

BULK FUEL REVOLVING LOAN PROGRAM

2021 ANNUAL REPORT



Kongiganak



Kasigluk



Crooked Creek



Atmautluak

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For information about the application, eligibility requirements, interest rates, loan terms and security required from borrowers, please visit the following website:

[Bulk Fuel Revolving Loan Program](#)

For information about current fuel pricing in communities across the state, including an analysis against the national average, please visit the following website:

[Alaska Fuel Price Report: Current Community Conditions](#)

For information about the *Bulk Fuel Revolving Loan Fund* as part of the General Fund and Other Non-segregated Investments, asset allocation, annual market values and performance results, please visit the following website:

[Bulk Fuel Revolving Loan Fund–General Fund and Other Non-segregated Investments](#)

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INTRODUCTION AND BACKGROUND

The State of Alaska created the Bulk Fuel Revolving Loan Program in response to the needs of rural communities to help secure enough fuel supplies for the winter. The Division of Community and Regional Affairs (DCRA) administers the program in partnership with the Division of Economic Development (DED).

Most communities in Alaska receive heating fuel and gasoline by barge or via the road system; however, some communities receive fuel by air cargo or seasonal ice roads. Southeast and Gulf Coast communities are generally able to receive fuel deliveries year-round. Coastal communities in western Alaska and communities along major river systems have a shorter window in which to receive fuel.

Additionally, communities experience impaired access due to inclement weather, sea ice, low water levels or other local conditions outside of their control. Such isolation requires seasonal deliveries, which contribute to additional delivery costs. The program allows for loans to be made to assist communities in purchasing bulk fuel oil or gasoline, including the shipping costs of the fuel to the community.

This Bulk Fuel Revolving Loan Program annual report highlights the program's loans to communities across the state, the *Bulk Fuel Revolving Loan Fund*, and interest activity for Calendar Year 2021 (CY21).

PARTNERSHIP WITH DIVISION OF ECONOMIC DEVELOPMENT

The Division of Economic Development (DED) manages loan financial data and fund reporting for the program. Loan servicing is provided with an annual operating appropriation from the *Bulk Fuel Revolving Loan Fund* to DED. The total program income was about \$45,000 and total cost to operate the program was approximately \$59,700. The Division of Community and Regional Affairs administers the program using General Funds only.

Legal authority for the program can be found in the following statute and administrative code headings and citations:

- Alaska Statute (42.45.250-42.45.299)
 - Definitions (AS 42.45.250)
 - Bulk Fuel Loan Fund Account (AS 42.45.260)
 - Bulk Fuel Loan Bridge Account (AS 42.45.270)
 - Bulk Fuel Loan and Bulk Fuel Bridge Interest Rate (AS 42.45.280)
 - Definitions (AS 42.45.299)

- Alaska Administrative Code (3 AAC 161.010-3 AAC 161.900)
 - Application (3 AAC 161.010)
 - Examination (3 AAC 161.020)
 - Eligibility (3 AAC 161.030)
 - Financial and Credit Record (3 AAC 161.040)
 - Interest (3 AAC 161.045)
 - Lending Practices (3 AAC 161.050)
 - Disbursement of Loan Money (3 AAC 161.060)
 - Modifications (3 AAC 161.070)
 - Reconsideration of a Loan Request (3 AAC 161.080)
 - Confidentiality of Loan Information (3 AAC 161.090)-*Repealed*
 - Definitions (3 AAC 161.100)-*Repealed*
 - Default (3 AAC 161.110)
 - Definitions (3 AAC 161.900)

In 2018, the program's regulations were amended to include biomass, 3 AAC 161.050(b)(1) and 3 AAC 161.900(6). The amendment allows potential borrowers to apply for funds to purchase biomass products derived from wood (pellets, chips, or cordwood) proven feasible for use as fuel to generate heat or electricity. There have been no changes to the program since 2018.

