

HB

763

HOUSE RULES COMMITTEE LETTER OF INTENT TO ACCOMPANY HB 763

It is the intent of the Legislature that after passage of HB 763 the board of directors of the Commercial Fishing and Agriculture Bank shall institute a plan of work to include:

(1) work with federal farm credit system representatives to develop policies and agreements formalizing the working relationship between the bank and the Spokane Bank for Cooperatives and the Federal Intermediate Credit Bank of Spokane;

(2) the completion of sufficient market research to determine the initial capital needs of the bank and projections for future capital requirements; and

(3) the completion of a financial proposal to be submitted to the commissioner of revenue in support of a preferred stock offering memorandum, specifying the board's suggestions for terms of the stock and a schedule of stock repurchase by the bank.

STATE OF ALASKA THE LEGISLATURE

POUCH 7 - STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

LEGISLATIVE AFFAIRS AGENCY

March 27, 1978

MEMORANDUM

SUBJECT: HB 763: W.O. #15/R

TO: The Honorable Alvin Osterback

FROM: John Williams
Research Analyst 

You have asked that we prepare an analysis of HB 763, an Act relating to commercial fishing and agriculture. Following is a general description of the bill. We will first discuss the bill from a general perspective and then specifically address the issues of the purpose of the development bank, the structure, financial aspects, and the eligibility requirements.

OVERVIEW

HB 763 repeals the commercial fishing loan act (AS 16.10.300-370) and creates the Commercial Fishing and Agriculture Cooperative Development Bank (it does not repeal the Alaska Agricultural Loan Act--AS 3.10). The bank is subject to the provisions of the cooperative corporation laws (AS 10.15.005-600) except as otherwise specifically provided for in the bill.

The bank is to be initially capitalized via purchase by the State of non-voting preferred stock in the corporation. The initial seed money is to be repaid to the State within 20 years from the profits of the bank and from the purchase of stock by fishermen and farmers. If the State's initial investment is not returned within 20 years, the commissioner of Commerce and Economic Development may dissolve the corporation.

The bank may borrow money, lend money, guarantee loans, joint venture in loans with institutions of both the public and private sectors, hold equity interest in enterprises of its members (not to exceed 49%), and may issue bonds.

PURPOSE

Section 2 of HB 763 describes five purposes of the Act (economic assistance for Alaskan commercial fishermen and farmers, to encourage utilization of agrarian and fishery resources, encourage technological devel-

opment in those two renewable resource industries, and to promote a more rapid development of the agricultural industry). The bill will also have the effect of encouraging members of those industries to form cooperatives and perform decision making through peer group processes. The intended impact, however, is to insure the availability of financial resources for expansion of the fishing and agricultural industries in the State.

STRUCTURE

The bank is clearly modeled after components of the federal farm credit system, which were initially financed by the federal government and subsequently fully owned and financed by the members. The federal seed money was repaid, at which time federal involvement in the system was terminated (other than as a regulatory overseer).

The Commercial Fishing and Agriculture Cooperative Development Bank is established as an instrumentality of but separate from the Department of Commerce and Economic Development (Sec. 3). It is governed by a Board of Directors (three in number), with the initial directors appointed by the Governor. Subsequent directors are elected by the shareholders and serve three year terms. The directors are charged with filing the articles of incorporation and with adopting bylaws. They shall also establish the value for and issue stock in the bank, as well as set out a schedule of guidelines for loans made by the bank. A director of the bank is prohibited from voting on matters for which he or she has a conflict of interest (Sec. 41.45.190).

FINANCIAL ASPECTS

Capitalization

The bank is initially capitalized by the sale of preferred stock to the State (50-80% of issuance) and to members. Membership stock is issued in the amounts and with the value determined by the Board of Directors.

Sections 41.45.120-180 provides for bonding powers. The bank may issue bonds at its discretion, except that the maturity of any issue may not exceed 30 years, and the bank may not pledge the full faith and credit of the State. All property and bond issuances of the bank are tax exempt and legal investments for fiduciaries.

Sec. 41.45.210(15) allows the bank to borrow money and issue secured or unsecured evidence of indebtedness.

Lending

As mentioned earlier, the bank is fashioned after the farm credit system. To be eligible to borrow from the bank, a lendee must be a participant in the bank. The farm credit system specifies that a member must own at least 10% of the value in stock of an outstanding loan. A minimum participation is not specified in HB 763.

