

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

February 22, 2011

5:06 p.m.

MEMBERS PRESENT

Representative Steve Thompson, Chair
Representative Craig Johnson, Vice Chair
Representative Alan Austerman
Representative Bob Herron
Representative Lance Pruitt
Representative Scott Kawasaki
Representative Bob Miller

MEMBERS ABSENT

COMMITTEE CALENDAR

OVERVIEW(S): INDUSTRY OVERVIEW: SEAFOOD PROCESSING SECTOR

- HEARD

HOUSE BILL NO. 121, "An Act establishing the commercial charter fisheries revolving loan fund, the mariculture revolving loan fund, and the Alaska microloan revolving loan fund and relating to those funds and loans from those funds; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 121

SHORT TITLE: LOAN FUNDS: CHARTERS/MARICULTURE/MICROLOAN

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/24/11	(H)	READ THE FIRST TIME - REFERRALS
01/24/11	(H)	FSH, RES, FIN
02/08/11	(H)	FSH AT 5:00 PM CAPITOL 120
02/08/11	(H)	Heard & Held
02/08/11	(H)	MINUTE(FSH)
02/22/11	(H)	FSH AT 5:00 PM CAPITOL 120

WITNESS REGISTER

MARY McDOWELL, Vice President
Pacific Seafood Processors Association (PSPA)

Juneau, Alaska

POSITION STATEMENT: Co-presented the overview of the seafood processing sector.

GLENN REED, President

Pacific Seafood Processors Association (PSPA)

Anchorage, Alaska

POSITION STATEMENT: Co-presented the overview of the seafood processing sector.

CURTIS THAYER, Deputy Commissioner

Department of Commerce, Community & Economic Development (DCCED)

Juneau, Alaska

POSITION STATEMENT: Presented the CS for HB 121.

WANETTA AYERS, Director

Economic Development Section

Department of Commerce, Community & Economic Development (DCCED)

Anchorage, Alaska

POSITION STATEMENT: Responded to questions, during the hearing on HB 121.

RODGER PAINTER, President

Alaska Shellfish Growers Association

Juneau, Alaska

POSITION STATEMENT: Testified on HB 121.

PAUL FUHS, Lobbyist

PacAlaska

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 121.

ACTION NARRATIVE

[5:06:05 PM](#)

CHAIR STEVE THOMPSON called the House Special Committee on Fisheries meeting to order at 5:06 p.m. Present at the call to order were Representatives Thompson, Austerman, and Miller. Representatives Johnson, Herron, Pruitt, and Kawasaki arrived while the meeting was in order.

OVERVIEW(S): Industry Overview: Seafood Processing Sector

[5:06:20 PM](#)

CHAIR THOMPSON announced that the first order of business would be an industry overview from the seafood processing sector.

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MARY McDOWELL, Vice President, Pacific Seafood Processors Association (PSPA), provided the overview of the seafood processing sector, and said that Pacific Seafood Processors Association (PSPA) is in partnership with Mother Nature and Providence, and that the importance of the industry is not always understood by those not involved directly. Ms. McDowell said that if Alaska were a nation, it would be the 14th largest seafood provider in the world. Alaska produces 35 percent of the world's harvest of wild salmon, and the harvest of Bering Sea Pollock is among the largest single fisheries in the world. The seafood business requires investment for development, and being over 100 years old, in Alaska, means that those investments have exceeded the billion dollar mark. She then provided a series of slides of processing operations/structures in Dutch Harbor, Kodiak, Togiak, Unalaska, Cordova, Sitka, and Sandpoint, including pictures of the housing and dining halls required for the seasonal workers. Salmon is marketed in a variety of ways and its value has only continued to rise worldwide. The Pollock industry is also active, and she described the various products derived/manufacture from the fishery, which include: serimi, krab (imitation crab), white fish meal, and bio-fuel from the fish oil. Many other species are harvested in large quantities and add diversity to the industry including: crab, other shellfish, halibut, cod, sablefish, and a variety of ground fish species.

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MS. McDOWELL indicated that, as seafood is Alaska's largest export product, there are a variety of statewide benefits realized from the seafood processing industry and bringing new dollars into the state. The industry generates approximately \$79 million in state taxes and fees annually, in addition to taxes paid to local governments; thousands of Alaskans are employed in the industry. She acknowledged that members of the committee have expressed interest/concern about the numbers of non-resident workers in parts of the seafood industry, and noted that the industry is constantly seeking to hire Alaskans. Furthermore, benefits are only realized when the plants are able to fill their positions and get Alaska seafood processed. She said that besides importance as an exporter and tax payer the industry also supports the transportation system of Alaska. The

industry transports thousands of workers and millions of pounds of supplies into and around Alaska, as well as shipping millions of pounds of seafood out. Without seafood providing a major "back haul" with shipping companies, Alaskans would pay higher shipping costs for northbound freight. The major shippers estimate that rates would be approximately 10 percent higher across the state without the role of the seafood industry, and services to small communities would be affected. She said commercial fisheries are often referred to as the "economic engine" of coastal Alaska. The Seafood processors provide a market and the payday for fishing fleets, and are often the largest, or the only significant, source of local tax revenues. A processing plant represents a vital part of Alaskan communities, and, beyond what has already been mentioned, provides additional benefits which include: services to local fleets; school scholarships; and seafood for local school lunch or senior lunch programs.