LOANS TO COMMUNITIES

In CY21 all borrowers were located off the road system. The division administered 44 loans. Figure 1 shows where the loans are being utilized around the state. Some of the loans approved in 2020 were managed throughout 2021 due to the timing of the loan and payment schedule; however, the figure below shows only those communities whose application was approved and administered by the division in 2021.

Communities with Bulk Fuel Loans 2021

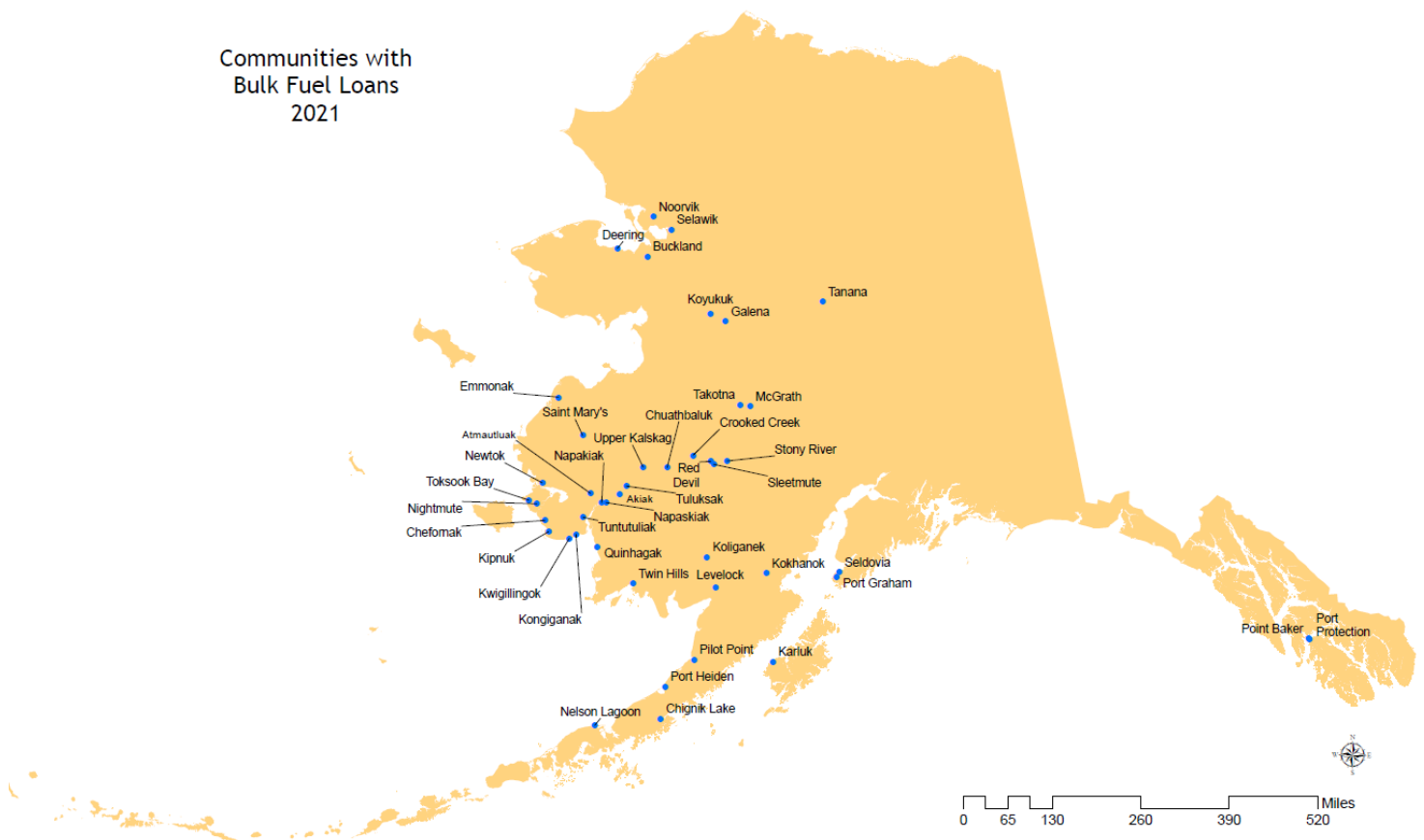


Figure 1. Map of Communities with Bulk Fuel Loans in 2021

The following are some highlights of the division’s work with communities and their application for a loan:

