

SENATE FINANCE COMMITTEE
April 27, 2018
9:07 a.m.

[9:07:34 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:07 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Britteny Cioni-Haywood, Director, Division of Economic Development, Department of Commerce, Community and Economic Development; Jim Andersen, Deputy Director, Division of Economic Development, Department of Commerce, Community and Economic Development; Mike Navarre, Commissioner, Department of Commerce, Community, and Economic Development.

SUMMARY

HB 56 COMMERCIAL FISHING LOANS

HB 56 was HEARD and HELD in committee for further consideration.

CShB 76 (FSH)

MARICULTURE REVOLVING LOAN FUND

CShB 76 (FSH) was HEARD and HELD in committee for further consideration.

CSHB 304(FIN)

MICROLOAN REVOLVING FUND & LOANS; REPORT

CSHB 304(FIN) was HEARD and HELD in committee for further consideration.

PRESENTATION: REVOLVING LOAN FUNDS

[Secretary Note: Britteny Cioni-Haywood from DCCED provided the secretary her PPT *with* her notes at the bottom, which is what she read from rather than the presentation itself - the notes have been cut and pasted into her testimony throughout the meeting.]

#hb56

#hb76

#hb304

HOUSE BILL NO. 56

"An Act relating to limitations on certain commercial fishing loans made by the Department of Commerce, Community, and Economic Development."

CS FOR HOUSE BILL NO. 76(FSH)

"An Act relating to the mariculture revolving loan fund and loans and grants from the fund; and providing for an effective date."

CS FOR HOUSE BILL NO. 304(FIN)

"An Act relating to the Alaska microloan revolving loan fund and loans from the fund."

[9:08:15 AM](#)

Co-Chair MacKinnon relayed that the committee had multiple bills in committee that pertained to changes in revolving loan fund programs.

[9:09:11 AM](#)

AT EASE

[9:12:19 AM](#)

RECONVENED

[9:12:49 AM](#)

Co-Chair MacKinnon reiterated that there were multiple bills in committee pertaining to the subject matter and that the sponsors of those bills had not been asked to speak at the meeting. She said that the meeting was not a hearing on any of the bills in particular but was to create a baseline of understanding on the programs involved and their fiscal impact. She noted that there were private sector loan programs available that were equivalent to the revolving loans, which begged questions about why the state was doing work that could be done by the private sector, whether the state programs were profitable, and how much benefit they provided to Alaskans.

^PRESENTATION: REVOLVING LOAN FUNDS

9:14:01 AM

BRITTENY CIONI-HAYWOOD, DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, discussed the presentation, "Division of Economic Development INVESTMENTS Loan Programs," (copy on file).

Ms. Cioni-Haywood presented Slide 2, "Administration of Loan Programs":

The Division of Economic Development (DED) has been tasked with administering revolving loan funds (RLFs) for more than 45 years. Currently, DED administers and services ten loan funds for the Department of Commerce, Community, & Economic Development (DCCED). These programs were primarily designed to support industries and areas of the state that are not adequately serviced by the private sector or to fulfill a public policy goal. Financing may not be readily available or feasible due to constraints on the types of collateral, or because of a high level of risk.

Ms. Ciono-Haywood shared that revolving loan funds, or RLFs, are an important tool in the economic development toolbox. These funds have real world impacts on Alaskan's lives. They strengthen our important industries, create long term employment, and increase private sector lending and investment. Without a diverse portfolio of loan funds, economic development stagnates. Especially in rural, underserved, or distressed areas of the state. The State of

Alaska understood this and created revolving loan funds that have successfully operated for more than 45 years.

9:14:46 AM

Ms. Cioni-Haywood turned to Slide 3, "Overall Loan Programs":

- Total number of active loans: 2,020
- Total principal outstanding: \$199.05 million
- Total number of loan officers: 8

9:15:07 AM

AT EASE

9:15:30 AM

RECONVENED

Co-Chair MacKinnon relayed that she had asked Senator von Imhof about the ratio of loan officers to outstanding loan program in the private sector.

Senator von Imhof asserted that it was difficult to ascertain the ratio with the information depicted on the slide. She explained that some funds were administered differently than other funds and had different methods of application, tracking, and monitoring.

Co-Chair MacKinnon clarified that the committee was interested in the positions inside each program, the workload for each position, and whether there could be a reduction or elimination of positions based on their workload.

9:17:18 AM

AT EASE

9:18:16 AM

RECONVENED

Ms. Cioni-Haywood stated that if the information was not in the presentation to the satisfaction of the committee, she would provide more information at a later date.

Senator Micciche extrapolated from Slide 3 that there was an average of 252 loans per position, with an average of \$24 million in value.

Co-Chair MacKinnon thought there was a more in-depth issue whether it was a matter of simple math or if there was a disparity of who was handling large sums of money and what was the delinquency rate.

Ms. Cioni-Haywood stated that all loan officers handled all types of loans, and there were not specific loan officers for specific loan programs.