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MS. McDOWELL indicated that the state is an integral partner for making the industry successful. In addition to the investment the state makes in the overall infrastructure (transportation, etc) necessary for all businesses, the industry relies on the legislature to ensure the continuation of established standards, which include: funding scientific research to protect and maintain viable fisheries; protection for pure water and the perception of that purity - a main point in selling Alaskan products on the world market; development of docks, harbors, and seaports; and a stable and reasonable regulatory system with enforcement and protection of the resources. She named the acts and programs, which the legislature has supported since the 1970's that have helped strengthen the industry, which include the Alaska Salmon Enhancement Program and the Salmon Product Development Tax Credit. The continued efforts of the state will keep the industry thriving as it continues into the future, and she recapped the important measures, which include: sound management of fisheries and protection of water, fish, and fish-habitat; adequate funding of scientific research for the Department of Fish and Wildlife (ADF&G), as well as the Department of Environmental Conservation (DEC); addressing the issues of recruitment/retention of well-qualified staff; reliable, enforceable laws, regulations, and processes for permitting and operating development projects. She stressed that Alaska's pure water and pristine environment, the purity of the seafood, as well as the perception of that purity, is key to the marketability of Alaska seafood. Additionally, she said it

is important to the industry that the state continue: addressing the high cost of energy in rural areas; support the Alaska Seafood Marketing Institute (ASMI), as a partner that helps to ensure Alaskan products are promoted and successful in the highly competitive world markets; and work with PSPA to help inform all legislators, other policy makers, state leaders, and the public throughout Alaska about the importance of the seafood industry. Ms. McDowell concluded by inviting committee members to visit the plants to get a first-hand, up-close look at the seafood processing industry.

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REPRESENTATIVE MILLER referred to the Department of Labor (DOL), 2009 report, which indicates that a high number of workers in the industry are not Alaskan residents.

MS. McDOWELL responded that the industry works with the DOL, when hiring. Recruitment is extended through the Native corporations, and the industry hires Alaskans whenever possible. Additionally, a partnership is occurring with the University of Alaska (UA) system to provide grants and train skilled workers for the industry.

GLENN REED, President, Pacific Seafood Processors Association, (PSPA), said the skilled jobs in the industry can seem like a lofty goal; however, the Peter Principle is followed, which allows someone without advanced education to receive promotions based on experience.

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REPRESENTATIVE MILLER questioned how any company could have reports indicating that 88 percent of the workforce is from outside of Alaska.

MS. McDOWELL established that many positions require people to temporarily locate to a remote area to work long hours. It is a highly concentrated effort for brief period of time. As an example, she said, the village of Akutan has a population of 70, but the processing plant hires 800 workers, during the season.

MR. REED offered that many people prefer to remain in the region where they live, and the remoteness of these jobs can often make them difficult to fill.

REPRESENTATIVE MILLER stressed that the effort to hire Alaskans is important. Further, he reported that he was once employed in the industry as a slimmer.

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REPRESENTATIVE KAWASAKI queried what steps the processors take to reduce the number of non-resident workers hired; specifically the Alyeska and North Pacific companies.

MR. REED said that North Pacific has facilities in several areas, and has a high percentage of seasonal positions. Alyeska has longer contract periods, and works year around in one location. A resident workforce surrounds the Alyeska facility, reducing the number of non-residents. He pointed out that recruitment efforts indicate that people prefer not to relocate.

[5:41:54 PM](#)

REPRESENTATIVE KAWASAKI referred to the proliferation of foreign labor; Fairbanks has an influx of J1 visa holders. He asked how PSPA is handling the situation.

MR. REED indicated that the seafood industry does not employ J1 visa holders, but has seen H2V visa workers in the roe house. He reported that change is occurring, albeit slowly. At one time there were not enough visa holders to fill the positions and the state department was engaged to help.

REPRESENTATIVE AUSTERMAN added that many foreign workers are in the processing industry.

MR. REED explained that when the U.S. - Soviet Union relationship changed in the 1990's, there was an influx of Russian workers.

