

State of Alaska FY2004 Governor's Operating Budget

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

Component: Agriculture Revolving Loan Program Administration

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Component Mission

Promote and encourage development of an agriculture industry in the state.

Component Services Provided

The Board of Agriculture and Conservation (BAC) administers the Agricultural Revolving Loan Fund (ARLF) through the Director of Agriculture. The ARLF works to create agricultural opportunities through consistent and stable agricultural loan programs. The ARLF agricultural assets are managed to encourage privatization and promote economically viable development of agricultural industries.

The BAC provides various types of loans, including farm development, chattel, operating, irrigation, product processing, and land clearing. The BAC also provides installment contracts for the purchase of ARLF assets.

The main services of the ARLF include: Processing new loan application/modification requests; closing loans/modifications; servicing loans/leases; servicing account delinquencies, collections, defaults, and facilitating settlements; providing asset management for real properties, livestock, and equipment; providing inspections and protection of ARLF collateral; and responding to requests by the public, legislature, and state agencies.

Component Goals and Strategies

The goal of the BAC is to provide direct, moderate interest rate loans to qualified borrowers, assist the agricultural community, and expand production of Alaska grown products. An additional goal is to manage fund resources to ensure sustained availability of financing for future agricultural development and expansion in Alaska.

Operating goals:

- Finance new farms (that are in private ownership as a result of our agricultural land sale activity. This will result in additional acres in production and generate interest income for the fund.) to promote the sale of remaining repossessed agricultural properties, return the land to agricultural production, and generate interest revenues for the fund
- Service the ARLF \$27.8 million portfolio with a clientele of 155 borrowers and 171 accounts.
- Manage 12 asset properties until disposal by sale or lease.
- Process approximately 45 new loan applications with an expected \$2.7 million in new loans. This includes possible refinance loans as a result of regulation changes.
- Bill, collect, control, and account for \$2.7 million cash payments from loans and leasing of ARLF assets.
- Maintain the present low percentage of loan delinquencies.
- Minimize loss through aggressive collection action on an annual average of 6 cases involving delinquent borrowers by coordination between the Director, the BAC, and the Attorney General's Office.
- Attend agricultural functions and forums with other industry representatives.

- Facilitate a minimum of eight BAC meetings for a seven-member board.
- Provide oversight of the Matanuska Maid Creamery and Mt. McKinley Meats operations to protect the interest of Alaska milk and meat producers. These facilities play a major role in the survival of the livestock industry in Alaska and operate with a business orientation.
- Privatize the Mt. McKinley Meat Plant. If the FY03 efforts are unsuccessful, the BAC indicated it will pursue job-training grants to facilitate continued operation.
- Research and develop funding options to modernize Matanuska Maid facilities.

Key Component Issues for FY2003 – 2004

ARLF provides an operating subsidy for program-wide Division of Agriculture expenditures. This results in an ongoing erosion of ARLF funds and jeopardizes the solvency of the Fund.

Newly adopted statutory and regulatory changes will streamline the application process, allow financing for agricultural land, and allow for refinancing of existing loans and contracts to lower interest rates. This is beneficial for the borrowers but has a negative impact on the ARLF cash flow. New cash-flow projections incorporating the statutory and regulatory changes project a solvency issue as soon as 2006.

ARLF Properties and plans for disposal:

The ARLF budgeted a maximum \$300,000 operational subsidy to Department of Corrections to ensure continued operation of the **Mt. McKinley Meat Plant**. A Request for Proposal was published September 2002 to lease the plant with option to purchase. No proposals were received. Public hearings were held before and after the offering to receive additional public comments. The Board of Agriculture and Conservation is considering options and a plan for continuation of the plant operation. The BAC indicated they will continue to operate the plant to protect the agriculture infrastructure by seeking job-training grants. The Department of Corrections indicated willingness to continue month-to-month operations until alternative options are developed.

Matanuska Maid, doing business as the Creamery Corporation, provides a critical market for Alaskan dairy farmers. The BAC acts as the shareholder and is not actively pursuing disposal of the asset. Matanuska Maid creates jobs and revenue in the Alaska economy by marketing Alaska produced items. Using out-of-state raw milk to supplement the local product and a diverse market line, Matanuska Maid makes it possible for state producers to compete with industries in the Lower 48. This plant is critical to the survival of 11 dairy farm businesses, 45 plant employees, and all the related industries in the Interior and Southcentral Alaska, some with over 40 years of operational history in Alaska. These producers are economically stable and viable, but continue to be dependent on Matanuska Maid. Neither the State nor the ARLF has provided funding for the Matanuska Maid operation for over a decade; in recent years the operation has generated modest profits that are generally put back into maintenance of the asset. The BAC is pursuing federal initiatives and USDA budgets to modernize the facilities.

