

State of Alaska
FY2003 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 serviced 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 Loan Program. 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 nine inactive loan programs administered by the Department, as well as another six 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 subordination's and 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, 2001, the Division of Investments was servicing 3,431 accounts totaling \$214,798,100.

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 boat loans.
- Offer loans for the operation of existing hatcheries.
- Create or save jobs through direct state lending to Alaskans.
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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.
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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 FY2002 – 2003

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 2001 season due to low salmon prices and limited commercial fishing opportunities in some fisheries.

RURAL DEVELOPMENT INITIATIVE FUND

The Division entered into a memorandum of agreement with the Alaska Industrial Development and Export Authority to administer the new Rural Development Initiative Fund. This program was created by the legislature during the 2000 legislative session to provide loans to individuals developing businesses in communities of 5,000 or less. The Division has approved four loans for \$598,683 and anticipates making a total of \$2,000,000 worth of loans by the end of FY03.

NEW LOAN SERVICING SOFTWARE REPLACEMENT PROJECT

The Division has submitted a capital request to replace its' existing, antiquated Mortgage Loans Extended (MLX) loan servicing system. This system was originally acquired from its vendor, Florida Software, in the early 1980s and was last updated by that vendor in 1984. This vendor is no longer in business, and as a result, in-house staff has maintained and made all modifications to the system since that time.

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.

Major Component Accomplishments in 2001

TAX OBLIGATION LOAN PROGRAM

The Commercial Fishing Revolving Loan Fund was amended by the 2000 legislature to allow the Division to make loans to Alaskan commercial fishing harvesters to pay past due federal tax obligations that could result in the loss of a limited entry permit through a foreclosure action. This program took affect August 1st, 2000 and expires July 31, 2002. The maximum loan amount is \$30,000 for each borrower and the Division anticipates a loan demand of approximately \$1,500,000 over the two-year period. During FY01, 15 loans were approved and processed for a total dollar amount of \$316,335.00.

VOLUNTEER TAX AND LOAN PROGRAM

The Division supported the Volunteer Tax and Loan Program (VTLP) through a contract for fisheries business development to the Alaska Business Development Center, Inc. (ABDC). Seventeen trips were made during FY01 to assist 33 communities in five Alaskan regions (Interior, 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 2,938 individuals and prepared 1,388 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
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 Rev.Loan Fund
AS 44.47.800-.820	Rural Development Initiative Fund
AS 44.33.020	Dept. of Community and Economic Development
3 AAC 41.010-.900	Veterans Loan Assumptions
3 AAC 77.010-.900	Repossessed 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 FY2003

Measure:

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

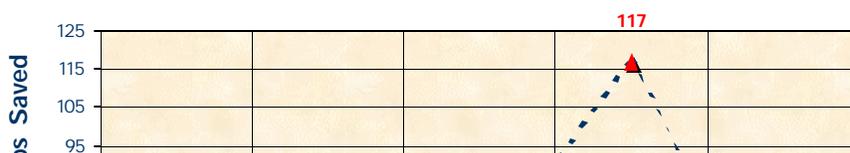
Sec 27(b)(1) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

During fiscal year FY01, \$85,000 was loaned to Alaska small businesses. There were 41 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 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



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 \$250,00 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. In the past fiscal year one loan was made, resulting in the creation of 41 jobs in an area of the State that experienced low per capita income or high unemployment. This division will continue to provide this financing by:

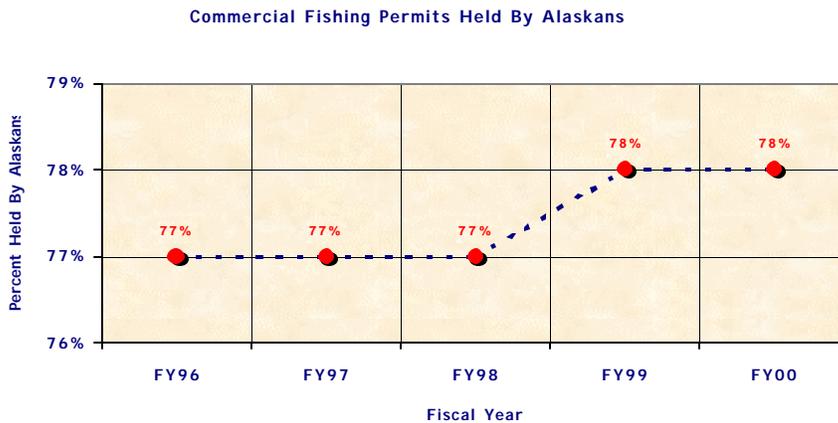
- Marketing this program through brochures, conferences, outreach visitation and the Alaska Business Development Center.
- Participating in the Economic Development Funding Forum, talking with other lenders regarding this program.
- Continuing to improve our presence on the Internet by making the loan 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 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY99 and FY00 (the most recent figures available), the proportion of permits held by Alaskans was 78%. From FY96 to FY98, the proportion of permits held by Alaskans was 77%.



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 90 SLA 2001(HB 250)

Alaska's Target & Progress:

During calendar year 2000 (the most current information available), the harvest value of the hatchery-reared salmon was \$57M, an increase of over ten million for the calendar year 1999 harvest value. Preliminary Alaska Department of Fish & Game figures for the 2001 season put the number somewhere around \$32M, a substantial decrease from prior years due to the decreasing price of salmon.