- The division worked with a community in the Bethel region and turned the application around in less than a day before the fuel transporter left the region eliminating the need to fly fuel into the community.
- The division worked with a community in the Bristol Bay region to help pay for added transportation expenses that were unexpected due to inclement weather.
- The division denied a loan to a community in the Kotzebue region that was subsequently approved after working with community leaders to better show a sustainable cash flow to meet the loan payment requirements.

Figure 2 shows the number of loans issued in 2021. The requested loan amounts ranged from \$30,000 to \$750,000. The average loan was \$256,000.

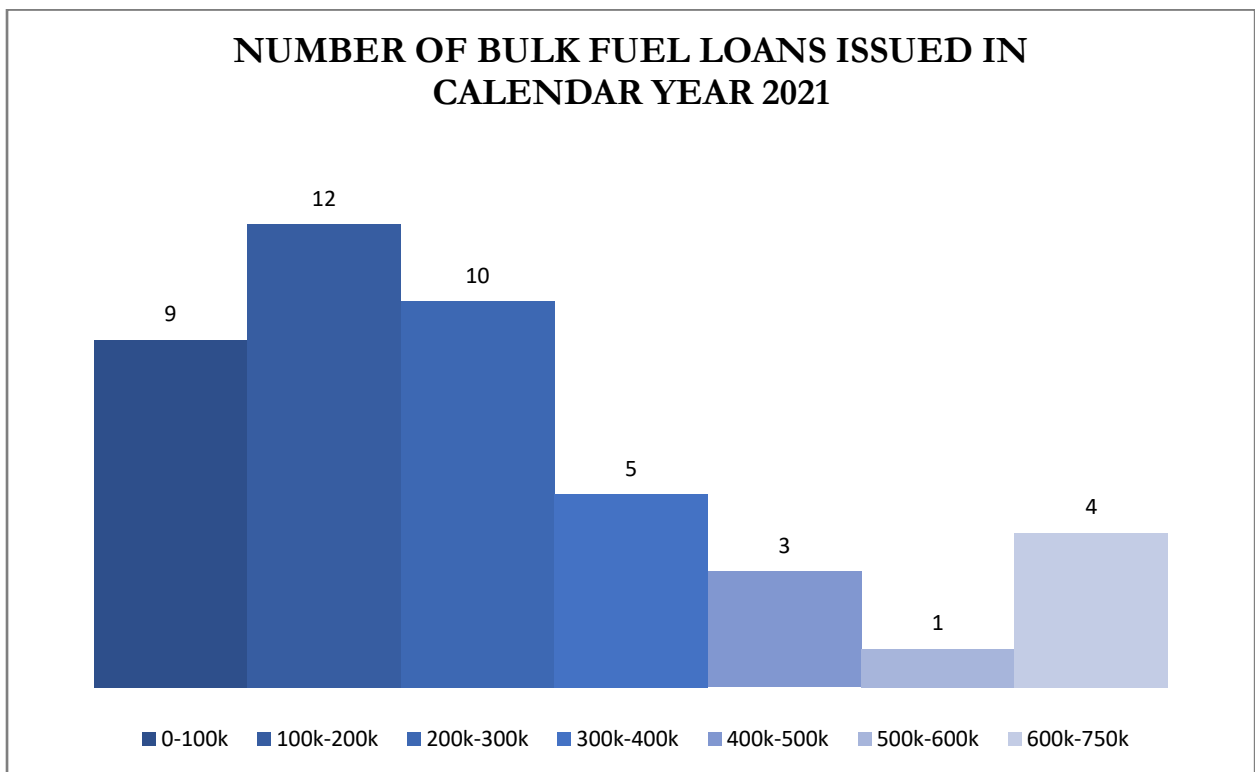


Figure 2. Number of Bulk Fuel Loans Issued in Calendar Year 2021

Unless the borrower is a cooperative corporation or electric cooperative and uses the loan to purchase fuel on behalf of more than one community, loans to a single borrower may not exceed \$750,000 (AS 42.45.260).