The **Alaska Farmers Cooperative in Delta** has operated since the late 1970s as a place for interior farmers to purchase fertilizer and dry grain. Its services are open to the public and have oversight by a volunteer board of directors. It has a dollar a year lease with ARLF and is an infrastructure asset that is not actively being pursued for disposal.

The **Fairbanks Meat Plant** is currently leased and operated as a fish processing plant. Because the Fairbanks North Star Borough owns the land and ARLF the improvements, some ownership issues need to be resolved before disposal can occur. Those issues will be worked on this fiscal year.

The remaining properties being held by ARLF are mainly under long term leases that generate income for the fund. For the most part assets held for disposal by ARLF have been sold and hopefully will be put back into production.

Conventional financing and federal loan programs are not generally available to agriculture in Alaska. The BAC through the ARLF continues to provide moderate interest rate loans for agricultural development. The federal loan program has been modified and fewer loans are being processed, resulting in an increased reliance on ARLF funding by the Alaska agricultural industry.

Major Component Accomplishments in 2002

The delinquency rate of the ARLF portfolio continues to be low. Many loans in default status were settled and new buyers/producers found for repossessed property. Settlements of defaulted loans were accomplished in coordination with the Attorney General's Office through a Reimbursable Services Agreement with the Department of Law.

ARLF promoted industry growth through low interest-rate loans to borrowers with viable business plans and contributed to industry stability by providing continued financing for existing agricultural enterprises with proven production and good repayment histories. A one-percent incentive reduction in the interest rate for borrowers with timely payments contributed to a stable ARLF cash flow and a reduction in financing expenses for loan recipients.

Two parcels of ARLF agricultural land, aggregating 1,247 acres, were sold in FY02, resulting in revenue of \$895,000.

Preliminary preparations were made for an agricultural land sale in the Southcentral Region of the State, including over 1,900 acres of agricultural land with an estimated new ARLF contract receivables value of \$1.57 million.

Reviewed and rewrote ARLF regulations that create consistency with the BAC statutory authorities and authorize expanded loan activities in agricultural real estate purchase and refinance.

Statutory and Regulatory Authority

AS 03.10

Agriculture Revolving Loan Program Administration
Component Financial Summary

All dollars in thousands

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	278.1	295.0	283.0
72000 Travel	12.3	32.4	32.4
73000 Contractual	277.1	704.6	719.6
74000 Supplies	3.9	11.9	11.9
75000 Equipment	0.1	0.0	0.0
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	571.5	1,043.9	1,046.9
Funding Sources:			
1021 Agricultural Loan Fund	517.3	988.6	991.1
1061 Capital Improvement Project Receipts	54.2	55.3	55.8
Funding Totals	571.5	1,043.9	1,046.9

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Proposed Changes in Levels of Service for FY2004

The Board of Agriculture and Conservation (BAC) has approved a new loan category, which will allow financing for land purchases and refinances. We will work to implement this new activity. A short-term impact on the loan staff is expected. Existing staff positions will absorb a temporary workload spike.

We will retain our third Loan/Collection Officer position to work with major infrastructure asset projects such as the Mt. McKinley Meat Plant, and Matanuska Maid that may require significant attention.

Continued funding for the meat plant was included in the FY 03 budget. A Request for Proposal for a lease with option to purchase was published September 2002. No proposals were received. Public hearings were held before and after the offering to receive additional public comments. The Board of Agriculture and Conservation is considering options and a plan for continuation of the plant operation to protect the agriculture infrastructure. Potential impacts on ARLF staff would occur if accounting functions were needed for the Mt. McKinley Meat Plant.

We have reduced our asset portfolio and decreased the number of cases referred to the Attorney General's Office.

No additional funding is requested at this time.

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	1,043.9	1,043.9
Adjustments which will continue current level of service:				
-Annualize FY2003 COLA Increase for General Government Bargaining Unit	0.0	0.0	3.0	3.0
FY2004 Governor	0.0	0.0	1,046.9	1,046.9

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Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	5	5	Annual Salaries	207,106
Part-time	0	0	Premium Pay	616
Nonpermanent	0	0	Annual Benefits	78,752
			<i>Less 1.21% Vacancy Factor</i>	(3,474)
			Lump Sum Premium Pay	0
Totals	5	5	Total Personal Services	283,000

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accountant II	1	0	0	0	1
Administrative Clerk II	0	0	0	1	1
Loan/Collection Off I	0	0	0	3	3
Totals	1	0	0	4	5