Vice-Chair Bishop asked whether the loan officers executed other loans within the division outside of the revolving loans.

Ms. Cioni-Haywood stated that the division provided minimal support to the Division of Community and Regional Affairs for their bulk fuel program.

Ms. Cioni-Haywood showed Slide 4, "Active Loan Programs":

- Small Business Economic Development Fund
- Rural Development Initiative Fund
- Alaska Microloan Revolving Loan Fund
- Commercial Fishing Revolving Loan Fund
- Commercial Charter Fisheries Revolving Loan Fund
- Fisheries Enhancement
- Mariculture Revolving Loan Fund
- Alaska Capstone Avionics Loan Program
- Alternative Energy Conservation Loan Fund

Ms. Cioni-Haywood explained these funds are completely self-sustaining and require no on-going general fund support. The cost to administer the funds is paid solely from the earnings. The mature funds have performed robustly, paid for their operations, and weathered numerous instances of economic volatility to grow well beyond their initial capitalization. Over the years, these programs have assisted thousands of Alaskans. DED also provides loan servicing for other State agencies. Over the years, DED has developed the in-house level of expertise and infrastructure required to readily accomplish the complex loan servicing functions needed.

[9:21:29 AM](#)

Co-Chair MacKinnon asked how agriculture loans were managed. She wondered whether those loans were under an additional program

Ms. Cioni-Haywood explained that agriculture loans were housed within the Division of Agriculture in the Department of Resources.

Co-Chair MacKinnon asked whether Ms. Cioni-Haywood knew of how many loan programs existed within state government.

Ms. Cioni-Haywood recalled that Alaska Industrial Development and Export Authority (AIDEA) had loan funds, student loan funds existed, as well as the agricultural loan funds.

Senator von Imhof stated that she had relevant information in her office (a poster listing various state loan funds).

[9:22:27 AM](#)

AT EASE

[9:24:01 AM](#)

RECONVENED

Co-Chair MacKinnon and Senator von Imhof held the poster so as to enable viewing by the video stream.

Senator von Imhof listed loans on the poster. She noted that the information on the poster was several years old. She summarized that the State of Alaska did a lot of things to stimulate the economy. She said that the main question was whether the state was getting enough return on all the loan programs.

Co-Chair MacKinnon thought the information on the poster was important to all Alaskans. The committee wanted to ensure that funds were being used as they should be, and not in competition with the private sector.

[9:25:58 AM](#)

Ms. Cioni-Haywood reviewed Slide 5, "Small Business Economic Development Revolving Loan Fund":

Initial Capitalization: \$6.7 million
Current fund value: \$10 million

As of March 31, 2018:

- 47 Outstanding Loans
- \$5.8 million Outstanding
- Delinquency Rate of 4.6%
- Average Loan is \$106,300

Ms. Cioni-Haywood explained that the Small Business Economic Development Revolving Loan Fund was created in 1987 through a federal grant from the Economic Development Administration (EDA) and matching funds from the state. The program is intended to finance the startup and expansion of small businesses that create significant long-term employment in areas of the state that were experiencing economic difficulties. DED administers the SBED on behalf of the Alaska Industrial and Export Authority through a servicing contract. DED is reimbursed from the fund's earnings and no general fund appropriations are necessary.

Co-Chair MacKinnon pointed out that there was a document with more detail, a white paper detailing each loan, in member files (copy on file).

Senator von Imhof referenced the first two numbers on the slide and asked whether there was \$10 million to grant available currently, \$5.8 million outstanding and \$4.2 left to grant out.

Ms. Cioni-Haywood answered in the affirmative. She added that the initial capitalization was \$6.7 million, the fund had grown to \$10 million, and there was \$5.8 in outstanding principal in loans.

Senator von Imhof asked about the fund growth and wondered whether the value of the loans was higher or had more money been put into the Revolving Loan Fund.

Ms. Cioni-Haywood explained that there had been earnings on the fund, as well of repayments to constitute the majority of the fund growth.

Senator von Imhof had additional questions that she would send via email.

[9:28:44 AM](#)

Vice-Chair Bishop asked whether the entire fund was owned by AIDEA.

Ms. Cioni-Haywood answered in the affirmative, and stated that the division actively managed the fund, but did not own it.

Co-Chair MacKinnon asked when the fund was last audited.

Ms. Cioni-Haywood answered that the fund was audited annually by an independent auditor.

Co-Chair MacKinnon understood that the Division of Legislative Budget and Audit had not reviewed the practices in the loan programs.

Ms. Cioni-Haywood responded that all of the loan funds were audited, as part of the statewide audit, on an annual basis.

Ms. Cioni-Haywood continued to address Slide 5. She shared that over the 31-year life of the SBED it has created or saved over 1,000 jobs, leveraged over \$41 million in private funds, and produced over \$20 million in loans. She continued to explain that loans cannot be made if a bank is willing to finance the entire project. Applicants must first apply to a bank and receive either a denial or a letter stating that they are only willing to finance part of the project. Loans must result in the creation of jobs in the target community. Matching funds are required at a ratio of 1.5 to 1, or 60% of the funds must come from non-governmental sources. The fund started at \$6.69 million and has grown to over \$10 million today.

