



ALASKA
DEPARTMENT OF
COMMERCE,
COMMUNITY,
AND ECONOMIC
DEVELOPMENT

DIVISION OF COMMUNITY AND REGIONAL AFFAIRS

Bulk Fuel Revolving Loan Program Annual Report 2015



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Bulk Fuel Revolving Loan Program Website:

<https://www.commerce.alaska.gov/web/dcra/BulkFuelLoanProgram.aspx>

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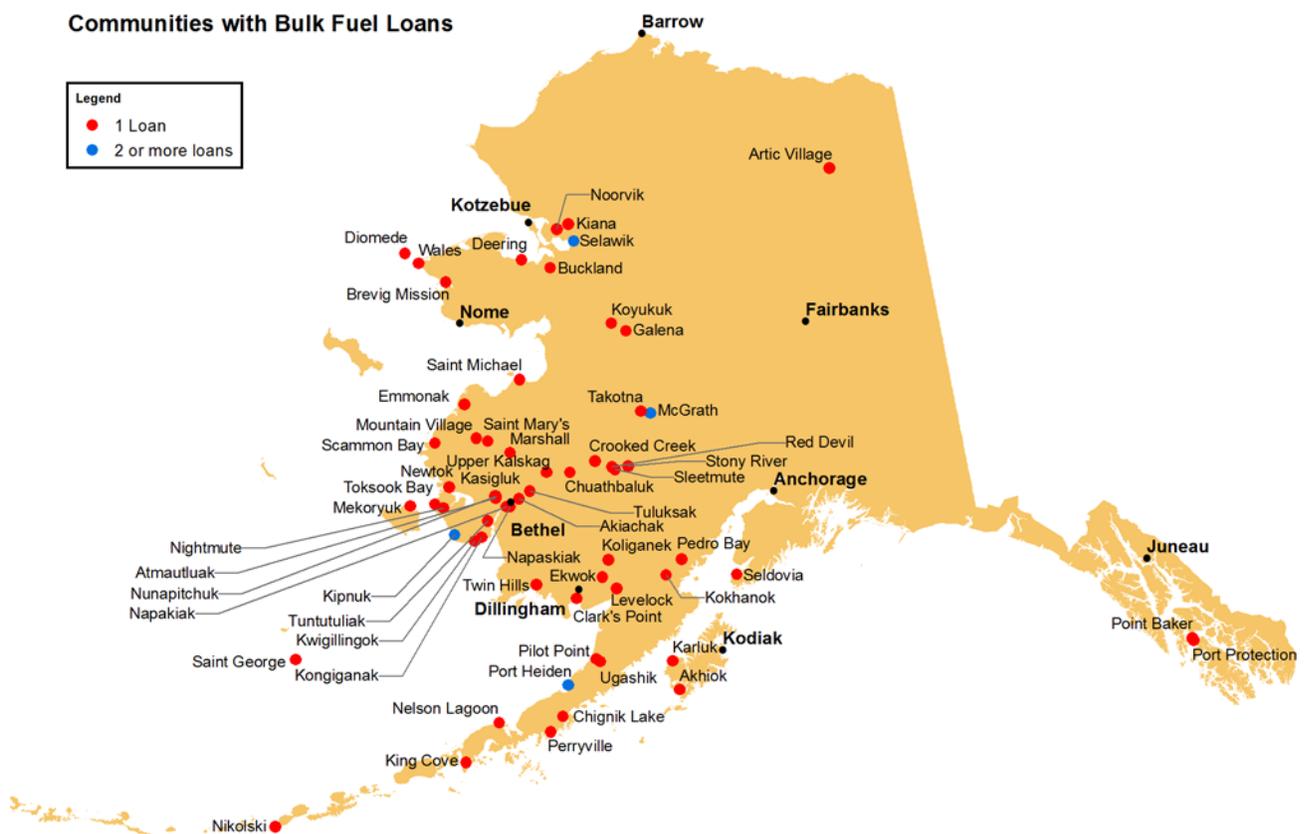
Department of Commerce, Community, and Economic Development; Division of Community and Regional Affairs

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The State of Alaska created the Bulk Fuel Revolving Loan Program in response to the needs of rural communities for sufficient winter fuel supplies. The program provides loans to assist communities, utilities providing power in communities, and fuel retailers in communities in purchasing fuel. The fuel is used to generate power, to sell fuel in a community, or to maintain community facilities or infrastructure. Most communities in rural Alaska must purchase a fuel supply sufficient to last through each winter and do not have the financial means to pay the entire amount upon delivery.