As of December 31, 2021, all loans administered in 2021 and those carried forward from 2020 are in good standing. The division, however, continues to work with a borrower in the Nome region that has a past due loan from 2016.

BULK FUEL REVOLVING LOAN FUND

The *Bulk Fuel Revolving Loan Fund* consists of two separate accounts.

1. Bulk Fuel Loan Account (AS 42.45.260)

The Bulk Fuel Loan Account is a separate account within the Bulk Fuel Revolving Loan Fund. The fund is not dedicated, and statute directs the division to establish by regulation criteria under which communities or entities may obtain a bulk fuel loan with consideration of creditworthiness and repayment history.

2. Bulk Fuel Bridge Loan Account (AS 42.45.270)

The Bulk Fuel Bridge Loan Account is a separate account within the Bulk Fuel Revolving Loan Fund. The fund is not dedicated, and statute directs the division to make a “bridge” loan if an applicant has been denied a bulk fuel loan under AS 42.45.260 or the Bulk Fuel Loan Account. The statute directs the division to provide technical assistance to help improve the creditworthiness of the borrower for future consideration with the Bulk Fuel Revolving Loan Program.

Figure 3 on the next page shows the balance of the two accounts effective December 31, 2021.

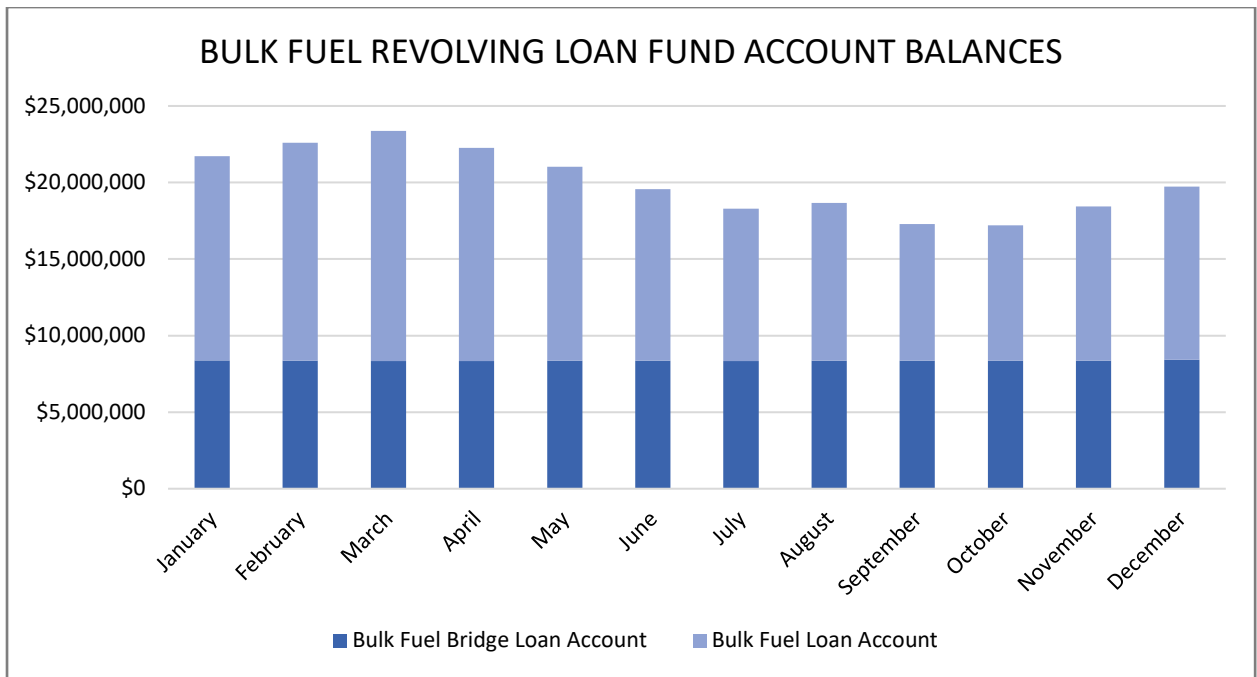


Figure 3. Bulk Fuel Revolving Loan Fund Account Balances

There were no disbursements from the Bulk Fuel Bridge Loan Account in 2021 which explains the constant balance for the account shown in Figure 3.

