

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES**

February 2, 2017

10:02 a.m.

MEMBERS PRESENT

Representative Louise Stutes, Chair
Representative Zach Fansler
Representative Jonathan Kreiss-Tomkins
Representative Geran Tarr
Representative Mike Chenault
Representative David Eastman
Representative Mark Neuman

MEMBERS ABSENT

COMMITTEE CALENDAR

HOUSE BILL NO. 56

"An Act relating to limitations on certain commercial fishing loans made by the Department of Commerce, Community, and Economic Development."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 56

SHORT TITLE: COMMERCIAL FISHING LOANS

SPONSOR(S): REPRESENTATIVE(S) ORTIZ

01/18/17	(H)	READ THE FIRST TIME - REFERRALS
01/18/17	(H)	FSH, FIN
02/02/17	(H)	FSH AT 10:00 AM GRUENBERG 120

WITNESS REGISTER

REPRESENTATIVE DAN ORTIZ
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced HB 56, as sponsor.

ELIZABETH BOLING, Staff
Representative Dan Ortiz
Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented HB 56, and responded to questions, on behalf of Representative Ortiz, sponsor.

BRITTANY CIONI-HAYWOOD, Director
Division of Economic Development
Department of Commerce, Community & Economic Development (DCC&ED)
Juneau, Alaska

POSITION STATEMENT: Responded to questions during the hearing on HB 56.

MICHAEL BLUME, Fisherman
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 56.

CLAY BEZENEK, Fisherman
Ketchikan, Alaska

POSITION STATEMENT: Testified in support of HB 56.

ZACH HILL, Fisherman
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 56.

MARKOS SCHEER, Attorney
Seattle, Washington

POSITION STATEMENT: Testified in support of HB 56.

MALCOLM MILNE, President
North Pacific Fisheries Association (NPFA)
Homer, Alaska

POSITION STATEMENT: Testified in support of HB 56.

ACTION NARRATIVE

[10:02:53 AM](#)

CHAIR LOUISE STUTES called the House Special Committee on Fisheries meeting to order at 10:02 a.m. Representatives Stutes, Chenault, Fansler, Tarr, Neuman, and Eastman were present at the call to order. Representative Kreiss-Tomkins arrived as the meeting was in progress.

HB 56-COMMERCIAL FISHING LOANS

[10:03:57 AM](#)

CHAIR STUTES announced that the only order of business would be HOUSE BILL NO. 56, "An Act relating to limitations on certain commercial fishing loans made by the Department of Commerce, Community, and Economic Development."

[10:04:17 AM](#)

REPRESENTATIVE DAN ORTIZ, Alaska State Legislature, said HB 56 seeks to raise the aggregate amount a borrower may hold, as an unpaid loan total, to \$400,000, which will help to bring the existing program in step with inflation incurred since it was first introduced in 1982, at \$300,000. He said the fishing industry is the main economic driver in his district, and predicted that, in the on-going effort to assist in facilitating the health and growth of the fishing industry, this bill will go a long way.

[10:07:26 AM](#)

REPRESENTATIVE TARR asked for elaboration regarding the purpose of the loans.

REPRESENTATIVE ORTIZ explained that the original purpose remains unchanged: assisting fishermen to purchase boats and equipment.

[10:08:31 AM](#)

REPRESENTATIVE NEUMAN asked what the interest rate is on the loans.

REPRESENTATIVE ORTIZ deferred.

REPRESENTATIVE NEUMAN said it is important to ensure that the program is competitive so as not to compete with private industry.

REPRESENTATIVE ORTIZ said part of the qualification process is that a loan applicant have a letter of denial from a commercial bank loan office.

REPRESENTATIVE NEUMAN asked for the loan default rate.

REPRESENTATIVE ORTIZ answered that at the close of 2016, it was at 2.2 percent, and noted that the standard average is 5.0 percent.

[10:10:30 AM](#)

REPRESENTATIVE FANSLER asked about the fund that is the base for the loan program.

REPRESENTATIVE ORTIZ said the original \$60 million in seed money for the program, funded between the 1970's and early 1980's, has not been added to, but has gained in value and is now at \$95.2 million. The program is entirely self-sustaining and utilizes no general funds for operations or administration.

REPRESENTATIVE FANSLER inquired about the number and duration of loans extended per annum.

REPRESENTATIVE ORTIZ deferred.

REPRESENTATIVE FANSLER queried what the average start-up cost is for fishermen.

REPRESENTATIVE ORTIZ answered that it varies depending on the gear type and boat size. Costs are significant but \$700,000 could be considered average, he conjectured.

REPRESENTATIVE FANSLER referred to page 1, line 13, through page 2, line 2, and asked for the definition of "community" in context of the bill.

REPRESENTATIVE ORTIZ deferred.

REPRESENTATIVE FANSLER questioned whether a \$400,000 limit is high enough. Perhaps it should be more, he suggested, and asked what the fund might sustain.