During calendar year 2015, DCRA managed 94 loans for rural entities. Fifty-eight communities received sixty-six loans to purchase bulk fuel; in addition, DCRA continued to manage eighteen 2014 loans. Six 2013 loans, and four 2012 loans, were in collection status. Many Alaska communities are located off the road system and have limited and, at times, impaired (mostly due to weather) waterway access. Such isolation requires seasonal deliveries and contributes to additional delivery costs for fuel. These communities lie in various regions of the state, as shown in Figure 1.

FIGURE 1. ACTIVE BULK FUEL LOANS



INTRODUCTION AND METHODOLOGY

The Bulk Fuel Revolving Loan Program Report contains an annual collection of statistics related to the administration of the bulk fuel loan program. This report is provided on a calendar year basis because of the nature of annual fuel needs and repayment schedules for bulk fuel loan borrowers in rural Alaska. The report highlights the program history, revolving fund activity, communities approved for loans, the value of loans, loan interest revenue earned, program costs and debt collection efforts. The report provides comprehensive information about the bulk fuel loan program, and provides a historical perspective.

In the years prior to January 2013, the State of Alaska, Department of Commerce, Community, and Economic Development (DCCED), Division of Community and Regional Affairs (DCRA) and the Alaska Energy Authority (AEA) administered bulk fuel revolving loan programs. The AEA loan program offered loans with interest to rural applicants with demonstrated creditworthiness and included application fees. DCRA's program, called the Bridge Loan Program, was intended to assist those rural communities that had been denied a fuel loan through the AEA program. Bridge Loans were provided to rural applicants free of interest and application fees. There were separate fund accounts for each loan program.

The 2012 session of the Alaska Legislature repealed authorizing language for both programs in Alaska Statute Sections 42 and 29 and replaced it with language creating a new Bulk Fuel Revolving Loan Program in AS 42.45.250 – 42.45.299 that combined the two programs. The new statute established the Bulk Fuel Revolving Loan Fund in the division (DCRA) to assist communities, utilities providing power in communities, and fuel retailers in communities in purchasing fuel to generate power or selling fuel in a community or maintaining community facilities or infrastructure. Established in the fund are two accounts maintained separately. One is the bulk fuel loan account, which began as the fund managed by AEA for their earlier program; the other is the bulk fuel bridge loan account, which began as the fund managed by DCRA for their earlier loan program. AS 42.45.260(b) directs the division to establish by regulation criteria under which eligible communities or entities may obtain bulk fuel loans. Those regulations were adopted in 3 AAC 161.010 – 161.900. Effective January 1, 2013, DCRA began administering the new Bulk Fuel Revolving Loan Program.

Loan Purposes

The Bulk Fuel Revolving Loan Program assists communities, utilities providing power in communities, and fuel retailers in communities in purchasing fuel to generate power or selling fuel in a community or maintaining community facilities or infrastructure. The program assists communities by financing the purchase of bulk fuel oil or gasoline including the shipping costs of the fuel to the community. Most communities in rural Alaska must purchase a fuel supply sufficient to last through each winter and do not have the financial means to pay the entire amount upon delivery. Applications are accepted year round.

Eligibility

Loans are made to a municipality or unincorporated village with a population under 2,000, or a private individual or company retailing fuel or electricity in such a community. Some communities have multiple entities participating in the loan program; a borrower may provide retail sales of heating oil or gasoline, be an electric utility operator, or a municipality providing utility services to public facilities. DCRA determines loan approvals and eligibility on an individual basis. The Division makes loans from the Bulk Fuel Revolving Loan Fund as either bulk fuel loans or bulk fuel bridge loans as provided in AS 42.45.260 or 42.45.270.

Loan Terms

The amount of a loan, added to the amounts of all other bulk fuel revolving loan principle balances to the same borrower, may not exceed \$750,000. A cooperative organization representing more than one community may qualify for a maximum loan amount not to exceed \$1.8 million. Loans are payable in nine equal monthly payments and must be repaid during that term unless an alternate payment schedule has been approved by DCRA. Shorter terms may be required in special circumstances as determined by DCRA. All loans must be paid within one year from date of disbursement. The Bulk Fuel Revolving Loan Program charges per annum interest rates of 0% to 4%. Interest rates are determined by DCRA (AS 42.45.280) and based on the fund account an applicant is eligible for, the previous loan repayment record, and the credit worthiness of the applicant. First time bulk fuel bridge loan borrowers receive an interest free loan; subsequent bulk fuel bridge loans are charged 4%. First time bulk fuel loan borrowers are charged an interest rate of 4%; with a good payment history, a subsequent loan maybe charged 3% and with continued good payment history, future loans may be charged 2%. The lowest interest rate charged for a bulk fuel loan is 2%.

