

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

January 24, 2007

8:40 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Kyle Johansen
Representative Gabrielle LeDoux
Representative Peggy Wilson
Representative Bryce Edgmon
Representative Lindsey Holmes

MEMBERS ABSENT

Representative John Harris

COMMITTEE CALENDAR

OVERVIEWS: COMMERCIAL FISHERIES ENTRY COMMISSION (CFEC);
DIVISION OF INVESTMENTS - COMMERCIAL FISHERIES LOAN PROGRAMS,
AND FISHERIES ENHANCEMENT REVOLVING LOAN PROGRAM

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

FRANK HOMAN, Chairman

Commercial Fisheries Entry Commission (CFEC)

Alaska Department of Fish & Game (ADF&G)

Juneau, Alaska

POSITION STATEMENT: Presented the overview for the CFEC, and responded to questions.

GREG WINEGAR, Director

Division of Investments

Department of Commerce, Community, & Economic Development
(DCCED)

Juneau, Alaska

POSITION STATEMENT: Introduced the presentation for the Division of Investments, and responded to questions.

GEOFF WHISTLER, Lending Supervisor
Division of Investments
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Presented the overview for the Division of Investments, the Commercial Fisheries Loan Programs, and the Fisheries Enhancement Revolving Loan Program, and responded to questions.

ACTION NARRATIVE

CHAIR PAUL SEATON called the House Special Committee on Fisheries meeting to order at [8:40:42 AM](#). Representatives Edgmon, Johansen, and Holmes were present at the call to order. Representatives Wilson and LeDoux arrived as the meeting was in progress.

OVERVIEW: COMMERCIAL FISHERIES ENTRY COMMISSION

[8:41:03 AM](#)

CHAIR SEATON announced that the first order of business would be an overview presentation from the Commercial Fisheries Entry Commission (CFEC).

[8:41:34 AM](#)

FRANK HOMAN, Chairman/Acting Commissioner, Commercial Fisheries Entry Commission (CFEC), Alaska Department of Fish & Game (ADF&G), began by giving a brief history of the CFEC. Referring to a handout titled "30 Years of Limited Entry," he explained that in 1972, a constitutional amendment allowing for limited entry passed. In 1973, the limited entry law was enacted. The aforementioned law allowed permits to be issued to natural persons who are gear operators. These permits could not be leased, encumbered, or used as collateral for loans. Most limited entry permits are freely transferable. He also pointed out that limited entry permits are a privilege, and are not property. The Internal Revenue Service (IRS), he said, has previously attempted to seize permits in the past. The IRS is able to attach the earnings, he said.

[8:46:32 AM](#)

REPRESENTATIVE LEDOUX asked if the aforementioned constitutional amendment or the limited entry law specified "natural persons."

MR. HOMAN replied that the constitutional amendment "suggested" this, but it was not specifically stated.

REPRESENTATIVE LEDOUX offered her understanding that there is a scallop fishery which allows corporations to hold the aforementioned permits.

MR. HOMAN replied that this is correct. He stated that there are currently two "experimental fisheries" which allow vessel permits. This was primarily a conservation issue. He explained that these fisheries have a number of "elite skippers," which would have resulted in a large number of permits. Therefore, the legislature allowed the vessels to be licensed.

MR. HOMAN, in response to questions from Chair Seaton regarding the IRS, clarified that only the earnings from the permit can be attached, not the permit itself. He explained that the IRS has access to seize any earnings produced, although this is not "spelled out."

[8:50:50 AM](#)

REPRESENTATIVE WILSON asked for further clarification.

MR. HOMAN explained that the money received from the sale of a permit could be seized by the IRS. The claim is not on the permit, but on the individual. He then went on to discuss the transferability of permits. Permit holders are free to transfer permits to family members or any other person who is able to participate in the fishery. Transfers often occur by gift, inheritance, or sale. If by sale, the value is determined by the private sector market. He explained that transferability resulted in maintaining high percentages of residents in Alaska's fisheries.

[8:53:36 AM](#)

MR. HOMAN, in response to a question from Representative LeDoux, explained that the state monitors the transfer of permits, adding that transfers are restricted to persons who are able to actively participate in the fishery. The state collects information regarding the permit sales, which is published on a monthly basis, in addition to an annual transfer study.

REPRESENTATIVE LEDOUX asked whether there are certain criteria with respect to active participation in the fishery.

MR. HOMAN replied that the individual must certify that they are able to actively participate, adding that if the state is aware that the individual cannot actively participate, then the transfer is not allowed.

