Fund	72.1	59.1	59.6
1036 Commercial Fishing Loan Fund	2,642.3	2,976.6	3,023.8
1057 Small Business Loan Fund	3.4	3.5	3.5
1067 Mining Revolving Loan Fund	5.1	5.2	5.2
1068 Child Care Revolving Loan Fund	6.0	6.2	6.3
1069 Historical District Revolving Loan Fund	2.5	2.5	2.5
1070 Fisheries Enhancement Revolving Loan Fund	332.6	340.7	343.8
1071 Alternative Energy Revolving Loan Fund	151.7	141.2	142.4
1164 Rural Development Initiative Fund	43.0	43.0	43.4
1170 Small Business Economic Development Revolving Loan Fund	0.0	41.9	42.2
Funding Totals	3,290.2	3,626.9	3,679.8

Investments

Proposed Changes in Levels of Service for FY2004

None.

**Summary of Component Budget Changes
From FY2003 Authorized to FY2004 Governor**

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	0.0	0.0	3,626.9	3,626.9
Adjustments which will continue current level of service:				
-Annualize FY2003 COLA Increase for General Government and Supervisory Bargaining Units	0.0	0.0	31.7	31.7
-\$75 per Month Health Insurance Increase for Non-covered Staff	0.0	0.0	0.8	0.8
Proposed budget increases:				
-Increases in various rate-based services	0.0	0.0	20.4	20.4
FY2004 Governor	0.0	0.0	3,679.8	3,679.8

Investments

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	44	44	Annual Salaries	1,985,031
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	722,941
			<i>Less 6.07% Vacancy Factor</i>	(164,372)
			Lump Sum Premium Pay	0
Totals	44	44	Total Personal Services	2,543,600

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant IV	0	0	1	0	1
Accounting Spvr I	0	0	1	0	1
Accounting Spvr II	0	0	1	0	1
Accounting Tech I	0	0	4	0	4
Accounting Tech II	0	0	3	0	3
Accounting Tech III	0	0	2	0	2
Administrative Clerk II	0	0	2	0	2
Administrative Clerk III	1	0	1	0	2
Administrative Manager I	0	0	1	0	1
Analyst/Programmer II	0	0	1	0	1
Analyst/Programmer III	0	0	1	0	1
Analyst/Programmer IV	0	0	1	0	1
Analyst/Programmer V	0	0	1	0	1
Division Director	0	0	1	0	1
Loan Closer/Processor II	1	0	5	0	6
Loan Closer/Processor III	0	0	1	0	1
Loan/Collection Manager	0	0	1	0	1
Loan/Collection Off I	2	0	4	0	6
Loan/Collection Off II	0	0	3	0	3
Loan/Collection Officer III	1	0	2	0	3
Publications Tech II	0	0	1	0	1
Secretary	0	0	1	0	1
Totals	5	0	39	0	44