REPRESENTATIVE ORTIZ agreed that constituents would like to see the amount be higher, especially considering the cost involved to enter the industry. As sponsor, he said he would not oppose an amendment to increase the limit.

[10:16:01 AM](#)

REPRESENTATIVE TARR noted that the original program doesn't include purchase of tenders, and asked whether there was consideration for inclusion of such vessels.

REPRESENTATIVE ORTIZ said the bill doesn't change language of the original statute, it only increases the loan limit.

[10:17:02 AM](#)

ELIZABETH BOLING, Staff, Representative Dan Ortiz, Alaska State Legislature, addressed Representative Tarr's question stating that a separate loan program exists specifically for tenders. She referred to AS16.10.310(B), and paraphrased the language which reads in part:

(B) to an individual for the repair, restoration, or upgrading of existing vessels and gear, for the purchase of entry permits and gear, and for the construction and purchase of vessels, if the individual has been a state resident for a continuous period of two years immediately preceding the date of application for a loan under AS 16.10.300 - 16.10.370, is not eligible for financing from a state financial institution as defined in AS 06.01.050, a federally chartered financial institution, or the Commercial Fishing and Agricultural Bank, ...

[10:18:01 AM](#)

REPRESENTATIVE CHENAULT directed two questions for departmental comment: the cost stability factor of purchasing a fishing permit; and administrative costs associated with the loan program.

[10:18:50 AM](#)

REPRESENTATIVE EASTMAN asked about the length of the loans.

REPRESENTATIVE ORTIZ deferred.

REPRESENTATIVE EASTMAN questioned why someone would be denied a commercial bank loan but still be eligible for a loan from this program.

REPRESENTATIVE ORTIZ explained that the unique aspect of the Alaska loan program focuses on the fishing industry and takes into account the variables and fluctuations of the industry, serving the fishermen in a manner that a commercial bank cannot due to other priorities, and constraints.

REPRESENTATIVE EASTMAN asked about costs/fees associated with the loans and what percentage are imposed by state or federal regulations.

REPRESENTATIVE ORTIZ said that fishing permits are issued through the Commercial Fisheries Entry Commission (CFEC), landing taxes are paid by the fisherman, and ADF&G regulates all fisheries for a maximum sustainable yield. He pointed out that the regulations may impose costs, but also serve to support the fishermen and provide opportunities. He pointed out that it is self-funded, not reliant on general funds, and historically has proven to be a solid program.

[10:25:07 AM](#)

BRITTANY CIONI-HAYWOOD, Director, Division of Economic Development, Department of Commerce, Community & Economic Development (DCCED), responded to Representative Neuman's previous question stating that the current interest rate is 4.5 percent for engine fuel efficiency and product quality improvement loans, and all other loans are at 5.5 percent.

CHAIR STUTES asked what a comparative rate would be from a commercial bank.

MS. CIONI-HAYWOOD offered to provide further information. She confirmed the delinquency rate as 2.2 percent, well below the 5.0 percent standard, and that often the loan application package carries a requirement for a loan denial letter from a commercial lending facility - with some exceptions. She reported that there are currently about 2,000 outstanding loans. Addressing Representative Chenault's comment requests, she said some volatility exists due to the market and she offered to provide further information. She also offered to provide information regarding administrative costs specific to the program. Loans are extended for 15 years. The definition of "community" refers to a community quota entity (CQE), as established by the National Marine Fisheries. A separate CQE loan fund also exists, she pointed out.

[10:29:38 AM](#)

REPRESENTATIVE EASTMAN asked about the start-up of the loan program, the need that saw its inception, and if costs were involved at that time.

MS. CIONI-HAYWOOD responded that the program was born out of the Limited Entry Act, [Amendment 5, 1972], which is a constitutional mandate. The state program was established to allow liens on fishing permits, which are a resource held by the state; private institutions are not allowed to lien on a state

resource. The other agency with lien authority is the Commercial Fishing and Agriculture Bank (CFAB).

REPRESENTATIVE EASTMAN inquired why an applicant would be found ineligible for the program.

MS. CIONI-HAYWOOD offered that reasons for ineligibility might include: lack of credit history, poor credit history, lack of collateral, high unsecured debts, personal judgements, lack of experience, and an inadequate business plan.

[10:32:16 AM](#)

REPRESENTATIVE TARR noted that the area of agriculture requires a high level of initial investment for start-up prior to making application for a loan and she conjectured on comparisons to the fishing industry and whether loan denials occur due to the need for a person to first own a boat, have a permit, and secure a crew. She then confirmed that the default rate at 2.2 percent, representing about 36 of the outstanding loans.

MS. CIONI-HAYWOOD agreed the delinquency rate is low, although over a five year average and including the restructuring of some loans, the rate can go up. She further confirmed that there are, necessarily, substantial start-up costs to enter the industry prior to being able to catch and market fish. If a young person is from an established fishing family, they will have a leg-up for entering the industry.

[10:35:14 AM](#)

REPRESENTATIVE FANSLER asked if the fund can sustain the \$400,000 level and the possibility of supporting a higher cap.

