

**State of Alaska**  
**FY2009 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 the 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 Division of Agriculture.
- The ARLF promotes agricultural development through its agricultural loan programs. The ARLF assets are managed to encourage privatization and promote economically viable development of agricultural industries.
- Fund resources are managed to ensure sustained availability of financing for both existing and future agricultural development in Alaska.
- The ARLF provides various types of loans, including farm development, chattel, operating, irrigation, product processing and land clearing. It also provides contract financing for the purchase of ARLF disposed assets.
- ARLF Staff process new loan application/modification requests; close loans/modifications; service loans/leases; service account delinquencies, defaults, and facilitate settlements. They provide asset management for real properties, livestock, and equipment; provide inspections and protection of ARLF collateral. They respond to requests by the public, legislature, government and private sector.
- Service the ARLF \$23.4 million portfolio with a clientele of 75 and 115 accounts.
- Maintain the present low percentage of loan delinquencies.
- Attend agricultural functions and forums with other industry representatives.
- Facilitate BAC meetings for a seven-member board.
- Provide oversight of the Matanuska Maid Creamery operation to protect the State's interest.
- Develop plan for Mt. McKinley Meat and Sausage.

End Result	Strategies to Achieve End Result
<p><b>A: Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry.</b></p> <p><u>Target #1:</u> Maintain the loan to equity ratio above 40%.  <u>Measure #1:</u> Percentage of the loan to equity ratio.</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.  <u>Measure #1:</u> Annual loan demand from the ARLF</p> <p><u>Target #2:</u> Keep delinquencies under 5%.  <u>Measure #2:</u> Percentage of delinquency rate</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.  <u>Measure #1:</u> ARLF inventory to be returned to the private sector as scheduled</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> <li>• Process new loan applications.</li> <li>• Process loan modification requests.</li> </ul>	<ul style="list-style-type: none"> <li>• Recover foreclosed/repossessed collateral.</li> <li>• Facilitate settlements.</li> </ul>

**Major Activities to Advance Strategies**

- Inspect and evaluate collateral.
- Close loan/modification requests.
- Service loans, contracts, leases, accounts.
- Manage default accounts.
- Provide protection of ARLF assets.
- Respond to informational requests.
- Provide asset management.
- Dispose of foreclosed/repossessed assets.

**FY2009 Resources Allocated to Achieve Results**

**FY2009 Component Budget: \$2,540,000**

**Personnel:**

Full time	6
Part time	0
<b>Total</b>	<b>6</b>

**Performance Measure Detail**

**A: Result - Have sufficient ARLF assets and cash to meet annual loan demand from the agricultural industry.**

**Target #1:** Maintain the loan to equity ratio above 40%.

**Measure #1:** Percentage of the loan to equity ratio.

**Loan to Equity Ratio**

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

\*Through 05-07.

**Analysis of results and challenges:** Without recapitalizing the ARLF, concerns for cash flow will limit the number of loans that can be issued. Lower loan production could be the result of less agricultural land sales and lack of agricultural infrastructures to market products. This trend may continue without a long term statewide plan in place for agricultural development. A lender might consider 40% of their assets being out on loans somewhat high risk; however, the ARLF is unlike a standard bank. Additionally, assets such as Alaska Farmers Coop are not available as a source for loan funds. This trend may continue without, recapitalization of the Funds corpus.

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.

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

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

**Measure #1:** Annual loan demand from the ARLF

**ARLF Loan Activity**

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

*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.

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

**Measure #2:** Percentage of delinquency rate

**Delinquency rate by year**

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

**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.

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

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

**Measure #1:** ARLF inventory to be returned to the private sector as scheduled

**ARLF schedule of Property Disposals**

Year	DESCRIPTION	LOCATION	VALUE	ACTION
FY 2006	Fish Processing Facility	Fairbanks	\$220,000	Sold
FY 2006	Tract 17 Dairy 612 acres	Pt. MacKenzie	\$1,450,000	Sold
FY 2008	Matanuska Maid Facility	Anchorage/Palmer	\$3,350,000*	0
FY 2009	Unimproved Lot 7 acres	Kenai	\$19,500	0
FY 2009	Non-Ag Residential 39 acres	Anchor Point	\$150,000	0
FY 2010	Dairy Farm 102 acres	Delta	\$409,000	0

\*A sale is scheduled for December 2007, bid packet 07-01.

\*\*A plan will be developed to explore options.

**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**

Matanuska Maid, operating as the Creamery Corporation, has provided a critical market for Alaskan dairy producers. The BAC acts as the shareholder. This plant has contributed to the survival of 7 dairy farm businesses, 50 plant employees and all the related industries in the Interior and Southcentral Alaska with 71 years of operational history in Alaska. Over the years, the operation has generated profits were re-invested in the growth of the asset. The ultimate goal has always been for all components of the dairy industry to be privately owned and operated. Recent losses have resulted from increase in milk prices, increasing expenses, 9/11 security requirements and building obsolescence.

Although efforts were made to keep Matanuska Maid operating and providing milk and related products to Alaska consumers, the time had come to sell the business and encourage private sector to continue milk processing. The BAC and Creamery Corporation elected to make a joint offering of its property to maximize the return to the state. Both entities own property utilized by the Matanuska Maid Dairy processing facility in Anchorage and the blow mold facility located in Palmer. The minimum bid price set for this sealed bid cash sale was three million three hundred fifty dollars. No bids were received and BAC continues to explore its options.

