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STATE OF ALASKA
THE LEGISLATURE

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POUCHY - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-2900

May, 1986

Copies of minutes listed below were originally included in this file. The minutes are available on the STAIRS date base CM 14. In order to save space copies of minutes have not been left in the files.

Jeanie Henry

House Resources Committee 4/12/1985, 8:30 am

Analysis of CSHB 193 (Resources)

This bill establishes a program that will help to alleviate the heavy debt load of Alaska's farmers and encourage them to bring their farms into full and economic production. The program allows farmers to receive credits for farm product sales that can be used to meet interest payments on state agriculture related loans. The program will assist only producing farmers that are actively engaged in selling farm products. Farmers who do not produce and sell farm products will gain nothing.

Under this program, a farmer will provide a copy of federal income tax Form F, which lists his total farm product sales income for the year, to the Division of Agriculture. The division will then provide the farmer with a letter of credit equal to ten percent of the farmer's total yearly sales. The farmer may apply the letter of credit to the interest due on an Agricultural Revolving Loan Fund loan or an agricultural land sale contract. The program will last for five years, and an individual farmer would be allowed to participate in the program every year if he continues to produce and sell farm products.

The production credit program requires no additional staff or funding for the Department of Natural Resources, but will, if it is successful, result in the state foregoing some amount of interest. Yet not instituting a program that assists producing farmers could mean the loss of millions of dollars in ag loan defaults, as well as the loss of numerous farm related jobs.

Alaska grown commodities are currently filling only a small portion of the available Alaska market, but a lack of cash prevents many farmers from increasing farm production. The production credit program would allow these farmers to put some of the cash receipts from farm product sales into expansion of their farm operations. As farms become fully producing, farming will become more economic and farmers will be able to meet their debt obligations.

We admit that there were mistakes made in developing Alaska's agricultural programs in the past, but farming can become a stable part of Alaska's economy. The Department of Natural Resources has taken a long hard look at where Alaska agriculture is today and has determined that with some assistance from the state and a lot of hard work from farmers, the farming industry in Alaska can survive and prosper.

According to legislative research, other loan programs have higher percentage of delinquency than ARLF on much higher dollar amounts

TABLE II
LOAN PROGRAMS FY 81 - FY 86
Interest Rates and Delinquency Rates *

Program / Statute		Delinquency Rate (\$ 100)	Pct	Interest Rate
Econ Development:				
→ Agriculture Rev Loans	03.10	6,953.5	15.6	8.0
AIDA Enterprise Fund	44.88	15,270.2	4.7	varies
AIDA Eco Dev Fund	44.88	n/a	n/a	varies
Ak Resources Corp 1)	37.12	n/a	n/a	varies
Commercial Fishing	16.10	11,551.3	14.4	10.5
Fish Enhancement	16.10	.0	.0	9.5
Fish Mortgage & Note 2)	16.10	n/a	n/a	n/a
Grain Reserves Loans	03.12	.0	.0	8.0
← Mining Loan Fund	27.09	10,621.0	55.9	10.0
← Small Business	45.95	34,198.0	48.1	9.5
Tourism Rev Loans	45.90	1,034.0	16.3	9.5
Education:				
Scholarship Loans	14.43	12,470.1	6.7	5.0
Teacher Loans	14.43	n/a	n/a	5.0
Energy:				
Alternative Tech 3)	45.88	2,408.0	22.3	5.0/15.0
Residential Energy 4)	45.89	1,039.2	19.8	5.0
Rural Electrification	44.83	.0	.0	2.0
Housing:				
C&RA Housing Asst	44.47	1,977.2	2.0	varies
AHFC Programs	18.56	113,615.0	3.0	varies
Medical & Child Care:				
Child Care Facility	44.33	103.0	15.4	7.0
Res Care Facility 2)	44.33	n/a	n/a	n/a
Med Malpractice 5)	21.88	.0	.0	6.0/7.0
Municipal Assistance:				
Bulk Fuels	45.87	148.0	.7	varies
Historical District	45.98	.0	.0	7.5

* Delinquency rates are from State Loan Program: Quarterly Activity Report, Fourth Qtr FY 84; House Research Agency, October 1984.

