

# **State of Alaska FY2010 Governor's Operating Budget**

## **Department of Natural Resources Agriculture Revolving Loan Program Administration Component Budget Summary**

**Component: Agriculture Revolving Loan Program Administration**

**Contribution to Department's Mission**

Promote and encourage development of an agriculture industry in Alaska.

**Core Services**

- The Board of Agriculture and Conservation (BAC) administers the Agricultural Revolving Loan Fund (ARLF) through the Division of Agriculture.

| End Result  | Strategies to Achieve End Result   |
|---|--|
| <p><b>A: Sustained availability of financing for future agricultural development and expansion in Alaska. ARLF celebrated 55 years of service to Alaska in 2008.</b></p> <p><u>Target #1:</u> Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry.<br/><u>Status #1:</u> 38.96% loan to equity ratio in 2008 as compared to 39.48% in 2007.</p> <p><u>Target #2:</u> Keep delinquencies under 5%.<br/><u>Status #2:</u> 3.5% delinquency rate in 2008 as compared to 2.5% in 2007.</p> | <p><b>A1: Make agricultural loans at the direction of the BAC.</b></p> <p><u>Target #1:</u> Approve \$1.0 to \$2.0 million dollars in loans annually.<br/><u>Status #1:</u> \$1,147,600 was loaned in FY08 as compared to \$834,500 in FY07.</p> <p><b>A2: Dispose ARLF Assets obtained through foreclosure and settlements.</b></p> <p><u>Target #1:</u> Follow schedule of ARLF properties to be returned to the private sector.<br/><u>Status #1:</u> \$1.5 million was returned to ARLF in 2008 from the sale of asset property.</p> |

| Major Activities to Advance Strategies  |   |
|---|---|
| <ul style="list-style-type: none"> <li>• Process new loan applications</li> <li>• Process loan modification requests</li> <li>• Inspect and evaluate collateral</li> <li>• Close loan/modification requests</li> <li>• Service loans, contracts, leases, accounts</li> <li>• Manage default accounts</li> </ul> | <ul style="list-style-type: none"> <li>• Recover foreclosed/repossessed collateral</li> <li>• Facilitate settlements</li> <li>• Provide protection of ARLF assets</li> <li>• Respond to informational requests</li> <li>• Provide asset management</li> <li>• Dispose of foreclosed/repossessed assets</li> </ul> |

| FY2010 Resources Allocated to Achieve Results      |  |           |   |           |   |              |          |
|--|--|-----------|---|-----------|---|--------------|----------|
| <p><b>FY2010 Component Budget: \$2,550,000</b></p> | <p><b>Personnel:</b></p> <table> <tr> <td>Full time</td> <td>6</td> </tr> <tr> <td>Part time</td> <td>0</td> </tr> <tr> <td><b>Total</b></td> <td><b>6</b></td> </tr> </table> | Full time | 6 | Part time | 0 | <b>Total</b> | <b>6</b> |
| Full time  | 6  |           |   |           |   |              |          |
| Part time  | 0  |           |   |           |   |              |          |
| <b>Total</b>                                       | <b>6</b>   |           |   |           |   |              |          |

## Performance

### A: Result - Sustained availability of financing for future agricultural development and expansion in Alaska. ARLF celebrated 55 years of service to Alaska in 2008.

**Target #1:** Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry.

**Status #1:** 38.96% loan to equity ratio in 2008 as compared to 39.48% in 2007.

#### Loan to Equity Ratio

| Year | Loans      | Equity     | YTD Total |
|------|------------|------------|-----------|
| 2008 | \$9,126.3  | \$23,426.8 | 38.96%*   |
| 2007 | \$9,605.3  | \$24,326.5 | 39.48%    |
| 2006 | \$10,294.0 | \$25,352.1 | 41%       |
| 2005 | \$11,366.0 | \$26,250.0 | 43%       |
| 2004 | \$12,574.0 | \$26,540.0 | 47%       |
| 2003 | \$13,009.0 | \$28,042.0 | 46%       |
| 2002 | \$7,673.0  | \$27,696.0 | 28%       |

Methodology: \*Thru 05-08.

**Analysis of results and challenges:** ARLF Contract financing is not included with the loans in this measure. Most ARLF contracts were refinanced 2003; therefore, ratios prior 2003 are lower and not a true comparable. It appears that there are no more existing ARLF borrowers that wish to refinance their existing ARLF accounts. However, there may be future refinances of other non ARLF loans for agricultural purposes.