[9:30:39 AM](#)

Co-Chair MacKinnon asked about delinquency rates and underlying provisions for issuing a loan, such as matching funds.

Ms. Cioni-Haywood stated that the program worked with the borrowers. There were instances in which there were modifications made to the loan. There were instances in which the division would work with borrowers to get them back on track should they fall delinquent.

Co-Chair MacKinnon asked whether there were standardized procedures for delinquency and modifications for the loans under discussion.

Ms. Cioni-Haywood stated that she could only speak to how the department handled the loans and was not sure how AIDEA handled the matter. She AIDEA had a 90-day delinquency. She relayed that DCCED looked at loans on a case-by-case basis. She said that once loans had been delinquent 30 days, DCCED actively began to work the loan.

Co-Chair MacKinnon asked whether there were standardized policy and procedures for the application process and for instances of delinquency.

JIM ANDERSEN, DEPUTY DIRECTOR, DIVISION OF ECONOMIC DEVELOPMENT, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, explained that most of the loan programs had the criteria built into either regulations or statutes. He said that the revolving loan program was done through Title 10 of the Economic Development Act through the federal government. He said that at 16 days delinquent the loans under the program were worked and that a person with a delinquent loan could not qualify for further credit. He said that the collections staff worked "soft collections" up to "enforced collections." He stressed that the work was done to recover the funds and get them back in the loan fund so that they could continue to revolve.

Co-Chair MacKinnon asked if refinancing was an option for a delinquent loan that could extend the terms of the loan.

Mr. Anderson replied that the ability to extend was an option. He said that it would need to be determined that rehabilitation could be achieved through refinancing or and extension.

[9:35:18 AM](#)

Senator Micciche had seen the value of the loans. He asked whether data was kept on the program since 1987 to track the success of businesses created under the loans.

Mr. Anderson relayed that the federal government required extensive data collection on the program and the jobs created in communities as a result of the loans. He said that jobs created were tracked for most of the programs. He

noted a program that had spurred \$41 million in private investment as a result of the loan program.

Senator Micciche observed two of loan funds that had a higher delinquency rate. He asked whether the two loan funds were considered higher risk because of the businesses associated with the loans.

Mr. Anderson replied that the Alaska Microloan Revolving Loan and the Small Business Economic Development loans were from relatively small funds, so one loan showed up as a higher percentage; the law of large numbers.

[9:38:00 AM](#)

Senator von Imhof asked how the state secured collateral for the loans. She asked whether personal guarantees were required from borrowers.

Mr. Anderson shared that personal guarantees were required every 100 percent of the time. He said that the division took a Unified Commercial Code-1 (UCC) financing statement on all loans. He furthered that a lien was taken on anything that the state spent its money on, deeds of trust and security agreements were also implemented.

Vice-Chair Bishop asked whether the division managed fund for AIDEA.

Ms. Cioni-Haywood answered in the affirmative.

Vice-Chair Bishop asked whether there was an RSA agreement with AIDEA for the loan officers to execute the loans.

Ms. Cioni-Haywood stated that there was a memorandum of agreement between the department and AIDEA.

Co-Chair MacKinnon recalled that some of the bills in committee were proposing increased loan values for larger loans. She thought 4.6 was a higher rate of delinquency than she was comfortable with. She asked how increasing the size would help Alaskan businesses but put at risk more of the fund capitalization amount to other lenders. She wondered about a proposal to turn one loan fund into a grant.

[9:40:43 AM](#)

Ms. Cioni-Haywood stated that HB 56 (looking to change the loan limits) was in the Commercial Fishing Revolving Loan Fund and was one of the departments oldest and largest funds. The overall limit that would be lent would not change, only certain sections of the program. She noted the fund had not kept up with the market as far as the price of fishing vessels, which required more flexibility for borrowers and to allow the fund to do what it had been established to accomplish.

Ms. Cioni-Haywood stated that HB 76 had a grant program established within the bill, which was modelled off the Fisheries Enhancement Program. She related that within the program there had been money established for the planning and construction of hatcheries, most of the grants had been utilized early on and were limited to one type of hatchery.

[9:43:21 AM](#)

Co-Chair MacKinnon reiterated her question about whether more grants from the fund if it would erode borrowing power.

Ms. Cioni-Haywood answered that allowing for grants would make it more difficult to revolve the loan fund, but not impossible.

Co-Chair MacKinnon asked whether it would limit the borrowing capability for others.

Ms. Cioni-Haywood answered that the grants would be distributed, which would limit the amount of money available for loans.

Senator von Imhof wondered why borrowers were not qualifying for traditional bank loans.

Mr. Anderson stated that under the Commercial Fisheries Loan Fund Program (CFRLF) the division dealt with Limited Entry Permits. He explained often the person trying to buy a boat was young and without much capital to invest. He asserted that the program allowed people begin earning a living and building a net worth, which also building the credit necessary to procure traditional financing.