[5:45:37 PM](#)

CHAIR THOMPSON asked what percentage of Alaska's catch is processed outside of the state.

MR. REED replied that the majority of the primary processing occurs in Alaska, secondary processing is frequently handled in Washington State, and market ready processing is finished close to a given market to minimize shipping costs of the final product.

5:47:07 PM

REPRESENTATIVE KAWASAKI described a scalping agency, which the hospitality industry uses to recruit foreigner workers and house them for six months, during the season. He asked whether the seafood industry has a similar service.

MR. REED said he is not familiar with any scalping agencies and said that each company has an employment division with recruiters who work intensely at a point of hire; primarily Seattle.

5:48:48 PM

REPRESENTATIVE KAWASAKI noted the comments made regarding the importance of product purity, and public perception, to ask what PSPA's position is regarding the proposed Pebble Mine [in the Bristol Bay region].

MS. McDOWELL offered to provide the PSPA position paper, distributed in 2007, which expressed grave concern about the Pebble mine; although, support was offered for the permitting process to go forward.

MR. REED recalled that PSPA has been around since 1914, and there is no evidence that a position has ever been taken on a mine in the past. Projects should be looked at and judged on merit. He stressed that Bristol Bay is unique and protection of the area is important.

MS. McDOWELL underscored that the public perception of purity is important, and questions have already risen, regarding development of the Pebble mine.

The committee took an at-ease from 5:53 p.m. to 5:57 p.m.

HB 121-LOAN FUNDS: CHARTERS/MARICULTURE/MICROLOAN

5:57:22 PM

CHAIR THOMPSON announced that the final order of business would be HOUSE BILL NO. 121, "An Act establishing the commercial charter fisheries revolving loan fund, the mariculture revolving loan fund, and the Alaska microloan revolving loan fund and relating to those funds and loans from those funds; and providing for an effective date."

[5:57:58 PM](#)

REPRESENTATIVE JOHNSON moved to adopt the committee substitute (CS) for HB 121, 27-GH1728\I, Kane, 2/16/11, as the working draft. Without objection Version I was before the committee.

[5:59:19 PM](#)

CURTIS THAYER, Deputy Commissioner, Department of Commerce, Community & Economic Development (DCCED), paraphrased from the newly added subsection of the CS, page 1, line 8, which read:

(1) For a new loan under AS 16.10.300 - 16.10.370, made on or after the effective date of this Act, the department may provide a reduction of the interest rate of not more than two percent if at least 50 percent of the loan proceeds are used by the borrower for product quality improvements or energy efficiency upgrades if the improvements or upgrades use products manufactured or produced in the state. When the department offers a reduction under this subsection, the department shall provide the reduction to all loan applicants who meet the criterion described in this subsection. In this subsection, "manufactured or produced" means processing, developing, or making an item into a new item with a distinct character and use.

MR.THAYER indicated that the word "grant" was also added to all references in the bill which read:

... money appropriated to, transferred to, or received by gift, grant, devise, bequest, or donation to the fund;

MR. THAYER continued on to page 8, line 4 and read the added language:

(c) A loan under AS 16.10.910 may be made for the purchase of boats or vessels determined to be integral to the operation of the farm.

MR. THAYER paraphrased language revised on request by the bankers association, revising page 10, line 21, which read:

(3) if the requested loan amount is \$35,000 or more, provide to the department a document from a state financial institution stating that

(A) the applicant has been denied a loan for the same purpose;

or

(B) a loan from the financial institution is contingent on the applicant also receiving a loan from the fund.

MR. THAYER pointed out that transition language was deemed unnecessary and removed, from the final page of the bill; only one effective date was required.

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WANETTA AYERS, Director, Economic Development Section, Department of Commerce, Community & Economic Development (DCCED), concurred with the changes.

[6:01:40 PM](#)

REPRESENTATIVE JOHNSON turned to page 8, line 16, to note the language which reads: "Interest on the principal of a loan made under AS 16.10.910 does not accrue during the first six years of the loan," and asked whether the stipulation is consistent with the governor's bill.

MR. THAYER replied yes, and reminded the committee that some mariculture species require six years of growing time to be marketable.

REPRESENTATIVE JOHNSON pointed out that participants in the charter fishing industry would have revenue receipts in the first year, and asked if the six year waiver still applies. Further, he questioned if the governor's original bill is reflected in the CS.

MR. THAYER clarified that mariculture is waived for the first year, but not the charter fishing aspect. He reiterated that it does follow the intent of the governor's bill.

MS. AYERS affirmed that the governor's original bill proposed a six year deferment for mariculture only, and that is what is held in the CS, also.