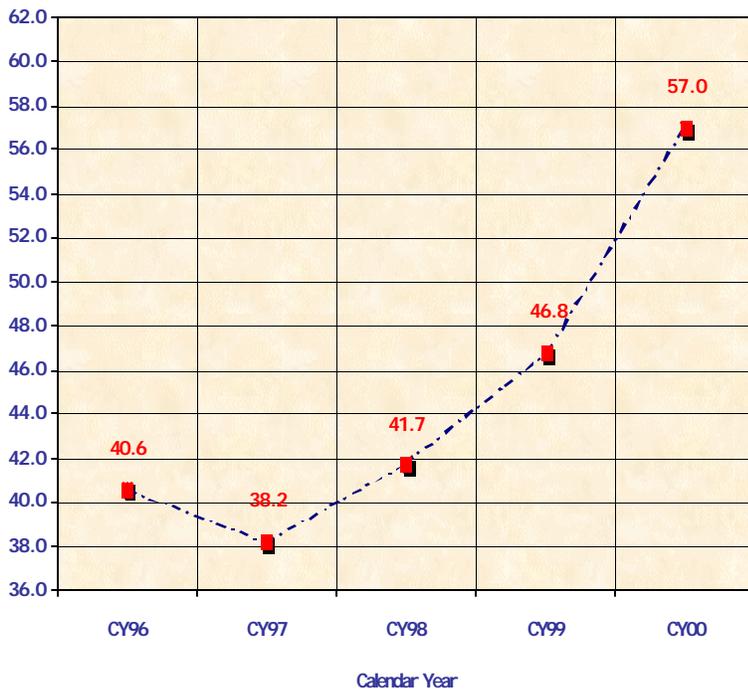
During CY99, the harvest value of the hatchery-reared salmon was \$46.8M.

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.

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.
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Investments

Component Financial Summary

All dollars in thousands

Non-Formula Program:	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Component Expenditures:			
71000 Personal Services	2,121.1	2,373.1	2,465.7
72000 Travel	42.9	31.2	31.2
73000 Contractual	819.4	932.4	932.4
74000 Supplies	105.0	37.9	37.9
75000 Equipment	62.2	4.8	4.8
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	20.0	10.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	3,150.6	3,399.4	3,482.0
Funding Sources:			
1007 Inter-Agency Receipts	53.4	48.9	8.2
1035 Veterans Revolving Loan Fund	93.6	107.4	61.7
1036 Commercial Fishing Loan Fund	2,502.3	2,698.8	2,823.2
1057 Small Business Loan Fund	3.3	3.4	3.5
1067 Mining Revolving Loan Fund	5.0	5.1	5.2
1068 Child Care Revolving Loan Fund	5.8	6.0	6.2
1069 Historical District Revolving Loan Fund	2.5	2.5	2.5
1070 Fisheries Enhancement Revolving Loan Fund	333.0	332.6	340.7
1071 Alternative Energy Revolving Loan Fund	151.7	151.7	144.9
1164 Rural Development Initiative Fund	0.0	43.0	44.0
1170 Small Business Economic Development Revolving Loan Fund	0.0	0.0	41.9
Funding Totals	3,150.6	3,399.4	3,482.0

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
General Fund Program Receipts	51060	0.1	0.0	0.0	0.0	0.0
Unrestricted Total		0.1	0.0	0.0	0.0	0.0
Restricted Revenues						
Interagency Receipts	51015	53.4	48.9	48.9	8.2	8.2
Veterans Revolving Loan Fund	51095	93.6	107.4	107.4	61.7	61.7
Commercial Fishing Loan Fund	51100	2,502.3	2,698.8	2,698.8	2,823.2	2,823.2
Small Business Loan Fund	51180	3.3	3.4	3.4	3.5	3.5
Mining Revolving Loan Fund	51230	5.0	5.1	5.1	5.2	5.2

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Child Care Revolving Loan Fund	51235	5.8	6.0	6.0	6.2	6.2
Historical District Revolving Loan Fund	51240	2.5	2.5	2.5	2.5	2.5
Fisheries Enhance. Revolving Loan Fund	51245	333.0	332.6	332.6	340.7	340.7
Alternative Energy Revolving Loan Fund	51250	151.7	151.7	151.7	144.9	144.9
Rural Development Initiative Fund (2000)	51435	0.0	43.0	43.0	44.0	44.0
Small Business Dev Revolving Loan Fund	51467	0.0	0.0	0.0	41.9	41.9
Restricted Total		3,150.6	3,399.4	3,399.4	3,482.0	3,482.0
Total Estimated Revenues		3,150.7	3,399.4	3,399.4	3,482.0	3,482.0

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Proposed Changes in Levels of Service for FY2003

None.

**Summary of Component Budget Changes
From FY2002 Authorized to FY2003 Governor**

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	3,399.4	3,399.4
Adjustments which will continue current level of service:				
-Year 3 Labor Costs - Net Change from FY2002	0.0	0.0	82.6	82.6
FY2003 Governor	0.0	0.0	3,482.0	3,482.0

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Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2002</u> <u>Authorized</u>	<u>FY2003</u> <u>Governor</u>		
Full-time	44	44	Annual Salaries	1,859,574
Part-time	0	0	COLA	43,759
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	702,926
			<i>Less 5.39% Vacancy Factor</i>	<i>(140,605)</i>
			Lump Sum Premium Pay	0
Totals	44	44	Total Personal Services	2,465,654

Position Classification Summary

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