[9:46:32 AM](#)

Senator von Imhof asked whether there was a way that banks could participate.

Mr. Anderson responded that he did not know.

Senator von Imhof wondered why the state should assume the risk when private banks would not assume the risk.

Mr. Anderson stated that the CFRLF was created to keep fisheries largely resident. He shared that the intent had been to invest in residents to build the legacy industry. The loan program had been in existence for over 45 years and had been successful in meeting its goals.

Vice-Chair Bishop asked whether an 18-year-old fisher could have a commercial limited entry permit, which could provide some surety on the loan.

Mr. Anderson stated that 80 percent of the purchased permit was considered collateral on the loan.

Vice-Chair Bishop asked whether the permit was ultimately owned by the state.

Mr. Anderson replied that the state had an equitable interest in the permit, but not an ownership interest. The permit belonged to the state and could be revoked anytime without compensation.

[9:49:24 AM](#)

Co-Chair Hoffman thought the program had worked well for the state, and that the control to keep the permits in Alaska was better kept under the current system. He believed that the risk to the state of the programs was minimal, especially when considering the amount of jobs and income they provided to the state.

Senator Micciche thought that a permit was not security. He pointed out that an individual never had ownership. He pointed out that the value in a vessel was not a traditional asset. He agreed that the program had worked well and had been well run.

[9:52:52 AM](#)

Co-Chair Hoffman commented that even with the program the state had a major problem with permit holders exiting the state at an alarming rate over the past decade. He believed that this program helped to slow the exodus out of the state and provided jobs for Alaskans.

Senator von Imhof reminded the committee that there were 9 programs in the presentation that varied in a number of ways. She thought that the "revolving" loan fund did not really revolve. She thought that the risk to the state should be appropriately mitigated.

[9:55:23 AM](#)

Co-Chair MacKinnon wondered why the state did not terminate fishing permits after 10 or 20 years after the permit holder left the state.

Co-Chair Hoffman thought it was a constitutional issue. He said that the bigger question was how to bring the permits back to Alaska. He said that the Bristol Bay Native Corporation had been allowed to acquire permits and then sell them to fishermen. He thought that the state needed to research the issue and noted that the permits were being purchased by people with more financial resources and technical resources than Alaskans could afford.

Co-Chair MacKinnon knew there had been buy-back programs in the past. She wondered why more permits were not issued for smaller lengths of time, in order to limit the volume and price. She thought that if the permits could not be returned due to the interstate commerce clause, perhaps other permits that created competition in state waters could aid Alaskans.

Co-Chair Hoffman thought the industry had to be highly capitalized, and shorter permits brought the economics into question. The salmon only ran during a certain timeframe, which complicated the issue.

[9:59:21 AM](#)

Senator Micciche thought there was a lot of things the state would do differently if it were not for the constitution. He stated that the Interstate Commerce Clause was problematic for Alaska more than other states.

[10:01:10 AM](#)

Senator Stevens had heard that the department did not consider that the loan programs were in competition with banks. He surmised that more permits would have left the state were it not for the loan program. He noted that young people should be supported in braking into the industry. He revisited the point that the loans were only given when bank loans were denied.

Ms. Cioni-Haywood stated that not all but many of the loan programs did require a bank denial for financing. There were overlaps between the division's constituencies and the private sector, but they were not identical. She said that the primary purpose was to provide loans to Alaskans and industries that could not get traditional financing, which was why a bank denial was required for many of the programs. She reiterated that program participants were staring out and ran small operations, typically in rural areas. She added that the loan limits were low, and the microloans were even smaller, which limited the competition factor with banks.

[10:04:02 AM](#)

Senator Stevens asked whether the division was receiving complaints from the banking industry related to the loans.

Ms. Cioni-Haywood had not discussed the matter and had not been approached on the subject. She recognized that there was talk of competition and a shared constituency. She stressed that there were significant differences between the state loan programs and bank loans.

Vice-Chair Bishop stated that his family had five permits in 1977. He said that his family would procure financing from a bank for equipment but had to get a DCCED loan to open a fish processing plant. He said that after his family had built some equity, they were able to benefit from private banks.

[10:06:12 AM](#)

Ms. Cioni-Haywood spoke to Slide 6, "Rural Development Initiative Fund":

Initial Capitalization: \$3.42 million

Current fund value: \$7.5 million

As of March 31, 2018:

- 42 Outstanding Loans
- \$4.3 million Outstanding
- Delinquency Rate of 0.0%
- Average Loan is \$95,100