- 1). Repealed effective July 1, 1989.
- 2). Repealed during 1982 session.
- 3). Interest rate is 5.0% on the first \$15,000 and 15% on the excess.
- 4). On loans made after 12-31/83 the interest rate is the average weekly municipal bond yield rates.
- 5). Interest rate is 6.0% if the borrower is unable to procure re-insurance from a private casualty insurer.

AGRICULTURAL REVOLVING LOAN FUND

December 31, 1984

Loans outstanding - \$ 48,454,644.47

Borrowers - 266

Loans - 759

Average loan size - \$ 60,850

Average borrower - \$ 173,630

Delinquency rate is three times more in the Delta area than in the Matanuska area -

15.52%	vs	47.92%
old farmers		new farmers

The delinquency rates are divided evenly between short term, chattel and development loans.

National level - Farmers Home Administration has a 35% delinquency rate.

Total ARLF is 68.5 million.

Assumptions

1. 2500 acre farm
2. 1500 acres planted in barley
3. Production of 1 ton per acre - sells for \$125 per ton
4. Chattel loan of \$208,000 at 8%, first payment due in 1985.
5. Farm development loan of \$119,000 at 8% - first payment due in 1985
6. Land purchased for \$180 per acre at 12% interest - with moratorium, first payment due in 1989
7. Land clearing loan of \$300,000 at 8% interest - with moratorium, first payment due in 1989

illustration

Table 1. THE AFFECT OF PRODUCTION CREDITS ON LOAN PAYMENTS - FARMER BROWN Sales- \$187,500/ year

Total Loan Payment ³	Interest Portion of Loans ⁴	Credits Available	%	Interest Payment Following Credit Deduction	Total Loan Payment Following Credit Deduction
\$ 56,571	\$ 30,660	\$18,750	10	\$11,910	\$37,821
\$ 56,571	\$ 28,586	\$18,750	10	\$9,836	\$37,821
\$ 56,571	\$ 26,340	\$18,750	10	\$7,598	\$37,821
\$ 56,571	\$ 23,929	\$18,750	10	\$5,179	\$37,821
\$ 129,136	\$ 90,726	\$18,750	10	\$71,976	\$110,386

Payments for land clearing and land purchase begin,
 chattel loan is paid-off in this year.
 Do not include operating loan.
 Includes annual operating loan interest of \$4,500.

Total interest forgiven \$93,750

Total Loans \$897,000 (principal)

UNDER FARMERS FIGURES

		Sales	Credits
1984	10%	\$11,945,000	\$1,194,500
1985	10%	14,320,000	1,432,000
1986	10%	17,200,000	1,720,000
1987	10%	20,640,000	2,064,000
1988	10%	24,285,000	2,428,500

5 year Total \$8,887,000

Our fiscal note estimated about \$12 million in foregone interest, but farmers have complained that our estimates of rising production are too high.

Probably best to estimate foregone interest over the 5-year period at from \$8 to \$12 million

- NO Markets -

ACTUAL DELTA I FARMER

<u>Loan Type</u>	<u>Total Loan</u>	<u>Annual Loan Payment</u>	<u>Principal Payment</u>	<u>Interest Payment</u>
- Land Purchase	\$ 0	\$ 0	\$ 0	\$ 0
- Land Clearing	370,600	24,590	3,018	21,572
- Chattel	300,000	57,621	45,741	11,879
- Farm Development	154,000	15,685	4,578	11,106
- Operating	<u>101,000</u>	<u>109,080</u>	<u>101,000</u>	<u>8,080</u>
TOTAL	\$925,600	\$206,976	\$154,337	\$52,637

ACTUAL DELTA II FARMER

- Land Purchase	\$324,000	\$ 43,376	\$ 4,496	\$38,880
- Land Clearing	307,000	25,745	1,612	24,132
- Chattel	181,000	34,765	27,597	7,167
- Farm Development	95,000	9,675	2,824	6,851
- Operating	<u>117,000</u>	<u>126,360</u>	<u>117,000</u>	<u>9,360</u>
TOTAL	\$1,024,000	\$239,921	\$153,529	\$86,390