Collateral

Applicants are required to secure a bulk fuel loan by submitting a promissory note and loan agreement adopted by the governing body of the borrower. The borrower must also submit a resolution from the governing body of the community, or from the board of directors of a private entity, as appropriate, authorizing the borrower to enter into and execute the loan agreement and promissory note evidencing the loan and other documents required by DCRA. The loan application also requires the borrower to document the revenue sources intended to repay a bulk fuel loan. The promissory note and loan agreement states that payments from the State of Alaska for funds provided by Community Revenue Sharing (CRS), Payment in Lieu of Taxes (PILT), Power Cost Equalization (PCE), or other programs may be assigned to the Bulk Fuel Revolving Loan Program, in the event of loan default. These assignments and other intended revenue sources for loan payments are detailed in a payment plan agreed to by the borrower and DCRA.

Loan Program Management

The Bulk Fuel Revolving Loan Program is administered by the Local Government Assistance section of DCRA. Currently, the LGS section manager (10%) and one full time LGS staff person manage loan applications, process loan documents, determine approvals, monitor the loan fund accounts, process loan modifications, and conduct all collection actions.

Program Operations

The day-to-day administration of the bulk fuel loan program is performed by the DCRA section manager and a full time DCRA staff person. Loan servicing is provided with an annual operating appropriation from the bulk fuel loan fund accounts to the Division of Economic Development (DED). DED manages loan data and fund reporting for the loan program. Loan payments are processed daily and a weekly report is created by DCRA; this report provides a summary of the loan program activity. DCRA also contracts a technical assistance provider, who assists borrowers with rate setting, cash flow, financial planning, and collections issues.

Loan Delinquency

On December 31, 2015, the bulk fuel loan program had 70 active outstanding loans valued at \$8,729,817.00; the past due (over 90 days) amount for 11 delinquent loans was \$1,213,022. This represents 13.9% of the outstanding loan portfolio. This compares to the CY 14 amount of \$1,780,000. That amount represented 15% of the outstanding loan portfolio for 2014. The 2015 revenue collections from delinquent borrowers netted approximately \$894,000.

We have established repayment plans for all 11 borrowers.

- 5 loans are scheduled to payoff within 1 year
- 3 loans are on 2 -3 year repayment plans
- 3 loans have 4-5 year repayment plans

Over the next 12 months, we expect to collect approximately \$586,000 from delinquent bulk fuel loan borrowers.

Collections

The Bulk Fuel Revolving Loan Program has adopted a standardized approach to delinquent loan collections. DCRA maintains bi-weekly contact with delinquent borrowers. When loan payments are 15 days late, a systematic collection procedure is implemented. The bulk fuel revolving loan program collection procedure is described below.

- **15 days** Contact is made with a delinquent borrower by phone or email about the current payment due. DCRA will verify they have received their monthly statement and understand the loan repayment schedule.
- **30 days** DCRA will conduct an informal follow up contact by email and / or a phone call.
- **45 days** DCRA will write a brief direct letter requesting contact regarding delinquency. The letter is sent to the borrower with attention to the specific signor of the Loan Agreement.
- **50 days** Follow up on the 45-day letter after 5 workdays with a phone call and email. A copy of the letter is attached to the email.
- **60 days** A detailed letter is sent, the letter restates the loan agreement repayment language and outlines possible payment options, which may be an adjusted payment

schedule, assignments of other state revenues, or direct deposit options. DCRA offers assistance from the technical contractor with rate setting, cash flow, and management of the utility. The letter includes reminders about loan limits, credit risks, and interest rates for subsequent loans.

- **75 days** DCRA will resend the 60-day letter via fax or email.
- **90 days** DCRA will send a copy of the 60-day letter via certified mail, regular mail, fax and email. Additional information is attached as deemed necessary.
- **Over 90 days** DCRA will continue bi-weekly contact, until the borrower is current with loan payments or a signed loan repayment plan is adopted.