Ms. Cioni-Haywood stated that the Rural Development Initiative Fund was created in 2000 to provide financing to small businesses and create long-term, meaningful employment in rural communities. This program provides capital that is difficult to obtain in rural Alaska. RDIF replaced a similar program administered for many years by the Department of Community and Regional Affairs. DED administers the RDIF on behalf of the Alaska Industrial Development and Export Authority through a servicing contract. DED is reimbursed from the fund's earnings and no general fund support is necessary. Over the 18-year life of the RDIF, over 600 jobs have been created or saved as a result of these loans. She furthered that RDIF loans are usually used for the start-up or expansion of small businesses. Loans must result in the creation of jobs in the target community, and a reasonable amount of non-state money (at least 10%) must be invested in the project. Often, the projects are a combination of a bank loan, borrower capital, or seller financing in addition to RDIF. Since the inception of the RDIF, loans have been made to diverse business sectors across the State. RDIF funds can be used in a variety of ways to create or retain jobs. Loan examples - Taxi Company, Newspaper, Freight Vessel, RV Park, Dress Shop, Pet Grooming, Computer Repair, Auto Parts Store, Sanitation Company, Dare Care Center, Etc. The fund started (2000) at \$3.42 million and has grown to over \$7.5 million today.

[10:08:07 AM](#)

Ms. Cioni-Haywood discussed Slide 7, "Alaska Microloan Revolving Loan Fund":

Initial Capitalization: \$2.5 million
Current fund value: \$2.58 million

As of March 31, 2018:

- 9 Outstanding Loans
- \$185,000 Outstanding
- Delinquency Rate of 6.0%
- Average Loan is \$20,600

Ms. Cioni-Haywood relayed that the Alaska Microloan Revolving Loan Fund was created in 2012. This legislation established the public policy goal of promoting economic development in Alaska by assisting small businesses and entrepreneurs who are not currently in a position to seek traditional financing. This access will facilitate startup, expansion, and job creation throughout Alaska, with a specific policy emphasis on rural communities. The goal is for the business to become stable enough for traditional bank financing and refinance the microloan as additional capital needs become necessary. Applicants can use these funds for working capital, equipment, construction, or other commercial purposes. A reasonable amount of non-state funds is usually at least 10% but is determined at the time the project is evaluated. A bank denial is required for loan requests of \$35,000 and above. This threshold for a bank denial was developed in consultation with the private finance community at the time the original legislation was developed. She said that loan growth is developing; out of 33 applications received, 14 loans have been made. The fund started at \$2.5 million and has grown slightly to \$2.58 million today. (\$2,587,237 = Growth of \$87,237) She concluded that the delinquency rate is from one loan.

[10:09:49 AM](#)

Ms. Cioni-Haywood displayed Slide 8, "Commercial Fishing Revolving Loan Fund":

Initial Capitalization: \$60.2 million
Current fund value: \$128.7 million

As of March 31, 2018:

- 1,671 Outstanding Loans
- \$95.5 million Outstanding
- Delinquency Rate of 1.9%
- Average Loan is \$55,300

Ms. Cioni-Haywood related that the CFRLF was created in 1972 to ensure Alaskans had access to their fisheries. The

program promotes Alaskan ownership and the development of predominantly resident fisheries. The fund has played a major role in keeping Alaska's fisheries resident, and has been an effective tool for assisting the next generation of Alaskans to enter the fisheries. The average age of a borrower is more than 7 years younger than the average age of a permit holder. The fund is totally self-sufficient and has received no general fund support since FY1985. In spite of the extreme challenges the commercial fishing industry has faced over the years, the fund has continued to generate solid cash flow to cover loan demand and operating costs. Over the 46-year life of the fund thousands of Alaskans have been assisted by this program.

Loans can be used by resident fishermen for:

- The purchase of Limited Entry permits for salmon, herring, crab, and other fisheries limited by the State and federal government.
- To purchase, refinance, or upgrade vessels, for product quality, engine efficiency, improvements, or repairs.
- To purchase gear such as; nets, brailer bags, outboards, or gear to diversify into other fisheries.
- To purchase of Individual Fishing Quota Shares to catch halibut and black cod.
- We also have a program to pay past due taxes to IRS where the limited entry permit might be in danger of being seized by IRS, and the resident might lose their ability to make a living. This also serves the State's interest in preserving the nature of limited entry permits and maintaining domain over its natural resources.

Competition: It is important to point out that the constituencies served by the CFRLF, CFAB, and private sector lenders are not identical. While there is some overlap, one of the primary purposes of the CFRLF is to provide loans to Alaska commercial harvesters that do not have access to traditional financing. These borrowers tend to be just starting out, run a small operation, live in a rural cash economy, or may not be familiar with financing. The low loan limits built into the program also ensures that the CFRLF does not become a primary lender. In creating the CFRLF, the Legislature felt it was important to help Alaskans maintain control of their fisheries by supporting a predominately resident fleet, in spite of the

fact that many did not fit the standard lending model. While this does increase the overall risk of the CFRLF portfolio, the Division of Economic Development has developed policies that are intended to strike a balance between maintaining a healthy loan fund and being flexible enough to work with borrowers through difficult time (Bank turndown required for Sections (B), (C), (E), however we would like to note that under Sections (A), (D), (F), and (11), a turndown letter is not required. In particular, Section (A) refers to limited entry permits and the product quality and fuel efficiency loans.) The fund started at \$60.2 million and has grown to over \$128.7 million today.