[8:56:05 AM](#)

REPRESENTATIVE HOLMES inquired as to whether certain conditions are allowed during the sale or transfer of a permit.

MR. HOMAN replied no.

CHAIR SEATON asked if permit transfers and returns are monitored to prevent leasing.

MR. HOMAN replied yes. Situations involving yearly transfers are investigated to ensure that leasing is not occurring. However, emergency transfers are allowed if there is a medical emergency. Once the medical condition improves, the permit [must be returned].

CHAIR SEATON asked for clarification that this only applies to medical emergencies, and can not be used simply because an individual decides to participate in a different fishery.

MR. HOMAN agreed that this is correct. He added that temporary transfers are not allowed. He said "you have to choose which fishery you're going to participate in."

REPRESENTATIVE LEDOUX offered her understanding that there is no distinction between resident versus non-resident transfers.

MR. HOMAN replied that this is correct.

REPRESENTATIVE LEDOUX inquired as to the percentage of salmon permits held by residents versus non-residents.

[8:59:12 AM](#)

MR. HOMAN replied that this information is included in the annual transfer report, which would be discussed later in the presentation. He also noted that the majority are held by Alaska residents. He pointed out that permits tend to stay within families, adding that this is "particularly important in rural Alaska." Also, he noted that the Division of Investment and the Commercial Fisheries and Agricultural Bank loan money to

residents for the purchase of permits. He then explained the structure of the CFEC. There are four main sections: adjudications, licensing, research, and information technology. He commented that due to budget constraints, the staff has been reduced from 41 to 29 employees, adding that it is difficult to recruit new staff. Several senior staff members have left the CFEC for federal jobs. The CFEC has been able to generate enough revenue from fees collected to cover the majority of the CFEC budget, and only uses a small amount of general funds.

9:03:35 AM

MR. HOMAN moved on to discuss the amount of limited entry permits held by Alaskans and non-Alaskans. Originally, he said, 13,000 were held by Alaskans, while 3,000 were not. Currently, around 11,000 are held by Alaskans, and 3,000 are held by non-Alaskans. He then discussed a slide titled "Permit Holdings at Initial Issuance & Year-End 2005." He stated that although it is not shown on the slide, 57 percent of Alaskan held permits are held by individuals living in rural areas.

REPRESENTATIVE LEDOUX inquired as to why there are currently less permits than were originally issued.

MR. HOMAN replied that there are about 1,700 fewer permits than were originally issued. He explained that several of the original permits were non-transferable. Non-transferable permits "cease to exist" at the death of the permit holder. This usually occurs in fisheries where the applicants outnumber the available permits, particularly in the salmon hand troll fishery.

9:06:08 AM

MR. HOMAN then explained the summary of net changes in permit ownership from 1975 to 2005.

CHAIR SEATON, in regard to state-authorized lenders, asked if this "has been a pretty static number ... or a transient amount that stays about the same."

MR. HOMAN replied that the number changes often, adding that the lenders tend to move the permits, rather than hold onto them. Referring to a slide titled "Alaska Communities with Highest Number of Issued Permits," he stated that this shows the difference in the number of permits originally issued compared to the permits held in 2005. He pointed out that the shaded

numbers indicate an increase in permits held in that particular area. The next slide, he said, shows the communities with the highest number of permits at year-end 2005. He commented that Anchorage holds the highest number of permits, followed by Petersburg. Moving on, he discussed the communities whose permit numbers have decreased. He pointed out that in Ketchikan, the decrease was due to the non-transferable hand-troll permits.

[9:11:28 AM](#)

MR. HOMAN went on to discuss the communities with the greatest net increase in permit holdings. Homer shows the largest increase. Moving on to the next slide, titled "Alaska Communities with the Greatest Number of Permits Per Capita," he pointed out the importance of limited entry permits to smaller communities.

REPRESENTATIVE LEDOUX inquired as to whether any studies have been done to show why certain areas have had a decrease in permits.

MR. HOMAN replied that this information is not available at this time, although each community would have different reasons. He added that the CFEC can research any community in order to gather this information.

[9:13:20 AM](#)

MR. HOMAN returned to the aforementioned slide, pointing out that Petersburg has a larger number of permits per capita. He added that this is a "very active fishing community." In regard to permit transfer rates, he stated that this is about 10 percent per year. In rural Alaska, he said, 49 percent of transfers are gift transfers. Correspondingly, he said, rural Alaska has the lowest number of sale transfers. He pointed out that non-residents and residents show similar amounts in most categories.

CHAIR SEATON inquired as to whether a gift transfer would include estate inheritance.