**Target #2:** Keep delinquencies under 5%.

**Status #2:** 3.5% delinquency rate in 2008 as compared to 2.5% in 2007.

#### Delinquency rate by year

| Fiscal Year | Current | Delinquent |
|-------------|---------|------------|
| FY 2008     | 95.6%   | 3.5%       |
| FY 2007     | 97.5%   | 2.5%       |
| FY 2006     | 96%     | 4%         |
| FY 2005     | 96%     | 4%         |
| FY 2004     | 97%     | 3%         |
| FY 2003     | 98%     | 2%         |
| FY 2002     | 93%     | 7%         |
| FY 2001     | 86%     | 14%        |
| FY 2000     | 85%     | 15%        |

**Analysis of results and challenges:** The delinquency rate shows a decline in FY07 and may be a reflection of not doing the high risk project type loans.

### A1: Strategy - Make agricultural loans at the direction of the BAC.

**Target #1:** Approve \$1.0 to \$2.0 million dollars in loans annually.

**Status #1:** \$1,147,600 was loaned in FY08 as compared to \$834,500 in FY07.

**ARLF Loan Activity**

| Fiscal Year | Amount       | # loans |
|-------------|--------------|---------|
| FY 2008     | \$1,147,600  | 11      |
| FY 2007     | \$834,500    | 11      |
| FY 2006     | \$1,108,500  | 13      |
| FY 2005     | \$1,014,400  | 14      |
| FY 2004     | \$2,544,500  | 19      |
| FY 2003     | \$11,370,586 | 69      |
| FY 2002     | \$1,637,760  | 22      |
| FY 2001     | \$2,961,100  | 36      |
| FY 2000     | \$1,720,316  | 33      |

Methodology: Note: Significant increase in FY03 over previous years is a result of regulation changes allowing refinances of existing loans from 8% to 5%; and a lower rate of interest charged on new loans.

**Analysis of results and challenges:** There are six loan types:

- Short term (operating)
- Chattel
- Land Clearing
- Irrigation
- Product processing
- Farm Development

Our experience is that approximately half of the annual loan demand is for short term operating loans.

The loan production increase experienced in FY03 was a one-time occurrence and it did not require a corresponding cash outflow as most of the loans were conversions from Title 28 Agricultural Land purchase contracts and other agriculture loan refinances to ARLF loans.

**A2: Strategy - Dispose ARLF Assets obtained through foreclosure and settlements.**

**Target #1:** Follow schedule of ARLF properties to be returned to the private sector.

**Status #1:** \$1.5 million was returned to ARLF in 2008 from the sale of asset property.

**ARLF schedule of Property Disposals**

| Fiscal Year | DESCRIPTION                 | LOCATION      | VALUE           | ACTION  |
|-------------|-----------------------------|---------------|-----------------|---------|
| FY 2010     | Dairy Farm 102 acres        | Delta         | \$409,000       | 0<br>0% |
| FY 2009     | Matanuska Maid Facility     | Palmer        | \$1,318,000*    | 0<br>0% |
| FY 2009     | Unimproved Lot 7 acres      | Kenai         | \$19,500        | 0<br>0% |
| FY 2009     | Non-Ag Residential 39 acres | Anchor Point  | \$150,000       | 0       |
| FY 2008     | Matanuska Maid Facility     | Anchorage     | \$1,527,501.99* | Sold    |
| FY 2006     | Fish Processing Facility    | Fairbanks     | \$220,000       | Sold    |
| FY 2006     | Tract 17 Dairy 612 acres    | Pt. MacKenzie | \$1,450,000     | Sold    |

Methodology: \*The Palmer Matanuska Maid property will be sold December 2008. The funds will be returned to the Agriculture Revolving Loan Fund (ARLF).

**Analysis of results and challenges:** Agricultural land and equipment disposals are averaging 3-6 months to complete from the time the BAC authorizes disposal. This transfers real and personal property from State ownership to the private sector. Effort towards privatization of ARLF assets continues to be a Division priority. Regulatory requirements regarding disposal of infrastructure assets require more time to complete the disposal process.