[10:11:23 AM](#)

Co-Chair MacKinnon asked for the date the fund was created.

Ms. Cioni-Haywood stated it was created in 1972.

Senator von Imhof understood the purpose of the CFRLF. She thought that it would be helpful to see a look back of how the loan had worked overtime; such as, borrower numbers and delinquency rates. She felt that an honest critique of the CFRLF would be helpful.

Co-Chair MacKinnon interjected that she wanted to see some standardization of loan requirements. She did not see the point of applying unique requirements to different loans. She stressed that there should be efficiency for loan officers in providing some basic criteria for economic opportunities. She thought that the uniqueness of the programs made work difficult for loan officers.

Co-Chair MacKinnon commented on the diverse nature of the committee members' background.

[10:15:28 AM](#)

Vice-Chair Bishop looked at the initial capitalization of \$60.2 million and mused about the 1977 capitalization and subsequent capitalizations up to 1985.

Co-Chair MacKinnon thought that the loans were a part of the conversation about how Alaska would solve its budget problems.

[10:17:22 AM](#)

Ms. Cioni-Haywood looked a Slide 9, "Commercial Charter Fisheries Revolving Loan Fund

Initial Capitalization: \$5 million

Current fund value: \$5.08 million

As of March 31, 2018:

- 1 Outstanding Loans
- \$26,600 Outstanding
- Delinquency Rate of 0.0%

Ms. Cioni-Haywood noted the Commercial Charter Fisheries Revolving Loan Fund was created in 2012 in response to the National Marine Fisheries Services instituting the Charter Halibut Limited Access program. This legislation established the public policy goal of promoting resident ownership of Charter Halibut Permits by Alaskans that may not be able to obtain financing elsewhere. Refinance: To be able to refinance a charter vessel for up to \$100,000, the applicant must have a regular long term note in place for a minimum of 12 months before it can be considered for refinancing by this program. This program can only be used to purchase a charter halibut permit for up to \$200,000 or refinance an existing vessel loan for up to \$100,000. Package deals cannot be financed.

The fund started at \$5 million and has grown slightly to \$5.08 million today. (\$5,085,553 = \$85,553 growth)

(Due to the delayed rule making by the Federal Government and the complex package sales of these permits, loan growth has been slow under the fund since inception. The fund is narrow in scope, and is not effective in assisting charter operators outside of purchasing a halibut charter permit)

(Most or all of the funds were re-appropriated during this session. The final outcome will be determined in conference committee.)

[10:18:21 AM](#)

Co-Chair MacKinnon asked where the corpus of the funds resided and whether they were being invested.

Ms. Cioni-Haywood stated that the assets were managed by the Department of Revenue, Division of Treasury.

[10:18:57 AM](#)

Ms. Cioni-Haywood referenced Slide 10, "Fisheries Enhancement Revolving Loan Fund":

Initial Capitalization: \$84.7 million

Current fund value: \$123.3 million

As of March 31, 2018:

- 122 Outstanding Loans
- \$88.3 million Outstanding
- Delinquency Rate of 0.0%
- Average Loan is \$516,400

Ms. Cioni-Haywood stated that the FERLF program was created in 1976 and has been instrumental in the development of Alaska's salmon hatcheries. The program is intended to make loans available to Regional Aquaculture Corporations and Private non-profit Aquaculture Corporations for the planning and implementation of salmon enhancement and rehabilitation activities. The development of Alaska's hatchery program has been an evolutionary process. Several attempts at the hatchery production of salmon have been undertaken by the federal government and private industry but were largely unsuccessful because hatchery technology was crude and underdeveloped. This program sought to overcome the problems of the past and facilitate the development of a viable salmon enhancement system. Over the 42 years of this program there has been great strides in technology and production, and despite the extreme volatility experienced in the development of Alaska's hatcheries, the fund is meeting its mission and has continued to generate solid cash flow to cover loan demand and operating costs. There are 29 salmon hatcheries currently operating in the state. 25 facilities are operated by private nonprofit corporation. In 2017 alone, the commercial fleet caught about 47 million hatchery-produced salmon. This harvest was worth an estimated \$331 million in first wholesale value and \$162 million in ex-vessel value. The fund started at \$84.7 million and has grown to over \$123 million today. (\$123,360,787)

Co-Chair MacKinnon asked about the timeline reflected for the delinquency rates shown on the presentation slides.

Ms. Cioni-Haywood stated that the delinquency rates reflected the delinquency rate as of March 31, 2018.

Co-Chair MacKinnon felt that the delinquency rates were not properly represented. She spoke of an issue with a project in Kake, Alaska.

Ms. Cioni-Haywood informed that the delinquency rate looked at the percentage of loans in the portfolio that were past due on payments. She shared that in the situation in Kake the decision had been made to discontinue the loan, which shifted to an attempted facilitated sale that failed and a foreclosure process had been implemented. She said that the state would recoup as much as possible from the held assets. She did not believe that the entire situation had been resolved. She believed that \$2.5 million had been recovered.