The total disbursements from the Bulk Fuel Loan Account in 2021 were about \$10,000,000. The disbursements fluctuate in a calendar year as Figure 4 shows. The fluctuation is due to the seasonal nature of fuel delivery in rural Alaska as explained in the introduction.

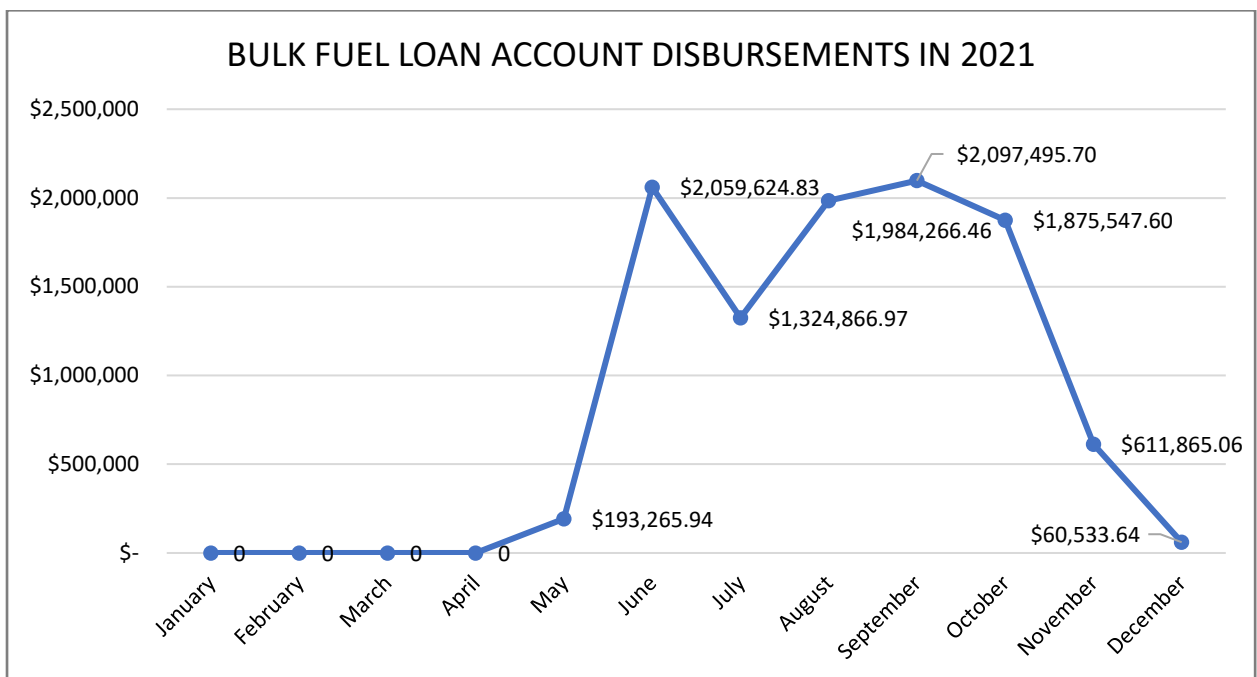


Figure 4. Bulk Fuel Loan Account Disbursements in 2021

INTEREST ACTIVITY

The program earns interest through loans to borrowers and the *Bulk Fuel Revolving Loan Fund's* investment strategy with the Department of Revenue.