ACTUAL POINT MACKENZIE FARMER

Land Purchase	\$ 62,900	\$ 8,420	\$ 872	\$ 7,548
Land Clearing	94,200	7,899	494	7,404
Chattel	265,000	50,899	40,475	10,493
Farm Development	656,000	66,815	19,502	47,312
Operating	<u>70,000</u>	<u>75,600</u>	<u>70,000</u>	<u>5,600</u>
TOTAL	\$1,148,100	\$209,633	\$131,273	\$78,357

An average Delta I or Delta II farmer could expect a gross income (total sales) of approximately \$100,000 to \$125,000 per year, depending on weather conditions, market conditions and many other factors. A Point MacKenzie farmer could expect a gross income of approximately \$427,500 per year.

Based on these estimated yearly incomes and the terms of SB 40, the following amounts would be available each year for credit towards loan interest payments.

1984	20%	x	\$100,000	=	\$20,000
1985	20%	x	\$100,000	=	\$20,000
1986	20%	x	\$100,000	=	\$20,000
1987	20%	x	\$100,000	=	\$20,000
1988	20%	x	\$100,000	=	\$20,000
1989	18%	x	\$100,000	=	\$18,000
1990	16%	x	\$100,000	=	\$16,000
1991	14%	x	\$100,000	=	\$14,000
1992	12%	x	\$100,000	=	\$12,000
1993	10%	x	\$100,000	=	\$10,000

1984	20%	x	\$427,500	=	\$85,500
1985	20%	x	\$427,500	=	\$85,500
1986	20%	x	\$427,500	=	\$85,500
1987	20%	x	\$427,500	=	\$85,500
1988	20%	x	\$427,500	=	\$85,500
1989	18%	x	\$427,500	=	\$76,950
1990	16%	x	\$427,500	=	\$68,400
1991	14%	x	\$427,500	=	\$59,850
1992	12%	x	\$427,500	=	\$51,300
1993	10%	x	\$427,500	=	\$42,750

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date : 1-22-86

REQUEST

Bill/Resolution No. : CSHB 193
 Title : Agricultural Production Credits

 Sponsor : Rep. Shultz
 Requestor : Senate Finance Committee
 Date of Request : January 22, 1986

FISCAL DETAIL

Agency Affected : Natural Resources
 BRU : Agricultural Management

 Components : _____

EXPENDITURES/REVENUES : (Thousands of Dollars)

OPERATING	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE **	(2,626.5)	(1,720.0)	(2,064.0)	(2,476.5)		
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FUNDING : (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS :

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : Attach a separate page if necessary

**The proposed program could reduce State revenues, in the amounts shown, by reducing the amount of interest paid on State agricultural loans. However, these figures are based on the assumption that the program will increase production and sales of farm products according to the attached schedule. If sales do not increase as projected, the amount of revenue lost will decrease.

Prepared by: Carol Wilson *[Signature]* Phone: 465-2400
 Division: Commissioner's Office Date: January 22, 1986

Approved by Commissioner: *[Signature]* Deputy Date: 1/22/86
 Agency: Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

The amount of production credits that might be earned during the five years of the program, considering that not all farmers have borrowed from the state, and that agricultural land that is not currently in production is put into production, are estimated as follows:

Year	Projected Sales	Sales Available for Credits*	% Credit	Projected Credits
1984	\$15,925,000	\$11,945,000	10	\$1,194,500
1985	19,110,000	14,320,000	10	1,432,000
1986	22,932,000	17,200,000	10	1,720,000
1987	27,518,000	20,640,000	10	2,064,000
1988	33,022,000	24,765,000	10	2,476,500
Total				\$8,887,000

* Projected sales reduced by 25% to account for non-borrowers.

The following chart gives estimated values for loan default and associated interest losses to the state if the production credit program is not established. Farmers in the Delta area have an especially heavy debt load. Approximately \$12,500,00 is due on clearing loans for the Delta I and Delta II agricultural project parcels. This is an average of \$337,837 of clearing loan debt per farm. Land payments for Delta II parcels average \$180 per acre at 12% interest per year. The average amount of principal owed for each Delta II parcel is approximately \$145,000.