[10:23:10 AM](#)

Co-Chair MacKinnon thought there needed to be an audit of the chain of events in Kake. She wondered how an \$18 million loan could be granted when the recipient had only \$2 million in assets to start. She understood that there was volatility in the hatchery business but wondered how the state could have failed to assess more obvious risks.

[10:24:28 AM](#)

AT EASE

[10:26:43 AM](#)

RECONVENED

Ms. Cioni-Haywood replied that there was significant volatility within the hatchery industry. She cited hurdles such as the farmed fish crisis, the Exxon-Valdez oil spill, and lost fish runs. She explained that the Kake hatchery had suffered water supply and quality issues as well as runs that did not return. She said that the loans had been made over a substantial period of time and that reconciling the issue had also taken time.

Co-Chair MacKinnon appreciated the comments. She stated that the issue was how the department responded to the challenges and protecting the states assets. She cited the delinquency rate on Slide 10, and wondered how it was so low, and whether loans were being written off.

Ms. Cioni-Haywood affirmed that the delinquency rate was correct. She said that as of March 31, the division had not

had a late loan payment. She stated that once a loan was non-performing, and the possibility of rehabilitation did not exist, the loan was no longer classified as a loan receivable and was no longer included in the calculation of the delinquency ratio. She said such accounts would be reclassified as a judgement, or doubtful, account and was reflected in the comprehensive annual financial report (CAFR).

[10:30:19 AM](#)

Co-Chair MacKinnon requested a written definition (from regulation) as how delinquency was determined. She asked whether the slide reflected a lookback from a year or 3 months ago.

Mr. Anderson reiterated that the delinquency rate was a snapshot in real time. When a loan became unrecoverable, the division followed a standard charge-out process. The payments on the loans were done once per year, which allowed hatcheries to process cost recovery, get payments from processors, and make payments. He said that the hatcheries utilizing the loans right now were making on time payments and were not delinquent.

Co-Chair MacKinnon clarified that the committee wanted a delinquency rate that considered the lifetime of the program. She said this would determine how many loans the division was writing off. She appreciated the value of the philosophy behind the loans but needed assurances that loans should be increases and extended.

[10:33:15 AM](#)

Senator von Imhof thought that the bad debt write-off should be included in the presentation. She felt that listing a zero percent delinquency rate and not including any information from CAFR made the presentation incomplete.

Vice-Chair Bishop looked at the fund on Slide 10 and asked about the initial capitalization of the fund.

Co-Chair MacKinnon reiterated that the fund had not received any operating funds since 1976.

Mr. Anderson understood that the fund capitalizations had ended in the late 1970s.

[10:35:17 AM](#)

Senator Micciche hoped that the department could provide the requested information on delinquency. He asked about cost recover for the Fisheries Enhancement Revolving Loan Fund. He wondered whether the department could cost recover after a loan had been called, to try to recoup some cost.

Ms. Cioni-Haywood stated that hatcheries did cost-recovery in order to recoup their costs and b=payback their loans. She said that the cost recovery she had referred to was after the foreclosure of the Kake Hatchery, there were still fish out at sea, so the state entered into a contract in order to harvest those fish once they returned.

Senator Micciche asked whether it was a terminal fishery or would fish return to the area.

Mr. Anderson that it was a terminal harvest and that when the hatchery failed there had been fish in the barn, which the state now held a lien against; including eggs. Unfortunately, some of the runs had failed but the coming summer had better indications.

[10:37:47 AM](#)

Senator Micciche believed that all Alaskans benefitted from hatchery production. He was interested to see if there had been other delinquent loans in past years.

Co-Chair MacKinnon reiterated that the conversation recognized that the programs were helpful to Alaskans but that the cost associated with the programs could be problematic. She said that legislation related to the loans could not move unless the committee had a full financial understanding of cost to the state.

[10:39:36 AM](#)

Ms. Cioni-Haywood presented Slide 11, "Mariculture Revolving Loan Fund":

Initial Capitalization: \$5 million
Current fund value: \$5.1 million

As of March 31, 2018:

- 6 Outstanding Loans

- \$597,000 Outstanding
- Delinquency Rate of 0.0%
- Average Loan is \$99,500

Ms. Cioni-Haywood stated that the Mariculture Revolving Loan Fund was created by the Legislature in 2012. This program is intended to help develop Alaskan owned mariculture operations and diversify economic opportunities in coastal communities by providing financing to mariculture businesses that may not have other financing available. She said recipients must have a permitted mariculture farm location in Alaska and must have experience/training in the mariculture industry. She furthered that applicants must be an Alaskan resident for 24 consecutive months prior to us receiving the application. Loans cannot be made to pay costs incurred more than 12 months before receipt of application. May not have any child support arrearage. The fund started at \$5 million and has grown slightly to \$5.1 million today. (\$5,136,186 = \$136,186 growth)

[10:40:30 AM](#)

AT EASE

[10:40:45 AM](#)

RECONVENED

Co-Chair MacKinnon referenced HB 76. She asked about removing the one-time limitation for grants, which would devalue the amount available for others through the revolving loan program. She asked whether the bill contained an enhancement program.