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REPRESENTATIVE AUSTERMAN cited the applicable sections, AS 16.10.920, and AS 16.10.910.

[6:03:38 PM](#)

REPRESENTATIVE MILLER paraphrased from the bill and asked:

'The department may not require repayment of the loan for six years'; could that apply to a boat.

MS. AYERS responded that the loan officer would be authorized to make repayment determinations.

REPRESENTATIVE MILLER asked whether it is difficult to repossess a boat.

MS. AYERS assured the committee that the financing section has historically been successful recovering boat loan assets.

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REPRESENTATIVE JOHNSON pondered the possibility of allowing the interest to accrue with deferred payment beginning in, perhaps, year 15.

REPRESENTATIVE PRUITT interjected that some student loan programs follow an interest deferment model.

MS. AYERS said the division uses the technique under certain circumstances; however, the effect of the interest deferment requires that in year seven, a higher repayment amount becomes due.

[6:08:33 PM](#)

REPRESENTATIVE JOHNSON asked:

How are you amortizing the interest that you're not charging, or aren't allowed to charge; so that interest is gone...

MS. AYERS said yes, that money is not recouped.

[6:08:50 PM](#)

REPRESENTATIVE AUSTERMAN stated his understanding that there is no interest accrued on the first six years of the loan.

MS. AYERS clarified that the interest is deferred.

REPRESENTATIVE AUSTERMAN said it must be earned before it can be deferred.

[6:09:22 PM](#)

CHAIR THOMPSON interjected that the CS clearly states no interest will accrue.

REPRESENTATIVE AUSTERMAN stated support for a six year deferment but expressed concern for the interest not accruing.

MR. THAYER said the department would agree to have the interest accrue, and be deferred for payment.

[6:10:49 PM](#)

REPRESENTATIVE JOHNSON suggested holding the bill, pending new language from the department to reflect interest accrual and deferment in order to allay the concerns expressed by the committee.

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REPRESENTATIVE AUSTERMAN pondered whether removing the word "not" from page 8, line 17, would be appropriate.

CHAIR THOMPSON agreed and said that other references would also need to be addressed, however.

[6:12:11 PM](#)

REPRESENTATIVE HERRON speaking to the point of policy, asked if the administration's intent is to help make mariculture a successful industry, in which case, he opined, it would be appropriate to have the interest accrue, but at a lower rate.

[The Chairman allowed a brief, informal discussion to ensue.]

6:14:04 PM

MR. THAYER offered to have language crafted and new fiscal considerations brought to another hearing.

REPRESENTATIVE JOHNSON stated support for the bill, and said the interest should not be prohibitive.

6:14:50 PM

REPRESENTATIVE MILLER referred to the CS, page 4, line [21], and paraphrased from the language, which read:

(5) may not be made to a person who has a past due child support obligation established by court order or by the child support services agency under AS 25.27.160 - 25.27.220 at the time of application.

REPRESENTATIVE MILLER said that this type of program may actually benefit someone who is behind in child support obligations to become a productive citizen once again.

6:16:09 PM

REPRESENTATIVE AUSTERMAN referred to another area of the CS and indicated that a person might not live in the state but still maintain a domicile.

6:16:32 PM

CHAIR THOMPSON paraphrased the language being referred to by Representative Austerman, page 4, line 4, which read:

(1) shall physically reside in this state and maintain a domicile in this state during the 24 consecutive months preceding the date of application for the program;

REPRESENTATIVE AUSTERMAN asked what the definition is for physically residing in the state.

MS. AYERS established that the CS specifies the consecutive 24 month period preceding the date of application for the program. Anything that would disqualify a person from other residency attached programs, would apply, such as the permanent fund benefit. To a follow up, she said the residency standard used

for the permanent fund would be applied for the purpose of this program.

[6:18:14 PM](#)

RODGER PAINTER, President, Alaska Shellfish Growers Association, offered to work cooperatively with the department regarding appropriate financial parameters for HB 121.

[6:18:47 PM](#)

PAUL FUHS, PacAlaska, explained that the terms of the loan will be helpful to the mariculture industry and the front end money is the key. It is now known how long it will take to produce a geoduck for market; six to eight years. He said that deferring the interest of the loan would be plausible, and reviewed the cost of spat and other start up expenditures. He directed attention to the committee handout titled "Pacific Shellfish Growers Association Shellfish Production on the West Coast" to indicate that of the total sales reported, are approximately \$117.4 million, of which Alaskan sales represent \$599,232. He opined that mariculture is a strong rural development program and the bill will help to build the industry.

CHAIR THOMPSON closed public testimony and announced that the bill would be held.

[6:22:10 PM](#)

CHAIR THOMPSON announced the next meeting.

[6:23:34 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 6:24 p.m.