The program applies an interest rate to borrowers established in statute (AS 42.45.280). The base is set at 4 percent, and statute directs the division to create a rate reduction schedule for borrowers. For example, first-time borrowers receive an interest-free loan and subsequent borrowers receive a 1-2 percent rate reduction based on repayment history with the program.

Figure 5 shows the number of loans by interest rate. There were no first-time borrowers receiving an interest-free loan. Forty-two borrowers are being charged a 2 percent interest rate. There were no borrowers receiving a 3 percent interest rate and two are being charged a 4 percent interest rate.

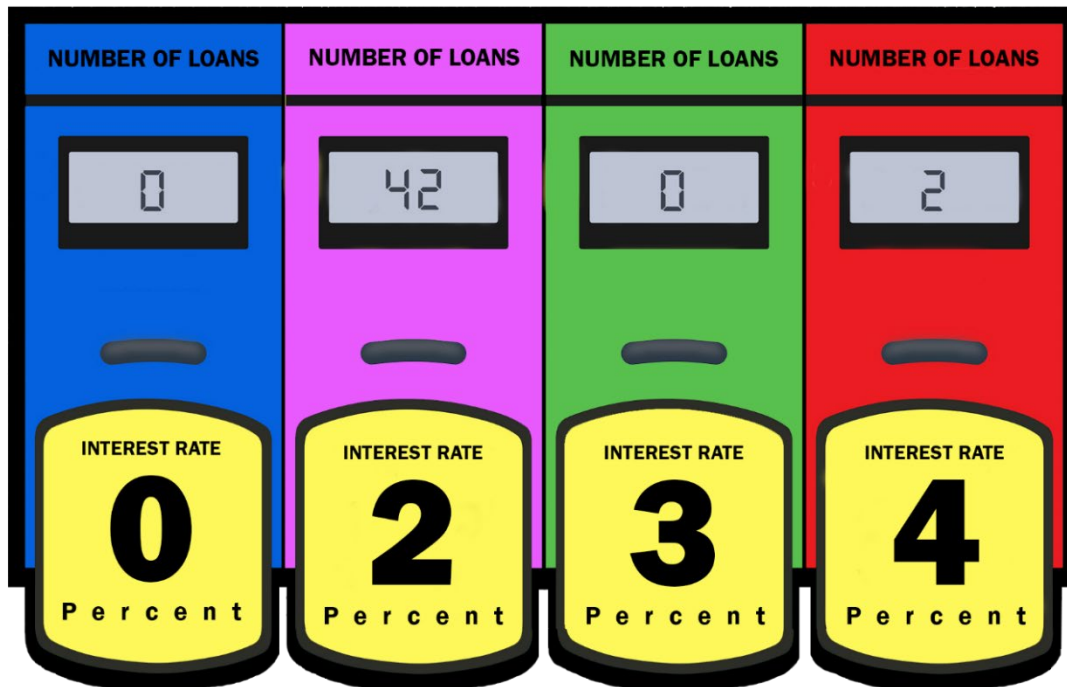


Figure 5. Number of Loans by Interest Rate

Figure 6 on the next page shows the loan interest earnings and fund interest earnings for the Bulk Fuel Loan Account and Bulk Fuel Bridge Loan Account in CY19, CY20, and CY21 for a historical comparison.

