

**ALASKA STATE LEGISLATURE  
LEGISLATIVE BUDGET AND AUDIT COMMITTEE**

March 28, 2012

8:04 a.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Chair  
Representative Mark Neuman  
Representative Kurt Olson

Senator Bert Stedman, Vice Chair  
Senator Hollis French  
Senator Lyman Hoffman  
Senator Linda Menard  
Senator Thomas Wagoner

**MEMBERS ABSENT**

Representative Bill Thomas  
Representative Mike Doogan  
Representative Scott Kawasaki (alternate)  
Representative Bill Stoltze (alternate)

Senator Kevin Meyer (alternate)

**COMMITTEE CALENDAR**

EXECUTIVE SESSION  
OTHER COMMITTEE BUSINESS  
APPROVAL OF MINUTES  
AUDIT REQUEST

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

REPRESENTATIVE ERIC FEIGE  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Requested an audit of the Agricultural Revolving Loan Fund (ARLF) program under the Department of Natural Resources (DNR).

KRISTIN CURTIS

Legislative Auditor  
Legislative Audit Division  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Provided information on the audit request.

#### **ACTION NARRATIVE**

[8:04:03 AM](#)

**CHAIR MIKE HAWKER** called the Legislative Budget and Audit Committee meeting to order at 8:04 a.m. Representatives Hawker, Olson, and Neuman and Senators Hoffman, Menard, Wagoner, and Stedman were present at the call to order. Senator French arrived as the meeting was in progress.

#### **Executive Session**

[8:04:32 AM](#)

CHAIR HAWKER announced that the first order of business would be to move into executive session.

[8:04:46 AM](#)

SENATOR STEDMAN made a motion under Uniform Rule 22 to move to executive session for the purpose of discussing confidential audit reports under AS 24.20.301. There being no objection, the committee went into executive session at 8:05 a.m.

[8:29:18 AM](#)

CHAIR HAWKER brought the committee back to order at 8:29 a.m. Representatives Hawker, Olson, and Neuman and Senators Hoffman, Menard, Wagoner, and Stedman were present at the call to order.

#### **Other Committee Business**

[8:29:27 AM](#)

SENATOR STEDMAN made a motion for the preliminary audits for the Virus Free Seed Potatoes Project and the Film Production Incentive Program - Financial Compliance to be released to the appropriate agencies for response. There being no objection, it was so ordered.

[8:29:48 AM](#)

SENATOR STEDMAN made a motion for the final audit for the FY 11 Statewide Single Audit to be released to the public for response. There being no objection, it was so ordered.

[8:30:02 AM](#)

The committee took an at-ease from 8:30 a.m. to 8:37 a.m.

[8:37:32 AM](#)

CHAIR HAWKER brought the committee back to order at 8:37 a.m. Representatives Hawker, Olson, and Neuman and Senators French, Menard, and Wagoner were present at the call to order.

### **Approval of Minutes**

[8:37:38 AM](#)

REPRESENTATIVE OLSON made a motion to approve the minutes of February 27, 2012. There being no objection, the minutes from the meeting of February 27, 2012 were approved.

### **Audit Request**

[8:38:03 AM](#)

CHAIR HAWKER announced that the next order of business would be an audit request from Representative Feige.

REPRESENTATIVE ERIC FEIGE, Alaska State Legislature, requested that an audit be performed on the Agricultural Revolving Loan Fund (ARLF). He paraphrased from a prepared statement: [Included in members' packets]

The ARLF was set up by the Territorial Legislature in 1953 to promote the more rapid development of agriculture by means of long-term, low-interest loans. The fund is administered by the Division of Agriculture and the Division of Support Services in the Department of Natural Resources. Lending decisions are made by the seven-member Board of Agriculture & Conservation (BAC).

Given the extensive changes to both the agricultural industry and state government since ARLF was created,

the time has come to examine the administration of the fund and to look for efficiencies. It is my understanding that five previous audits of ARLF were done in an eleven year period with the last one being in 1998. Specifically, I request the audit include the following objectives:

Evaluate the performance of ARLF's loan portfolio. Identify types of ARLF loans and the degree to which each loan is performing.

Identify the duties performed by DNR employees in the administration of ARLF and identify areas where efficiencies could be gained to improve the administration of the program.

Determine whether DNR should continue to administer ARLF or should all or part of ARLF's administration be carried out by a different state department, agency or private entity to improve performance and/or reduce costs.

Compare ARLF's program structure, including the Board's involvement in lending decisions, to other Alaska and non-Alaska governmental lending programs. Identify potential changes that could improve the program. Are there any inherent conflicts with respect to Board members approving these loans?

I have had several conversations with the Department of Natural Resources and they would welcome this audit.

[8:40:22 AM](#)

REPRESENTATIVE NEUMAN asked which department would best administer ARLF.

REPRESENTATIVE FEIGE, in response, said that either the Department of Commerce, Community & Economic Development (DCCED) or the Alaska Commercial Fishing and Agricultural Bank (CFAB) could manage the loan packages.

REPRESENTATIVE NEUMAN relayed that he had extensive discussions with the agriculture industry regarding CFAB. He expressed concern with DCCED and its Division of Banking & Securities and he opined that it was "important that agricultural industry

minded people look at these [agriculture] loans," as the prices were different than in the Lower 48. He cited other issues that arose for farmers. He suggested that another bank from territorial time, which had loaned the original ARLF funds and was expert in managing agricultural loans, should be included in the review for new management. He opined that, although the current management was adequate, this was an opportunity to search for other supervision.

[8:43:44 AM](#)

SENATOR FRENCH asked how much was in the ARLF fund.

[8:44:00 AM](#)

REPRESENTATIVE FEIGE replied that he would report back on that figure.

SENATOR FRENCH asked if anyone knew the amount.

REPRESENTATIVE NEUMAN surmised that it was about \$16-\$18 million.

SENATOR FRENCH asked about the average loan amount and how many loans were granted annually.

REPRESENTATIVE NEUMAN offered his belief that there were 12 - 28 loans each year and, reflecting on loan amounts, declared that "it's all over the board on what they do."

SENATOR FRENCH commented, "you're making me more supportive of this request all the time."

[8:45:27 AM](#)

KRISTIN CURTIS, Legislative Auditor, Legislative Audit Division, Alaska State Legislature, offered that her office had a long relationship with the ARLF, with extensive historical documents, and she welcomed the opportunity for a review.

[8:46:01 AM](#)

REPRESENTATIVE OLSON made a motion to approve the request for an audit of the Agricultural Revolving Loan Fund (ARLF) program under the Department of Natural Resources (DNR). There being no objection, it was so ordered.

8:46:25 AM

CHAIR HAWKER asked if there was any other committee business.

8:46:33 AM

**ADJOURNMENT**

There being no further business before the committee, the Legislative Budget and Audit Committee meeting was adjourned at 8:46 a.m.