MS. CIONI-HAYWOOD opined that the existing cash balance allows the flexibility to sustain the change that is proposed, but a formal analysis has not been conducted to back up her belief, nor has analysis been projected on higher amounts. She added that, at one time, a higher overall loan limit amount was made available; perhaps a decade ago.

[10:36:46 AM](#)

REPRESENTATIVE EASTMAN asked for program details, to wit: of the outstanding loans how many are at the \$300,000 limit; and is the \$2 million statutory limit reached on a regular basis.

MS. CIONI-HAYWOOD offered to provide further information.

[10:37:50 AM](#)

REPRESENTATIVE NEUMAN queried whether the program is available to Alaska residents only.

MS. CIONI-HAYWOOD responded yes, based on a two year minimum residency.

REPRESENTATIVE NEUMAN asked, considering the changes this might invoke for regulations, will there be a cost to ADF&G.

MS. CIONI-HAYWOOD offered to provide a coordinated response.

[10:39:03 AM](#)

REPRESENTATIVE TARR questioned whether the CFAB and the Commercial Fishing Vessel Loan programs should be administered from the same division.

MS. CIONI-HAYWOOD explained that the Division of Investments was consolidated in 2011. The agency works closely with the CFEC, which contributes essential, specialized knowledge. The possibility for consolidation with CFAB has been visited, she said.

[10:40:45 AM](#)

REPRESENTATIVE EASTMAN pondered the consequences if a fisherman is having bad luck and not being able to repay a loan.

MS. CIONI-HAYWOOD said the delinquency would be counted as such, and the option for modifications to the loan would be explored. Each loan is worked on a case by case basis, she stressed.

[10:42:38 AM](#)

REPRESENTATIVE CHENAULT asked about the percentage of loan extensions that are made and whether they are figured into the default rate.

MS. CIONI-HAYWOOD replied that extensions are not figured into the default rate, once they are complete and finalized. If a modification cannot be completed and an extension granted, the loan is counted in the default rate. She added that the loan extension rate is low.

[10:45:30 AM](#)

REPRESENTATIVE NEUMAN asked whether the [Division of Banking and Securities, DCCED], makes investments for the loan program to maximize returns, and if returns are earned where the earnings are directed.

MS. CIONI-HAYWOOD answered that the cash balance is managed by the Division of Treasury, [Department of Revenue (DOR)] and is invested as part of the portfolio, with the interest returns providing earnings for the general fund.

REPRESENTATIVE NEUMAN expressed interest in receiving further information regarding the loan and investment performance of the program.

[10:47:35 AM](#)

CHAIR STUTES opened public testimony.

[10:48:04 AM](#)

MICHAEL BLUME, Fisherman, stated support for HB 56 and said he doesn't come from a fishing family and without the support of the loan program he would not be in the industry today. He stated his belief that it is a good idea to raise the limit. The investments he makes today will provide a retirement for him in the future, he said.

REPRESENTATIVE CHENAULT commented how good it is to see young people entering the industry. The greying of the fleet is concern and it's important to help them find an affordable means.

CHAIR STUTES asked Mr. Blume how long he's been in the industry.

MR. BLUME answered seven years.

[10:51:00 AM](#)

CLAY BEZENEK, Fisherman, stated support for HB 56 and said it is an important asset for fisherman and a raise on the limit is a long overdue. It also represents a benefit to the state, he opined, and suggested that it be made \$500,000 to ensure the ability to purchase safe, economical vessels.

[10:54:21 AM](#)

ZACH HILL, Fisherman, stated support for HB 56 and said it's a crucial as a means to keep young people entering the industry. Obtaining a standard bank loan to buy a boat is not usually possible, and expressed support for having the limit increased beyond \$400,000.

[10:56:07 AM](#)

MARKOS SCHEER, Attorney, stated support for HB 56 and said much of his practice involves sea processors. The cost of injury is high in the industry and the cost of a safe boat starts at \$200,000 for a seiner, coupled with the cost of a permit, which may be \$250,000. The bar for a young person entering the industry is high, thus, the bill will be welcomed and a higher limit would be suitable. It is easy to exceed \$500,000 to outfit a gillnet operation, he informed the committee and said the bill introduces a change that needs to occur.

[10:58:53 AM](#)

MALCOLM MILNE, President, North Pacific Fisheries Association (NPFA), stated support for HB 56 and said, as indicated in the sponsor statement, the original 1982 figure of \$300,000 is no longer germane in today's economy. The bill will allow young fishermen to enter the industry, he predicted.

[11:01:05 AM](#)

CHAIR STUTES closed public testimony.

[11:01:15 AM](#)

REPRESENTATIVE EASTMAN asked whether loan delinquency projections have been calculated based on an increased limit.

REPRESENTATIVE ORTIZ responded that specific projections have not been made, but the endorsement for the bill by the agency has taken into account the solid standing of the program.

CHAIR STUTES announced HB 56 as held.

[11:02:51 AM](#)

CHAIR STUTES thanked the participants and announced the next meeting.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 11:03 a.m.