Loan	Amount Outstanding	Possible Default	Collateral Value	Loss to State
ARLF	\$48.5 million	\$23 million	\$15 million	\$8 million
Clear. Land	17.5 million	8 million	0	8 million
	10 million	5 million	3 million	2 million

Interest on \$18 million loss at 8% x 5 years = \$7.2 million

Total estimated loss to the state = \$25.2 million

Revision Date: _____

REQUEST

Bill/Resolution No.: CSHB 193

Title: Agricultural Production

Credits

Sponsor: Shultz

Requestor: House Resources Committee

Date of Request: April 12, 1985

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: Agricultural

Management

BRU, Program or Subprogram(s) Affected:

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE **	(\$1,274.0)	(2,004.2)	(2,547.5)	(3,090.8)	(\$3,634.2)	-0-
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FUNDING: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

**The proposed program could reduce state revenues, in the amounts shown, by reducing the amount of interest paid on state agricultural loans. However, these figures are based on the assumption that the program will increase production and sales of Alaska farm products according to the attached schedule. If sales do not increase, the amount of revenue lost to the state would decrease.

Prepared By: Bill Heim, Director of Agriculture

Phone: 745-7200

Division: Division of Agriculture

Date: March 25, 1985

Approved by Commissioner: *Memo D. Arnold*

Date: 7/12/85

Agency: Department of Natural Resources

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Continuation of Analysis for CSEB 193

The proposed production credit program could, if successful, reduce state revenues by reducing the total amount of interest paid on state agricultural loans. However, without a program of this type that provides some measure of debt relief to farmers, the state will lose millions of dollars through loan defaults.

The total amount of production credits that might be earned during the five years of the program, considering that not all farmers have borrowed from the state, and that agricultural land that is not currently in production is put into production, are estimated as follows:

Year	Projected Sales	Sales Available for Credits*	% Credit	Estimated Credits
1984	\$15,925,000	\$12,740,000	10	\$1,274,000
1985	\$25,053,000	\$20,042,400	10	2,004,240
1986	\$31,844,000	\$25,475,200	10	2,547,520
1987	\$38,635,000	\$30,908,000	10	3,090,800
1988	\$45,427,000	\$36,341,600	10	3,634,160
Five Year Total				\$12,550,720

* Projected sales reduced by 20% to account for non-borrowers.

The following chart gives estimated values for loan default and associated interest losses to the state if the production credit program is not established. Farmers in the Delta area have an especially heavy debt load. Approximately \$12,500,000 is due on clearing loans for the Delta I and Delta II agricultural project parcels. This is an average of \$337,837 of clearing loan debt per farm. Land payments for Delta II parcels average \$180 per acre at 12% interest per year. The average amount of principal owed for each Delta II parcel is approximately \$145,000.

Loan	Amount Outstanding	Possible Default	Collateral Value	Loss to State
ARLF	\$48.5 mill.	\$23 mill.	\$15 mill.	\$8 mill.
Clearing	\$17.5 mill.	\$ 8 mill.	0	\$8 mill.
Land	\$10 mill.	\$ 5 mill.	\$ 3 mill.	\$2 mill.

Interest on \$18 million loss at 8% x 5 years = \$7.2 mill.

Total estimated loss to state = \$25.2 million.

Assumptions

1. 2500 acre farm
2. 1500 acres planted in barley
3. Production of 1 ton per acre - sells for \$125 per ton
4. Chattel loan of \$208,000 at 8%, first payment due in 1985.
5. Farm development loan of \$119,000 at 8% - first payment due in 1985
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Table 1. THE AFFECT OF PRODUCTION CREDITS ON LOAN PAYMENTS - FARMER BROWN Sales- \$187,500/ year

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1986	\$ 56,571	\$ 28,586	\$ 18,750	10	\$ 9,836	\$ 37,821
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1989	\$ 129,136	\$ 90,726	\$ 18,750	10	\$ 71,976	\$ 110,386

Payments for land clearing and land purchase begin.
 Chattel loan is paid-off in this year.
 Does not include operating loan.
 Includes annual operating loan interest of \$4,500.