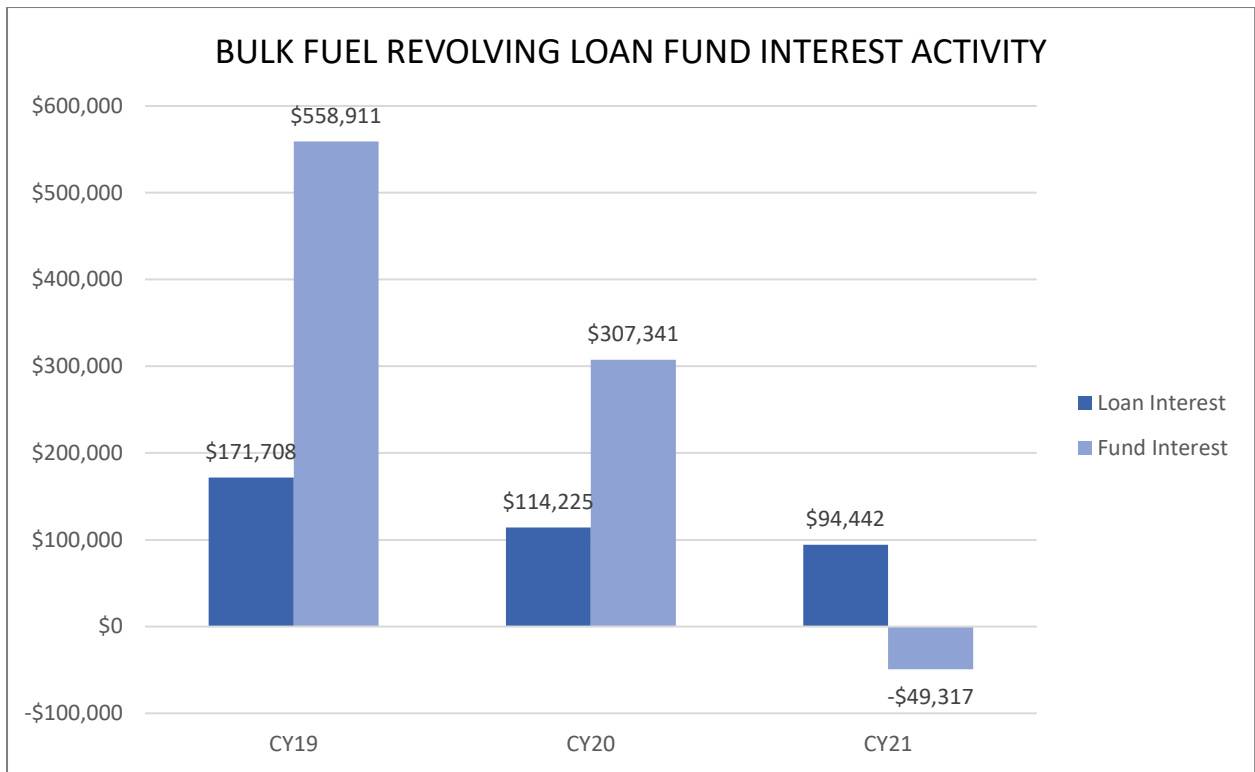


Figure 6. Bulk Fuel Revolving Loan Fund Interest Activity

The decrease in interest earned through the loans in 2021 is attributed to the lower total number of loans and lower interest rates prescribed to borrowers by the program. For example, most borrowers in 2021 qualified for a 2 percent interest rate from the Bulk Fuel Loan Account. The number of borrowers for the Bulk Fuel Bridge Loan Account paying a 4 percent interest rate also decreased.

The *Bulk Fuel Revolving Loan Fund* is part of the General Fund and Other Non-segregated Investments (GeFONSI) “Type 1” category with the Department of Revenue. These are funds that have been pooled together for investment purposes. The Treasury Division is responsible for investing the funds as well as calculating and allocating the monthly investment earnings to fund participants. The Type 1 category are for funds whose assets are legally entitled to automatically receive earnings attributable to the investment of those assets. The negative interest earnings for the fund shown in Figure 6 are a result of the annual market values and performance results for GeFONSI Type 1 investments.

SUMMARY & LOOKING FORWARD

The Bulk Fuel Revolving Loan Program and *Bulk Fuel Revolving Loan Fund* continue to provide communities and regions across the state of Alaska the necessary cash flow to cover large bulk fuel purchases and associated shipping expenses.

The program continues to work with communities and provide the required technical advice and assistance to secure enough fuel supplies for the winter months and partner with communities when faced with fuel emergencies.

In looking forward, the program plans to promote the loan opportunity with letters to community and regional leaders and other outreach materials to encourage as much forward planning as possible.

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Division of Community and Regional Affairs

Bulk Fuel Revolving Loan Program

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