[9:15:30 AM](#)

MR. HOMAN replied in the affirmative. Moving on to the next slide, titled "Relationship in Transfers by Resident-Type of Recipient," he pointed out that 49 percent of transfers in rural

Alaska are to immediate family. He pointed out that 70 percent of transfers within rural Alaska are between friends, immediate family, or other relative. In regard to the sources of permit financing, he pointed out that the [Division of Investment loan programs] and the Commercial Fishing and Agriculture Bank (CFAB) are the "source of financing for a significant portion of the transfers," adding that non-residents are not eligible for these programs. Continuing on, he noted that transfer recipients are younger than the transferor, while the average age of permit holders is increasing.

CHAIR SEATON commented that in 1980, the average transfer recipient was 33-34 years, while currently, this age is 39-40 years.

[9:18:09 AM](#)

MR. HOMAN stated that this information would also be shared at the upcoming "Alaska Young Fishermen's Summit." This summit was created by the Alaska Sea Grant Marine Advisory Program (Sea Grant) and is intended to encourage and stimulate the involvement of younger fishermen within the industry. Continuing on, he discussed the success of the limited entry program. The program has protected Alaska's fisheries from an influx of outside fisherman, along with generating positive economic benefits for fishermen. In addition, this system has survived constitutional challenges. In regard to efforts toward restructuring the salmon fisheries, he explained the experimental board regulations for the Chignik Cooperative.

REPRESENTATIVE LEDOUX inquired as to whether the CFEC intends to "get involved" with legislation that may revive the Chignik Cooperative.

MR. HOMAN replied no.

[9:21:04 AM](#)

MR. HOMAN, returning to his presentation, explained that the board has allowed two permit holders to fish a single operation with additional gear in Bristol Bay, in order to reduce fleet size. This has "worked to an extent." The board may now consider allowing a person who holds two permits to fish additional gear.

[9:22:08 AM](#)

CHAIR SEATON inquired as to whether this has activated "latent permits." He questioned whether this allowance resulted in "cutting boats out of the fishery" or activating additional fathoms of net in the water.

MR. HOMAN replied that no analysis has been done.

CHAIR SEATON requested that this information be considered in order to have a better understanding of the results.

9:24:00 AM

MR. HOMAN, in regard to allowing an individual holding two permits to fish additional gear, stated that while the board may allow this, no action has been taken. In addition, private buyback legislation has been passed.

CHAIR SEATON requested information on the number of active permits within the fishery.

MR. HOMAN stated that this information is available.

9:27:14 AM

CHAIR SEATON opined that if the state is buying back latent permits, it is not reducing the fishing effort, but is simply reducing the amount of licenses that are available in the future.

MR. HOMAN agreed, adding that one intention behind the buyback is to prevent an influx of licenses, should the circumstances improve. He then discussed the next slide, titled "Explore Refinements." The limited entry process remains a primarily owner-operator based management system, and is most effective in salmon fisheries. The system is less useful in fisheries which are managed by a quota. In response to a question from Representative LeDoux, he explained that the aforementioned fisheries have many relief skippers, and each relief skipper is able to apply for a permit under the individual system, and may be ranked equally under the "point system."

9:31:45 AM

REPRESENTATIVE LEDOUX opined that this may only apply to "a few boats." She said "you might have other boats where nobody had enough points, just like when you did the original salmon limited entry. There must have been people with boats who

didn't get permits. So, I guess I'm having a hard time seeing the difference."

MR. HOMAN replied "You have a much larger group of applicants [on boats] where you have more than one skipper. If there were fifty vessels ... and 100 skippers eligible, and they all got a permit, you'd have 100 vessels out there. And that's one of the difficulties. We haven't figured out ... a way to fix that."

CHAIR SEATON added that the hearings on the hair crab and scallop fisheries would go into more detail on this issue.

[9:33:34 AM](#)

MR. HOMAN explained that the limited entry procedures are structured so that the number of allowable permits per fishery is determined by the maximum number. In response to an additional question, he stated that "maximum number" is in current statute and has been upheld by the courts. Moving on, he explained the legal constraints on the limited entry program, regardless of the system. The constitutional clauses are "in tension" with each other regarding equal access and the state's ability to limit. No special provisions may be made based on residency or location. He encouraged the members to take a look at the CFEC website, which offers additional information on the limited entry program.

CHAIR SEATON noted the availability of the CFEC 2005 Annual Report, and asked whether a 2006 report would be available.

MR. HOMAN replied that the reports are made available in the spring of each year. He also noted that the permits are on a licensing year, rather than a fiscal year.