All delinquent loan files contain a borrower contact log; the log documents all communication with the borrower regarding collection activity. A subsequent loan request made by a delinquent borrower is limited to the amount of fuel necessary to sustain community services, as well as the borrower's ability to provide a reasonable loan repayment plan. Loan repayment plans may require assignments of Community Revenue Sharing, Payment in Lieu of Taxes funds, Power Cost Equalization reimbursements, and other revenue sources. Borrowers that struggle with cash flow, rate setting and utility collections can also receive technical assistance provided by the program; such assistance may be made a condition of subsequent loan approvals.

Loan Denials

In accordance with State of Alaska, Bulk Fuel Revolving Loan Fund Regulation **3 ACC 161.040**, a bulk fuel loan application may be denied for the following reasons:

- Existing and prior debts
- Prior loan history with other known fuel lenders or the division
- Lack of legally available monies to secure a bulk fuel loan

If a loan is denied, DCRA will notify the applicant in writing and by email or a phone call. The applicant is advised of the right to file a written request for reconsideration within 30 days after receipt of the letter of denial. DCRA will, in its discretion, reconsider the loan request if the borrower can demonstrate that:

- There has been a substantial change in the circumstances leading up to the department's decision;
- Additional relevant information can be provided to the department that was not initially available; or
- Administrative errors were made by the department.

The table on the following page (Figure 2) illustrates a historical perspective of the communities served by the Bulk Fuel Revolving Loan Program since January 1, 2012. In 2012, the Bulk Fuel Bridge Loan Program provided loans for 26 communities. In 2013, when the former Alaska Energy Authority Bulk Fuel Loan Program and the DCRA Bulk Fuel Bridge Loan Program were combined, 55 communities received bulk fuel loans. In 2014, 56 communities received 61 bulk fuel loans. In 2015, 59 communities received 66 loans from the Bulk Fuel Loan Program.

FIGURE 2. 2012 - 2015 BULK FUEL LOANS

Community	2012	2013	2014	2015	Community	2012	2013	2014	2015
Akhiok				X	Mekoryuk				X
Akiachak	X	X	X	X	Mountain Village		X	X	X
Alakanuk	X	X	X	X	Napakiak		X	X	X
Aniak	X				Napaskiak	X	X	X	X
Arctic Village	X				Nelson Lagoon	X	X	X	X
Atmoutluak	X		X	X	Newtok		X	X	X
Brevig Mission				X	Nightmute				X
Buckland			X	X	Nikolski		X	X	X
Chefornak	X	X			Noorvik	X	X	X	X
Chignik Lagoon		X			Nunapitchuk		X	X	X
Chignik Lake	X	X	X	X	Pedro Bay		X	X	X
Chuathbaluk		X	X	X	Perryville		X	X	X
Clark's Point	X	X	X	X	Pilot Point	X	X	X	X
Crooked Creek	X	X	X	X	Platinum	X	X		
Deering		X	X	X	Point Baker	X	X	X	X
Diomedede				X	Port Graham			X	
Ekwok	X				Port Heiden	X	X	X	X
Elfin Cove		X			Port Protection		X	X	X
Emmonak	X	X	X	X	Red Devil		X	X	X
Galena	X	X	X	X	Saint George	X			
Holy Cross		X	X		Saint Mary's		X	X	X
Igiugig	X				Saint Michael			X	X
Karluck	X	X	X	X	Scammon Bay		X	X	X
Kasigluk		X	X	X	Selawik		X	X	X
Kiana		X	X	X	Seldovia		X	X	X
King Cove		X	X	X	Sleetmute		X	X	X
Kipnuk	X	X	X	X	Stony River		X	X	X
Kokhanok		X	X	X	Takotna		X	X	X
Koliganek		X	X	X	Toksook Bay		X	X	X
Kongiganak		X	X	X	Tuluksak	X	X	X	X
Koyukuk		X	X	X	Tuntutuliak		X	X	X
Kwigillingok	X	X	X	X	Twin Hills		X	X	X
Larsen Bay		X	X		Ugashik				X
Levelock	X	X	X	X	Upper Kalskag		X	X	X
Marshall		X	X	X	Wales				X
McGrath		X	X	X	Total	26	55	56	59

The list below (Figure 3) represents the loan amounts disbursed for each borrower in CY15. Some communities have multiple borrowers because various entities provide different fuel services in a community.

