

State of Alaska FY2005 Governor's Operating Budget

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

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Component: Agriculture Revolving Loan Program Administration

Contribution to Department's Mission

The Division of Agriculture, and Board of Agriculture and Conservation work to promote and encourage development of an agriculture industry in the state.

Core Services

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 ARLF provides direct, moderate interest rate loans to qualified borrowers, and assists the agricultural community in expanding production of Alaska grown products. Fund resources are managed to ensure sustained availability of financing for future agricultural development and expansion in Alaska.

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

ARLF Staff works by 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.

- Finance new farms (that are in private ownership as a result of our agricultural land sale activity. This results in additional acres returned to production and generates interest income revenues for the fund.)
- Service the ARLF \$28.0 million portfolio with a clientele of 135 borrowers and 141 accounts.
- Manage 6 asset properties until disposal by sale or lease.
- Process approximately 45 new loan applications with an expected \$1.5 million in new loan activity. This includes refinancing loans as a result of regulation changes.
- Bill, collect, provide financial control, and account for 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.
- Research and develop funding options to modernize Matanuska Maid facilities.

End Results	Strategies to Achieve Results
<p>(1) Increase the amount of funds loaned to generate additional income.</p> <p><u>Target:</u> ARLF loan to equity ratio. <u>Measure:</u> The loan to equity ratio in the Agricultural Revolving Loan Fund.</p>	<p>(1) Make agricultural loans at the direction of the BAC.</p> <p><u>Target:</u> All loan requests reviewed and submitted to BAC on a timely basis. <u>Measure:</u> Average days required to adjudicate loan</p>

End Results	Strategies to Achieve Results
	request. (2) Timely disposal of ARLF Assets obtained through foreclosure. <u>Target:</u> Return assets to private sector on a timely basis. <u>Measure:</u> Length of time to sell or lease foreclosed assets.

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Process new loan applications. • Process loan modification requests. • Close loan/modification requests. • Service loans. • Manage delinquent accounts. • Manage defaults. • Manage collections. • Facilitate settlements. 	<ul style="list-style-type: none"> • Inspect collateral. • Provide protection of ARLF assets. • Respond to informational requests. • Provide asset management. • Prepare assets for disposal. • Dispose of assets. • Monitor assets under lease. • Manage financing of disposed assets.

FY2005 Resources Allocated to Achieve Results									
FY2005 Component Budget: \$1,063,100	<table border="0"> <tr> <td colspan="2">Personnel:</td> </tr> <tr> <td>Full time</td> <td style="text-align: right;">8</td> </tr> <tr> <td>Part time</td> <td style="text-align: right;">0</td> </tr> <tr> <td>Total</td> <td style="text-align: right; border-top: 1px solid black;">8</td> </tr> </table>	Personnel:		Full time	8	Part time	0	Total	8
Personnel:									
Full time	8								
Part time	0								
Total	8								

Performance Measure Detail

(1) Result: Increase the amount of funds loaned to generate additional income.

Target: ARLF loan to equity ratio.

Measure: The loan to equity ratio in the Agricultural Revolving Loan Fund.

Loan to Equity Ratio

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	YTD Total
2000	0	0	0	0	28.90%
2001	0	0	0	0	27.95%
2002	0	0	0	0	27.70%
2003	0	0	0	0	46.39%

Analysis of results and challenges: The Board of Agriculture and Conservation has expressed interest in increasing the amount of funds loaned to generate additional income for the fund. Concerns for cash flow will limit the number of loans that can be issued.

(1) Strategy: Make agricultural loans at the direction of the BAC.

Target: All loan requests reviewed and submitted to BAC on a timely basis.

Measure: Average days required to adjudicate loan request.

(2) Strategy: Timely disposal of ARLF Assets obtained through foreclosure.

Target: Return assets to private sector on a timely basis.

Measure: Length of time to sell or lease foreclosed assets.

Key Component Challenges

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.

Statutory and regulatory changes have streamlined the application process, these changes 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**. Public hearings were held to receive public comments regarding future operations of the plant. Division staff is currently developing business plan options for consideration by the Board of Agriculture and Conservation. The BAC indicated that continued operation of the plant is critical to the agriculture industry. The Department of Corrections operated the plant on a month-to-month basis while alternative options are developed, DNR plans to operate the plant starting in December 2003 with an eye on transferring the Plant to a Coop by 2006.

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 9 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 director 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 farmers statewide 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. No ARLF funding is used in the operation and maintenance of this facility.