Ms. Cionid-Haywood believed there was a separate enhancement bill (HB 128).

Ms. Cioni-Haywood turned to Slide 12, "Alaska Capstone Avionics Revolving Loan Fund":

Initial Capitalization: \$4.8 million

Current fund value: \$5.2 million

As of March 31, 2018:

- 5 Outstanding Loans
- \$156,000 Outstanding
- Delinquency Rate of 0.0%

- Average Loan is \$31,200

Ms. Cioni-Haywood stated that the Alaska Capstone Avionics Revolving Loan Fund was created by the Legislature in 2008 as part of a joint industry effort to improve aviation safety and economic efficiency in Alaska by financing the installation of a new generation of avionics. The Federal Aviation Administration (FAA) required a commitment from the State of Alaska to make the avionics accessible before it was willing to complete the \$900 million-dollar infrastructure build out of the Capstone/NextGen Avionics system. The Alaska Capstone Avionics Revolving Loan Fund met this need and the build out has proceeded. However, due to slow governmental rulemaking, the general aviation community has not yet embraced the technology and most likely there will not be widespread adoption of the system until the FAA mandate requires it in 2020. DED believes as this date approaches the fund will see heavy use (Program is set to sunset in 2020) (FAA rules will require after January 1, 2020 that aircraft that fly into controlled airspace are outfitted with ADS-B.) All aircraft must at a minimum, be equipped with an **Automatic Dependent Surveillance - Broadcast (ADS-B)** data link system or sign an intent to equip loan agreement allowing up to 36-months from date of Promissory Note to equip aircraft with ADS-B. ADS-B: This equipment broadcasts the position of the plane to other aircraft and ground stations. Aircraft in Alaska equipped with the Capstone avionics had 47% fewer accidents and 33% fewer fatalities. The fund started at \$4.8 million and has grown slightly to \$5.2 million today. (\$5,208,259 = \$408,259 growth)

Co-Chair MacKinnon asked if the state set a date to extinguish the program by 2020 whether that would motivate people to access the funds sooner rather than later.

Ms. Cioni-Haywood considered Co-Chair MacKinnon's question. She said that she could not speak to how the industry would react to that hypothetical.

Co-Chair MacKinnon acknowledged that she had asked an unfair question. She wondered how the state could get implementation of timelier product utilization.

[10:44:31 AM](#)

Senator Olson stated that Capstone was a significant investment that many private pilots would not invest in without excessive resources. He said that air taxis sought waivers to operate without Capstone. He said that it was true that there had been a significant decrease in accidents, but he did not think it was solely attributable to Capstone.

Senator von Imhof was familiar with Capstone, and knew it was very costly. She noted that technological advances were helping to lower cost. She agreed with Co-Chair MacKinnon that the loan was not widely publicly known. She praised the Capstone avionics but lamented the price.

[10:46:53 AM](#)

Senator Micciche questioned the Sport Fish Charter Loan Fund, which he believed was underutilized. He asked whether advertising was done in industries so that people knew about the loans available to them.

Ms. Cioni-Haywood responded that several outreach methods were used to inform people about the loans. She deferred to Mr. Anderson.

Mr. Anderson said that outreach was conducted and in various ways, through newsletter and direct contact with stakeholder organizations.

[10:48:59 AM](#)

Ms. Cioni-Haywood showed Slide 13, "Alternative Energy Conservation Revolving Loan Fund":

Initial Capitalization: \$2.5 million
Current fund value: \$2.75 million

As of March 31, 2018:

- 0 Loans Outstanding

Ms. Cioni-Haywood stated that the purpose is to provide commercial business owners access to affordable loans to purchase, construct and install alternative energy systems or energy conservation improvements in commercial buildings.

Must be for the purchase, construction or installation of alternative energy systems or energy conservation improvements in commercial buildings. Applicant must be an Alaskan resident for 12 consecutive months prior to us receiving the application. Loans may not be made to pay costs incurred 4 months prior to us receiving the application. Must result in alternative energy production or energy conservation. Must not have no child support arrearage. The fund started at \$2.5 million and has grown slightly to \$2.75 million today. (\$2,756,331 = \$256,331 growth)

Co-Chair MacKinnon reiterated her desire for information pertaining to the Kake project and the financial timeline of that loan. She added that she wanted information about the delinquency rate over the life of each loan.

[10:51:19 AM](#)

MIKE NAVARRE, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, relayed that he had spoken to committee members and understood the concerns held by the committee. He listed the various talking points that would be followed up on by the department. He did note that the Kake loan situation spanned 40 years and included a number of loans and several different administrations. He said that the pieces of legislation before the committee did identify areas where the loans could be improved.

Co-Chair MacKinnon discussed housekeeping.

#

ADJOURNMENT

[10:55:08 AM](#)

The meeting was adjourned at 10:55 a.m.