The legislature is funding the Division of Agriculture programs from sources other than ARLF FY 2008. Management continues to make efforts to minimize the draw on the fund by keeping the delinquency rate low and reducing ARLF expenditures. Conventional financing is not generally available to agriculture in Alaska. The BAC through the ARLF provides low interest rate loans for agricultural development. Our goal is sustainability and expansion of the ARLF program.

Over a period of years the ARLF has maintained a reduced staffing level. If the ARLF is to meet its statutory obligations to promote the development of agriculture in Alaska, it needs to be built up into an efficient full service unit and market and expand its program, in addition to actively manage its assets and develop necessary regulatory changes. Expansion of the ARLF program may include actively promoting shell fish farming loans. Shell fish farming is a young agricultural industry in Alaska that is in need of lending services for further development. Further discussion between the staff and the BAC and regulations are required to implement program expansion.

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, in addition 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 would be required.

Mt. McKinley Meat & Sausage (MMM&S) operation has been preserved by the state since 1985. Operation losses continue even with recent cost saving measures implemented. The aging facility requires continued investment to operate. Attempts to transfer ownership of the plant to the private sector with incentives to maintain the slaughter facility have failed. The Division is in the early development stages of developing an agreement with the Department of Corrections to provide a training facility at the Point MacKenzie Correctional Farm that will allow them to process animals in a USDA approved facility for use in the Department of Corrections system. The current ARLF asset property in the Palmer Industrial Park would be sold with proceeds to recapitalize the ARLF.

**Significant Changes in Results to be Delivered in FY2009**

We will maintain the Loan/Collection Officer position to properly address all ARLF services. This position is responsible for servicing both ARLF loan and asset portfolio. Additionally, the position assists with major infrastructure asset projects such as Matanuska Maid, Alaska Farmers Cooperative and the Mt. McKinley Meat and Sausage facility.

**Major Component Accomplishments in 2007**

The ARLF program celebrated 54 years of operation in August. The delinquency rate of the \$11.0 million ARLF loan portfolio continues to be less than 4%. 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.

Working with the legislature, we were successful in receiving approval to re-appropriate \$500,000 in federal restricted revenues to support the Dairy Industry and there are no delinquencies on our ARLF dairy loans. Statewide producers were paid \$2.00 a hundred weight for grade A milk from this appropriation based on their production. We completed the Dairy Price Support program that assisted producers who sold milk to the Northern Light Dairy and Matanuska Maid Dairy.

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.

An Ad Hoc committee prepared a transition report addressing critical issues facing the dairy industry and the dairy support industry, including hay, grain and slaughter.

A Task Force was selected for the Creamery Corporation to provide BAC options to support the dairy industry. The ultimate recommendation was to close the current facility and facilitate private sector investment in the industry.

A General Fund appropriation for Division of Agriculture operating expenditures was accomplished by the legislature and has minimized the draw on ARLF fund.

**Statutory and Regulatory Authority**

AS 03.09, AS 03.10

<b>Contact Information</b>
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**Agriculture Revolving Loan Program Administration  
Component Financial Summary**

*All dollars shown in thousands*

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	389.0	466.4	498.1
72000 Travel	31.7	32.4	32.4
73000 Services	360.1	1,094.6	494.6
74000 Commodities	838.6	1,514.9	1,514.9
75000 Capital Outlay	0.0	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>1,619.4</b>	<b>3,108.3</b>	<b>2,540.0</b>
<b>Funding Sources:</b>			
1004 General Fund Receipts	0.0	600.0	0.0
1021 Agricultural Loan Fund	1,619.4	2,508.3	2,540.0
<b>Funding Totals</b>	<b>1,619.4</b>	<b>3,108.3</b>	<b>2,540.0</b>

**Summary of Component Budget Changes  
From FY2008 Management Plan to FY2009 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2008 Management Plan</b>	<b>600.0</b>	<b>0.0</b>	<b>2,508.3</b>	<b>3,108.3</b>
<b>Adjustments which will continue current level of service:</b>				
-Remove Creamery Corporation/Mat Maid Assistance SLA07/Ch30/Sec18(b)/P148/L16 Lapse Date 6/30/2010	-600.0	0.0	0.0	-600.0
-Correct Unrealizable Fund Sources for Salary Adjustments: GGU	-4.5	0.0	4.5	0.0
-FY 09 Bargaining Unit Contract Terms: General Government Unit	4.5	0.0	27.2	31.7
<b>FY2009 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>2,540.0</b>	<b>2,540.0</b>



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

Authorized Positions		Personal Services Costs		
	<u>FY2008</u> <u>Management</u> <u>Plan</u>	<u>FY2009</u> <u>Governor</u>		
Full-time	6	6	Annual Salaries	302,191
Part-time	0	0	COLA	29,321
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	174,980
			<i>Less 1.66% Vacancy Factor</i>	<i>(8,392)</i>
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>6</b>	<b>6</b>	<b>Total Personal Services</b>	<b>498,100</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>