FIGURE 3. 2015 BULK FUEL LOAN AMOUNTS

Community	Borrower Name	Bridge Loan Account	Bulk Fuel Loan Account
Akhiok	City of Akhiok	\$100,000.00	
Akiachak	Akiachak Native Community	\$96,327.20	
Akiachak	Akiachak Electric Company		\$193,800.00
Akiachak	Akiachak Fuel Sales Inc		\$315,892.50
Alakanuk	Alakanuk, City of	\$101,219.55	
Atmautluak	Atmautluak TC	\$129,778.38	
Brevig Mission	City of Brevig Mission	\$24,997.06	
Buckland	Buckland IRA Council		\$341,124.74
Chignik lake	Chignik Lake Traditional		\$190,265.00
Chuathbaluk	Chuathbaluk, City of	\$10,000.00	
Crooked Creek *	Middle Kuskokwim		\$287,837.34
Deering	Ipnatchiaq Electric		\$166,366.50
Deering	Deering IRA Council		\$141,819.40
Diomedes	The Little Store	\$39,556.44	
Emmonak	Emmonak, City of	\$127,534.50	
Galena	Galena, City of		\$750,000.00
Kalskag	Morgan Fuel Service		\$212,507.03
Kalskag	Kalskag, City of		\$107,440.00
Karluck	Karluck, Native Village of		\$71,625.01
Kasigluk	Kasigluk Inc		\$310,448.57
Kiana	Kiana, City of		\$200,000.00
King Cove	King Cove, City of		\$481,443.55
Kipnuk	Kipnuk Light Plant	\$259,100.00	
Kipnuk	Kipnuk Traditional Council	\$81,525.52	
Kokhanok	Kokhanok Village Council		\$292,618.60
Koliganek	New Koliganek V.C.		\$318,928.06
Kongiganak	Puvurnaq Power Company		\$165,222.00
Koyukuk	Koyukuk, City of		\$174,128.91
Kwigillingok	Kwig Power Company	\$219,144.57	
Levelock	Levelock Village Council	\$222,076.12	
Marshall	Maserculiq Inc.		\$175,816.00
McGrath	McGrath, City of	\$66,180.40	
McGrath	MTNT McGrath L&P		\$732,868.00
Mekoryuk	City of Mekoryuk	\$50,046.97	

Mountain Village	Mountain Village	\$84,314.30	
Napakiak	Napakiak Corporation		\$245,658.58
Napaskiak	Napaskiak Electric		\$204,880.00
Nelson Lagoon	Nelson Lagoon Enterprizes		\$360,563.66
Newtok	Ungusraq Power Company		\$104,896.68
Nightmute	City of Nightmute	\$19,290.00	
Nikolski	Nikolski, Native Village		\$164,960.00
Noorvik	Noorvik Native Store		\$198,755.00
Nunapitchuk	Nunapitchuk Limited		\$224,328.00
Pedro Bay	Pedro Bay Village Council		\$52,996.00
Perryville	Perryville, Native Village of		\$235,676.93
Pilot Point	Pilot Point, City of		\$312,667.00
Point Baker	Point Baker Trading Post		\$131,710.48
Port Heiden	Port Heiden, City of	\$444,376.69	
Port Protection	Wooden Wheel Cove		\$68,438.10
Red Devil *	Middle Kuskokwim		
Saint Mary's	St. Mary's, City of		\$114,090.60
Saint Michael	St. Micheal Fuel Company		\$227,314.00
Scammon Bay	Askinuk Corporation		\$99,415.61
Selawik	Selawik, Native Village		\$445,964.70
Selawik	City of Selawik	\$95,598.00	
Seldovia	Seldovia Fuel & Lube		\$721,362.56
Sleetmute *	Middle Kuskokwim		
Stony River *	Middle Kuskokwim		
Takotna	Takotna Comm. Association		\$90,000.00
Toksook Bay	Nunakauiak Yupik Corp		\$257,244.09
Toksook Bay	City of Toksook Bay		\$13,437.25
Tuluksak	Tuluksak	\$69,775.00	
Tuntatuliak	TCSA Electrical Services		\$161,751.00
Twin Hills	Twin Hills VC		\$141,904.29
Ugashik	Alaska Peninsula Fuel	\$20,666.00	
Wales	Native Village of Wales	\$82,875.00	
58 Communities	66 Borrowers	\$2,344,381.70	\$10,208,165.74