## Key Component Challenges

Management continues to make efforts to minimize the draw on the fund by keeping the delinquency rate low and reducing Agricultural Revolving Loan Fund (ARLF) expenditures. Conventional financing is not generally available to agriculture in Alaska. The Board of Agriculture and Conservation (BAC) through the ARLF provides low interest rate loans for agricultural development. Our goal is sustainability growth and expansion of the ARLF program.

The Palmer property that was used by Matanuska Maid Dairy is currently for sale through a competitive sealed bid. The minimum bid required is \$1,318,000.00 with bids due December 2008. Through an agreement with the Creamery Corporation and the Division of Agriculture, the corporation is in the process of ending operations. A private sector business in Southcentral and one in the Northern Region continue to provide a market for Alaska dairy producers. The ARLF may be asked to provide loans to assist the dairy industry and the BAC continues to explore its options. The ultimate goal is for all components of the dairy industry to be privately owned and operated.

The BAC may consider a participating agreement with another agency, such as Alaska Housing Finance Corporation (AHFC), for residential farm loans. Facilitating the means for residential financing on agricultural land would be a positive accomplishment. It would increase the value of the ARLF loan collateral, and by providing housing, it would encourage continued agricultural development. This program would use AHFC funds; instead of the ARLF's, for the loans, and to increase ARLF revenues with servicing fees. Further discussions between AHFC and the ARLF are needed in order to submit a proposal to DNR and BAC for consideration. Applicable regulations will be required.

Mt. McKinley Meat & Sausage (MMM&S) operation has been preserved by the state since 1985. Operation losses have been minimized, but still continue. Attempts to transfer ownership of the plant to the private sector with incentives to maintain the slaughter facility have failed. The Division and BAC have had preliminary discussions on the future plans for MMM&S. A transition plan must be established that allows industry time to privatize, or another possible option is the transfer of the slaughter facility to the Department of Corrections. Whether the transfer of the slaughter facility is made to the private sector or the Department of Corrections, the proceeds of the sale will help to recapitalize the ARLF.

## Significant Changes in Results to be Delivered in FY2010

No changes in results delivered.

## Major Component Accomplishments in 2008

The ARLF program celebrated 55 years of operation in August. The delinquency rate of the \$23.4 million ARLF loan portfolio continues to be less than 3.5%. This program has promoted industry growth through competitive interest-rate loans to borrowers with viable business plans and contributed to industry stability by providing continued financing for existing agricultural enterprises.

As part of a Memorandum of Understanding with the Creamery Corporation and the Department of Natural Resources, the Creamery Corporation's rolling stock and equipment was sold, allowing the Corporation to continue to pay outstanding debts. The Matanuska Maid Anchorage building, an ARLF asset, was sold returning \$1,527,521 to the State.

The Mt. McKinley Meat Plant continues to be operated by the Division of Agriculture and funded by the ARLF. The annual ARLF subsidy for the plant was reduced through efficiency measures. Preliminary meetings have been held with other agencies to lay the groundwork for a possible transfer of this facility.

We are in the final stages of implementing a loan guarantee program is being offered by the USDA, Farm Service Agency. The purpose of the guaranteed loan program is to improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities. This purpose is achieved by bolstering the existing private credit structure through the guarantee of quality loans which will provide lasting community benefits.

## Statutory and Regulatory Authority

AS 03.09, AS 03.10

| Contact Information  |
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**Agriculture Revolving Loan Program Administration  
Component Financial Summary**

*All dollars shown in thousands*

|                                | <b>FY2008 Actuals</b> | <b>FY2009<br/>Management Plan</b> | <b>FY2010 Governor</b> |
|--------------------------------|-----------------------|-----------------------------------|------------------------|
| <b>Non-Formula Program:</b>    |                       |                                   |                        |
| <b>Component Expenditures:</b> |                       |                                   |                        |
| 71000 Personal Services        | 388.4                 | 498.1                             | 515.8                  |
| 72000 Travel                   | 3.2                   | 32.4                              | 24.7                   |
| 73000 Services                 | 441.5                 | 1,094.6                           | 494.6                  |
| 74000 Commodities              | 728.8                 | 1,514.9                           | 1,514.9                |
| 75000 Capital Outlay           | 0.1                   | 0.0                               | 0.0                    |
| 77000 Grants, Benefits         | 0.0                   | 0.0                               | 0.0                    |
| 78000 Miscellaneous            | 0.0                   | 0.0                               | 0.0                    |
| <b>Expenditure Totals</b>      | <b>1,562.0</b>        | <b>3,140.0</b>                    | <b>2,550.0</b>         |
| <b>Funding Sources:</b>        |                       |                                   |                        |
| 1004 General Fund Receipts     | 0.0                   | 600.0                             | 0.0                    |
| 1021 Agricultural Loan Fund    | 1,562.0               | 2,540.0                           | 2,550.0                |
| <b>Funding Totals</b>          | <b>1,562.0</b>        | <b>3,140.0</b>                    | <b>2,550.0</b>         |