[9:38:31 AM](#)

MR. HOMAN, in response to a question from Representative Johansen regarding the adjudication process, stated that previously, 900 cases were before the hearing officers and commissioners. This number has dropped to 160 cases.

REPRESENTATIVE LEDOUX asked if case status can be viewed online.

MR. HOMAN replied that this information is not available online; however, the CFEC can provide it at any time.

[9:40:42 AM](#)

CHAIR SEATON announced that the next order of business would be a presentation from the Division of Investments on the Commercial Fishing Loan Programs and the Fisheries Enhancement Revolving Loan Program.

OVERVIEW: DIVISION OF INVESTMENTS - COMMERCIAL FISHING LOAN PROGRAMS, AND FISHERIES ENHANCEMENT REVOLVING LOAN PROGRAM

[9:41:21 AM](#)

GREG WINEGAR, Director, Division of Investments, Department of Commerce, Community, & Economic Development (DCCED), explained that the days presentation would include information on the loan programs available, as well as background information on the Division of Investments.

[9:41:53 AM](#)

GEOFF WHISTLER, Lending Supervisor, Division of Investments, Department of Commerce, Community, & Economic Development (DCCED), began by listing the various loan programs administered by the division. These programs, he said, create jobs for Alaskans and provide a revenue stream back to the state. In addition, the division provides loan servicing in six portfolios for three other state agencies, including the Alaska Industrial Development and Export Authority (AIDEA), Department of Health and Social Services (DHSS), and the Department of Environmental Conservation (DEC). As of fiscal year 2006 (FY 06), the division has a total of 2,996 active loans, the balance of which have a total principal of over \$216 million. The division consists of two branches: Lending and Systems. The lending branch reviews and processes new loan applications, in addition to handling collections and foreclosures. The systems branch handles the general accounting for the division.

[9:44:56 AM](#)

MR. WHISTLER then discussed the Commercial Fishing Revolving Loan Fund (CFRLF), enacted in 1972. He briefly discussed the sections of the statutes which authorize the CFRLF. The division has committed a total of 6,328 loans, with over \$393 million in total dollars committed. In response to a question, he clarified that currently, there is an outstanding principal balance of \$216 million.

[9:49:36 AM](#)

MR. WINEGAR, in response to questions from Chair Seaton, explained that the majority of loans given come from interest earned on loans over the years. The \$60 million has "been leveraged into almost \$400 [million] and ... more than the \$60 million has been paid back. ... It's all been generated from earnings off of that fund, over the years." He stated that "far more" money is coming than is being given out. Over recent years, excess earnings have gone to pay for other programs.

REPRESENTATIVE WILSON commented that while in the past, attempts have been made to eradicate this program, it is important to consider how it has positively affected other areas.

MR. WHISTLER then discussed the Fisheries Enhancement Revolving Loan Fund (FERLF), enacted in 1976. The intent of FERLF was to finance salmon operations, along with capital expenditure needs for private non-profit hatcheries in Alaska. The interest rate on these loans is "prime" plus 1 percent, and is not to exceed 9.5 percent. The current rate, he said, is 9 percent. The division has currently committed over \$133 million, with 321 outstanding accounts. This is a total outstanding principal of \$121 million. He referred to the FERLF Program Overview, stating that this contains further details. The 2006 program overview should be available in March, he said.

CHAIR SEATON informed the committee that the Department of Labor & Workforce Development (DLWD) report on the Alaska Commercial Fishermen's Fund would be discussed at a future hearing due to the lateness of the hour.

[9:54:10 AM](#)

MR. WHISTLER stated that the division also maintains two small business loan funds: the Rural Development Initiative Fund (RDIF) and the Small Business Economic Development Revolving Loan Fund (SBED RLF). These programs are AIDEA owned, and provide small business loans to rural or economically repressed communities. The RDIF is for businesses in communities with a population of 5,000 or less. The SBED RLF is a "matching loan," which provides funding for one-third of the total project cost. These programs have helped retain or save 260 jobs across the state. In regard to fiscal year 2008 (FY 08), he stated that the division will play an important role in efforts to promote economic development in rural Alaska. The accomplishments for FY 06 include: approval of 169 commercial fishing loans, two fisheries enhancement loans, 16 RDIF loans, and 9 SBED loans.

9:57:11 AM

MR. WINEGAR, in response to a question from Chair Seaton, stated that while the division has been working with Bristol Bay Native Association (BBNA) and Bristol Bay Economic Development Corporation (BBEDC) over the past two years in an effort to create a loan guarantee program, nothing has been finalized.

CHAIR SEATON requested that further information regarding this program be submitted to the committee.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 9:59 a.m.