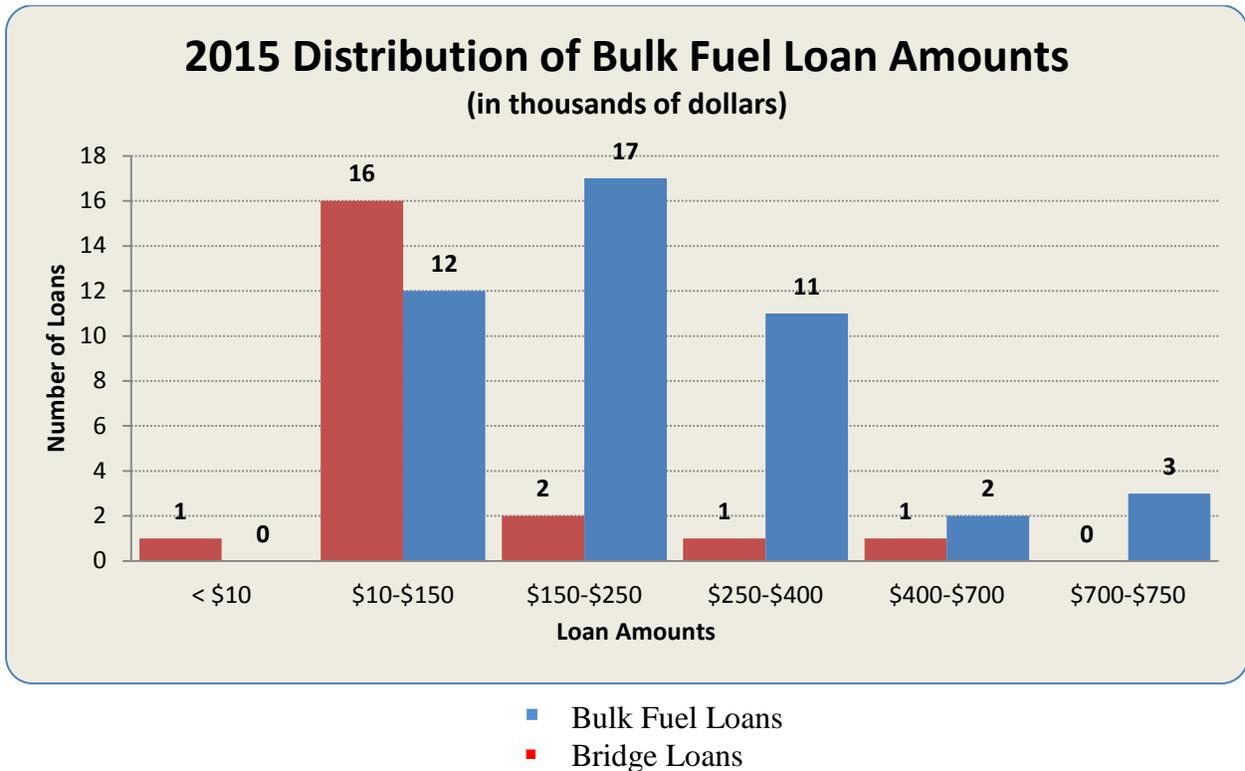
*Four communities served by Middle Kuskokwim Electric Cooperative

Fuel Costs

Wholesale fuel costs for CY15 borrowers averaged \$3.10 per gallon for diesel and \$3.39 per gallon for gasoline. The highest price paid for gasoline was \$7.45; the lowest price was \$1.97. Diesel prices ranged from a high of \$7.85 to the lowest price of \$1.69. These fuel prices include the cost of delivery to the community. A bi-annual collection of retail fuel prices in 100 rural Alaska communities is available at the Alaska Fuel Price Report published at: <https://www.commerce.alaska.gov/web/dcra/>

The chart below (Figure 4) indicates the loan disbursement amounts for both loan fund accounts in CY15. A weekly report documents the current loan balance for each borrower, the payment history for each loan and the fund balances.