Total interest forgiven \$ 93,750

Total Loans \$897,000 (principal)

Levy
4/11/85 ✓

Original sponsor: Shultz

1
2 IN THE HOUSE

BY THE RESOURCES COMMITTEE

3 CS FOR HOUSE BILL NO. 193 (Resources)

4 IN THE LEGISLATURE OF THE STATE OF ALASKA

5 FOURTEENTH LEGISLATURE - FIRST SESSION

6 A BILL

7 For an Act entitled: "An Act allowing agricultural production credits; and
8 providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 03.05 is amended by adding a new section to read:

11 Sec. 03.05.015. AGRICULTURAL PRODUCTION CREDITS. (a) The
12 commissioner of natural resources shall establish a program of agri-
13 cultural production credits to be applied against interest due on
14 agricultural loans made under this title and AS 44 and interest due on
15 the sale of agricultural land under AS 38.05. The credits shall be
16 based on agricultural products grown or raised in the state.

17 (b) The annual credit for the years 1984 - 1988 is 10 percent of
18 the total sales as documented by the farmer on Internal Revenue Ser-
19 vice Schedule F (form 1040).

20 (c) A credit granted under this section may not be transferred.

21 * Sec. 2. AS 03.05.015 is repealed December 31, 1989.

22 * Sec. 3. This Act takes effect immediately in accordance with AS 01.-
23 10.070(c).

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Alaska State Legislature

HOUSE OF REPRESENTATIVES
COMMITTEE ON RESOURCES

FOUCH V
JUNEAU, ALASKA 99811
(907) 465-3715

MEMORANDUM

April 12, 1985

TO: HOUSE RESOURCES COMMITTEE

FROM: Committee Staff

SUBJ: CSHB 193 (Res) "An Act allowing agricultural production credits; and providing for an effective date."

Committee Substitute for House Bill 193 (Resources) would establish a program of agricultural production credits to be applied against interest on agricultural land loans and interest on loans through the Alaska Revolving Loan Fund.

The credit applicable to the years 1984 - 1988 is 10% of the documented sales on IRS Schedule F (Form 1040).

This credit would be repealed December 31, 1989.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: CSHB 193
Title: Agricultural Production Credits

Sponsor: Shultz

Requestor: House Resources Committee

Date of Request: April 12, 1985

FISCAL DETAIL

Agency Affected: Natural Resources

Program Category Affected: Agricultural Management

BRU, Program or Subprogram(s) Affected: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE **	(\$1,274.0)	(2,004.2)	(2,547.5)	(3,090.8)	(\$3,634.2)	-0-
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FUNDING: (Thousands of Dollars)

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POSITIONS:

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FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: Attach a separate page if necessary

**The proposed program could reduce state revenues, in the amounts shown, by reducing the amount of interest paid on state agricultural loans. However, these figures are based on the assumption that the program will increase production and sales of Alaska farm products according to the attached schedule. If sales do not increase, the amount of revenue lost to the state would decrease. If the program is not established, the state could lose over \$25 million from loan defaults during the next few years. (See attached analysis.)

Prepared By: Bill Heim, Director of Agriculture

Division: Division of Agriculture

Phone: 745-7200

Date: March 25, 1985

Approved by Commissioner: _____

Agency: Department of Natural Resources

Date: _____

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

7/1/84

Continuation of Analysis for CSHB 193

The proposed production credit program could, if successful, reduce state revenues by reducing the total amount of interest paid on state agricultural loans. However, without a program of this type that provides some measure of debt relief to farmers, the state will lose millions of dollars through loan defaults.

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Five Year Total				\$12,550,720

* Projected sales reduced by 20% to account for non-borrowers.

The following chart gives estimated values for loan default and associated interest losses to the state if the production credit program is not established. Farmers in the Delta area have an especially heavy debt load. Approximately \$12,500,000 is due on clearing loans for the Delta I and Delta II agricultural project parcels. This is an average of \$337,837 of clearing loan debt per farm. Land payments for Delta II parcels average \$180 per acre at 12% interest per year. The average amount of principal owed for each Delta II parcel is approximately \$145,000.

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Clearing	\$17.5 mill.	\$ 8 mill.	0	\$8 mill.
Land	\$10 mill.	\$ 5 mill.	\$ 3 mill.	\$2 mill.

Interest on \$18 million loss at 8% x 5 years = \$7.2 mill.

Total estimated loss to state = \$25.2 million.