The **Fairbanks Meat Plant** is currently leased and operated as a fish, and custom wild game and livestock processing plant. The Fairbanks North Star Borough owns the land and ARLF the improvements. The BAC and Fairbanks North Star Borough are working in a cooperative effort to dispose of the land and improvements.

The remaining properties being held by ARLF are under long-term leases that generate income for the fund or are currently being offered for sale. For the most part agricultural assets held for disposal by ARLF have been sold and 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 the ARLF.

Significant Changes in Results to be Delivered in FY2005

The Board of Agriculture and Conservation (BAC) approved a loan category, which allows financing for land purchases and refinances. We implemented this change. Existing staff positions absorbed the 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, Matanuska Maid, Fairbanks Meat Plant, and Alaska Farmers Cooperative in Delta Junction, that may require significant attention.

Continued funding for the meat plant was included in the FY 04 budget in the amount of \$300,000. Public hearings were held to receive public comments regarding future operations of the plant. Division staff is currently developing business plan options for consideration by the Board of Agriculture and Conservation. The BAC indicated that continued operation of the plant is critical to the agriculture industry. The Department of Corrections continues to operate the plant on a month-to-month basis while alternative options are developed.

MT. MCKINLEY MEAT AND SAUSAGE

The Agriculture Revolving Loan Fund owns the Mt. McKinley Meat and Sausage Plant. The Board of Agriculture and Conservation is responsible for all assets of the ARLF. Through a cooperative agreement the plant has been operated by Correctional Industries since 1987. In FY03 and FY04 Corrections asked for a reimbursable service agreement from ARLF to cover personal services and any losses up to \$53.0. The Legislature authorized funds from the ARLF for this reimbursable service agreement in the amount of \$300.0.

The Division of Agriculture and the Department of Corrections have agreed that neither organization should subsidize the operation of the other. The Board of Agriculture and Conservation has voted to take the operation over the Meat Plant since its functions are very important to the dairy industry and the emerging hog industry. The current facility was constructed to handle 18,000 animals per year.

LONG TERM PLAN OF ACTION:

- Create a co-op of dairy/cattle/hog producers that would be responsible for the plant.
- Obtain Federal Funds for this Co-op to construct a new facility, which would be much smaller, and more efficient.
- The current Facility would be closed by July 2006, which would allow two and one half years to construct the new facility.

SHORT TERM PLAN OF ACTION:

- Transfer the operations of the facility over to the Division of Agriculture.
- Corrections agreed to continue to purchase as much boxed meat and Alaska produced meat as possible.
- The Division of Agriculture immediately institute cost saving measures.

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

Major Component Accomplishments in 2003

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.

Five parcels of ARLF land, aggregating 1,285 acres, were sold in FY03, resulting in revenue of \$1.06 million.

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

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

	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	221.9	287.4	514.0
72000 Travel	12.0	32.4	32.4
73000 Contractual	375.4	719.6	451.8
74000 Supplies	3.9	11.9	64.9
75000 Equipment	4.0	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	617.2	1,051.3	1,063.1
Funding Sources:			
1021 Agricultural Loan Fund	617.2	994.7	1,004.3
1061 Capital Improvement Project Receipts	0.0	56.6	58.8
Funding Totals	617.2	1,051.3	1,063.1

Estimated Revenue Collections

Description	Master Revenue Account	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Unrestricted Revenues				
None.		0.0	0.0	0.0
Unrestricted Total		0.0	0.0	0.0
Restricted Revenues				
Capital Improvement Project Receipts	51200	0.0	56.6	58.8
Restricted Total		0.0	56.6	58.8
Total Estimated Revenues		0.0	56.6	58.8

**Summary of Component Budget Changes
From FY2004 Authorized to FY2005 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2004 Authorized	0.0	0.0	1,051.3	1,051.3
Adjustments which will continue current level of service:				
-Changes to Retirement and Other Personal Services Rates	0.0	0.0	11.8	11.8
FY2005 Governor	0.0	0.0	1,063.1	1,063.1

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

Authorized Positions		Personal Services Costs		
	<u>FY2004</u>	<u>FY2005</u>		
	Authorized	Governor		
Full-time	5	8	Annual Salaries	365,928
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	159,780
			<i>Less 2.23% Vacancy Factor</i>	<i>(11,708)</i>
			Lump Sum Premium Pay	0
Totals	5	8	Total Personal Services	514,000

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
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	3	3
Totals	1	0	0	7	8