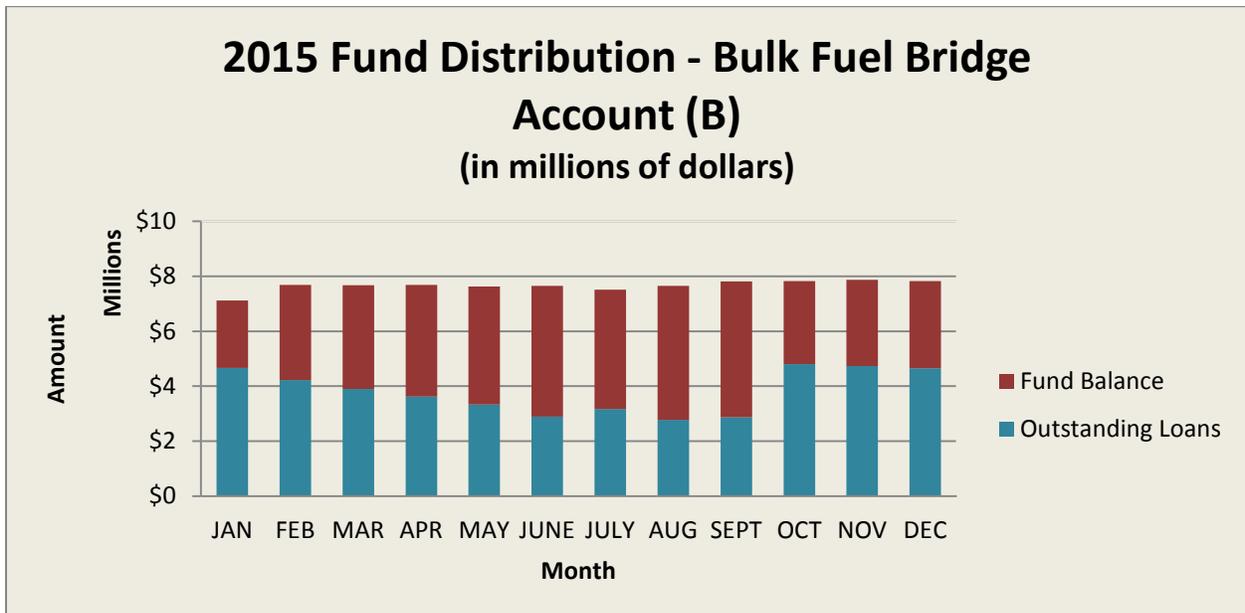
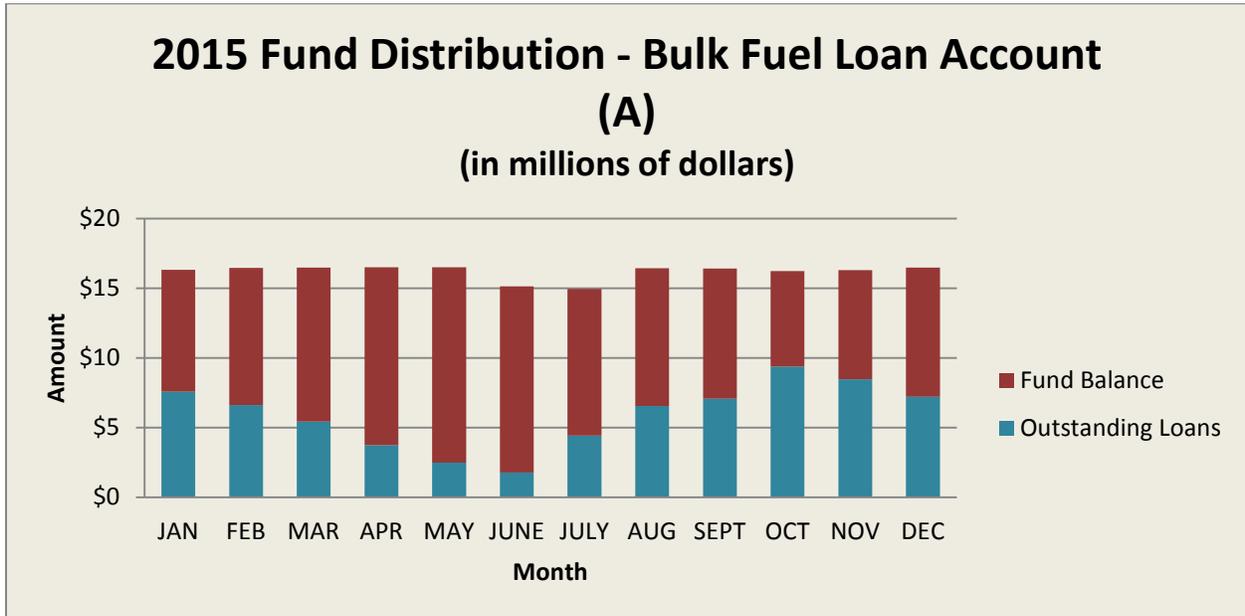
FIGURE 4. ANNUAL BULK FUEL LOAN AMOUNTS 2015



In 2015, the bulk fuel loan program approved 45 new revolving loan fund loans and 21 new bulk fuel bridge loans. The loan amounts ranged from \$10,000 to \$750,000, the average loan amount was \$178,000. In 2014, the average loan amount was \$235,000. The decrease in loan amounts is reflective of the significant lower wholesale cost of fuel in 2015. The funds disbursed in CY15 from the revolving loan fund account were \$10,208,165.74. The funds disbursed from the bulk fuel bridge loan fund account were \$2,344,381.70. The total CY15 disbursements for fuel purchases in rural Alaska from the Bulk Fuel Revolving Loan Program were \$12,552,547.