**Estimated Revenue Collections**

| <b>Description</b>              | <b>Master<br/>Revenue<br/>Account</b> | <b>FY2008 Actuals</b> | <b>FY2009<br/>Management Plan</b> | <b>FY2010 Governor</b> |
|---------------------------------|---------------------------------------|-----------------------|-----------------------------------|------------------------|
| <b>Unrestricted Revenues</b>    |                                       |                       |                                   |                        |
| Unrestricted Fund               | 68515                                 | 1,698.4               | 1,719.2                           | 1,718.7                |
| <b>Unrestricted Total</b>       |                                       | <b>1,698.4</b>        | <b>1,719.2</b>                    | <b>1,718.7</b>         |
| <b>Restricted Revenues</b>      |                                       |                       |                                   |                        |
| None.                           |                                       | 0.0                   | 0.0                               | 0.0                    |
| <b>Restricted Total</b>         |                                       | <b>0.0</b>            | <b>0.0</b>                        | <b>0.0</b>             |
| <b>Total Estimated Revenues</b> |                                       | <b>1,698.4</b>        | <b>1,719.2</b>                    | <b>1,718.7</b>         |

**Summary of Component Budget Changes  
From FY2009 Management Plan to FY2010 Governor**

*All dollars shown in thousands*

|   | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|---|----------------------|----------------------|--------------------|--------------------|
| <b>FY2009 Management Plan</b>   | <b>600.0</b>         | <b>0.0</b>           | <b>2,540.0</b>     | <b>3,140.0</b>     |
| <b>Adjustments which will continue current level of service:</b>  |                      |                      |                    |                    |
| -Reverse one-time item Creamery Corporation/Mat Maid Assistance SLA07/Ch30/Sec18(b)/P148/L16 Lapse Date 6/30/2010 | -600.0               | 0.0                  | 0.0                | -600.0             |
| -FY2010 Wage and Health Insurance Increases for Bargaining Units with Existing Agreements                         | 0.0                  | 0.0                  | 10.0               | 10.0               |
| <b>FY2010 Governor</b>  | <b>0.0</b>           | <b>0.0</b>           | <b>2,550.0</b>     | <b>2,550.0</b>     |

**Agriculture Revolving Loan Program Administration  
Personal Services Information**

| Authorized Positions |   |                                  | Personal Services Costs          |                |
|----------------------|---|----------------------------------|----------------------------------|----------------|
|                      | <u>FY2009</u><br><u>Management</u><br><u>Plan</u> | <u>FY2010</u><br><u>Governor</u> |                                  |                |
| Full-time            | 6   | 6                                | Annual Salaries                  | 328,716        |
| Part-time            | 0   | 0                                | COLA                             | 13,260         |
| Nonpermanent         | 0   | 0                                | Premium Pay                      | 0              |
|                      |   |                                  | Annual Benefits                  | 181,668        |
|                      |   |                                  | <i>Less 1.50% Vacancy Factor</i> | <i>(7,844)</i> |
|                      |   |                                  | Lump Sum Premium Pay             | 0              |
| <b>Totals</b>        | <b>6</b>  | <b>6</b>                         | <b>Total Personal Services</b>   | <b>515,800</b> |

**Position Classification Summary**

| Job Class Title         | Anchorage | Fairbanks | Juneau   | Others   | Total    |
|-------------------------|-----------|-----------|----------|----------|----------|
| Administrative Clerk II | 0         | 0         | 0        | 1        | 1        |
| Corr Indus Prod Mgr I   | 0         | 0         | 0        | 2        | 2        |
| Corr Indus Prod Mgr II  | 0         | 0         | 0        | 1        | 1        |
| Loan/Collection Off I   | 0         | 0         | 0        | 2        | 2        |
| <b>Totals</b>           | <b>0</b>  | <b>0</b>  | <b>0</b> | <b>6</b> | <b>6</b> |