Loans from the Bulk Fuel Revolving Loan Fund are approved as bulk fuel loans (A) or bulk fuel bridge loans (B), as provided in AS 42.45.250-42.45.299. The graphs below (Figure 5) indicate the monthly outstanding loan amounts due, and the total value for each loan fund account (A) and (B) in CY15.

FIGURE 5. ANNUAL BULK FUEL LOAN FUND ACTIVITY 2015



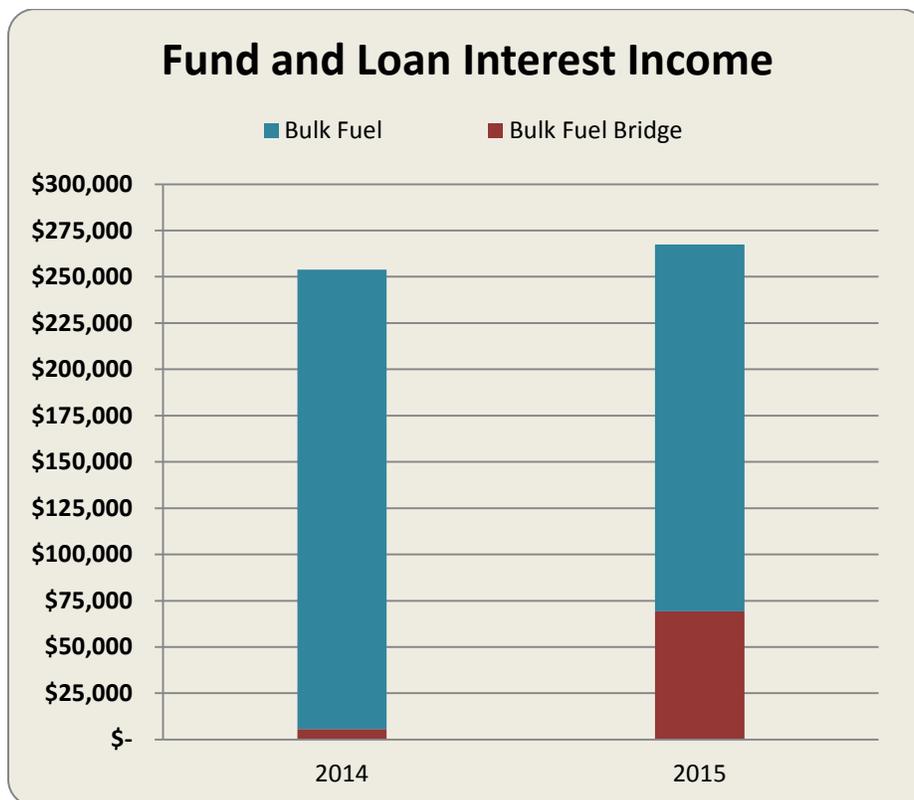
The Bulk Fuel Revolving Loan Program charges per annum interest rates of 0% to 4 %. (AS 42.45.280). Interest rates are determined by DCRA and based on the fund account an applicant is eligible for, the applicant’s previous loan repayment record, and credit history. The fund itself also earns interest based on the daily average fund balance.

In CY15, eleven new bulk fuel loan borrowers were charged a 4% interest rate. Twelve borrowers with good loan repayment histories were approved for subsequent loans with a 3% interest rate, and 22 borrowers received loans with 2% interest rates. The interest income in the bulk fuel loan account for CY15 was \$198,265.46.

Pursuant to AS 42.45.250 – 42.45.299, seven first time bulk fuel bridge loan borrowers received interest free loans. Fourteen subsequent loans made to bulk fuel bridge loan borrowers were approved for loans with a 4% interest rate. The interest income for the bulk fuel bridge loan account for CY15 was \$69,226.09.

The chart below (Figure 6) illustrates the loan program interest and fund interest income for both loan accounts in CY14 and CY15. The marked increase in interest earned from bridge loans in CY15 is attributed to the number of CY14 loans that were first time borrowers that received interest free loans as required in AS 42.45.280 (c).

FIGURE 6. ANNUAL BULK FUEL LOAN FUND ACTIVITY 2015



The total income from loan fund interest and the fund account for CY15 was \$267,491.

The total expenses to operate the bulk fuel loan program for CY15 were approximately \$213,345.