The bill leaves broad discretion to the Board of Directors in determining loan policy. Sec. 41.45.210 specifies that the bank may make variable rate or fixed rate loans, provide for extensions of loan terms (for poor fishing or farming seasons), make loans jointly with other public or private institutions, guarantee or endorse obligations of other corporations, and accept subordinate loans as security.

Sec. 41.45.210(18) allows the bank to provide "technical services" to shareholders to enhance their ability to obtain financial assistance from the bank.

Investments

The bank is given broad powers to invest its resources. Sec. 41.45.210(7) provides for the bank to "invest in projects conducted by shareholders of the bank by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 per cent of the capital stock of a corporation". Subparagraph (8) of the same section provides for the bank to invest in projects relating to the development of farms, storage and processing of farm produce, etc. except that no investment may exceed 49% of the capital stock. There is no similar provision specifically allowing the bank to invest in "vertically integrated" fishing operations.

ELIGIBILITY

Sec. 41.45.210(1) describes the eligibility requirements. Applicants must be members of the bank to be eligible to receive loans. Eligible recipients are defined as "commercial fishermen and farmers or...corporations, partnerships, or joint ventures 51 per cent of which are owned by commercial fishermen or farmers who are state residents...."

Eligible activities do not appear to be limited to strictly fishing or farming. Subparagraphs (7) and (8) of Sec. 41.45.210 allow the bank to invest in activities conducted by shareholders of the bank. Subparagraph (7) is not specific as to what kinds of projects the bank may invest in, other than the projects must be projects "conducted by the shareholders". Subparagraph (8) specifies that bank investments may be made in the development and operation of vertically integrated activities relating to farming.

The bill is not specific as to what loan applications are eligible for consideration by the bank, except that loans are made only to members and members must be either commercial fishermen or farmers. Loan applications submitted by members for projects outside the purview of either fishing or agriculture are presumably eligible, unless otherwise provided for by the Board of Directors in the articles of incorporation or bylaws.

JW:dh

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for HB 763 (am)

Title An Act relating to commercial fishing and agriculture

Requested by Representatives Osterback and Gardiner Date 5/26/78

II. FISCAL DETAIL

Agency Affected Departments of Commerce and Economic Development and Revenue

Program Category Affected Development/Treasury

Budget Request Unit(s) Affected Economic Enterprise/Treasury Management

EXPENDITURES (Thousands of Dollars)

	FY 77	FY 78	FY 79	FY 80	FY 81	FY 82
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL			150.0			
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
General Fund Equity Investment			2,000.0			
TOTAL			2,150.0			

FUNDING (Thousands of Dollars)

GENERAL FUND			2,150.0			
FEDERAL FUNDS						
OTHER (Specify)						

POSITIONS

FULL TIME			0			
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

\$150,000 is appropriated as one time only setup costs for the bank. The attached sheet gives the breakdown of that \$150,000 which will be used for organizational and setup purposes.

The initial capitalization of the bank is to be \$2 million in preferred stock investment from the General Fund. It is anticipated that the \$2 million will be necessary after December, 1978. The stock shall be repurchased within 20 years. The bank is intended to become a member owned private institution.

IV. DATE 5/26/78

PREPARED BY John Williams

AGENCY Legislative Affairs Agency

PHONE 465-4918

Original: Legislative Finance

cc: Budget and Management

Prime Sponsor (First Legislator Named)

The following is a general breakdown of the anticipated use to be made of the \$150,000 one time appropriation to the Commercial Fishing and Agriculture Bank board of directors.

1. Personal Services

- A. Bank Executive Director with salary similar to State range 23, salary of \$36,120 plus benefits of 20% (\$7,224).....\$43,344
- B. Clerk Typist with salary similar to State range 8, salary of \$12,660 plus benefits of 20% (\$2,532)..... 15,192

2. Travel

- A. Board-6 meetings, 5 members at \$350 per trip..... 10,500
- B. Executive Director-12 trips at \$350 per trip (per diem included)..... 4,200

3. Contractual

- A. Rent-250 sq. ft. at \$1.25 per sq. ft./mo. 3,700
- B. Telephone/communications..... 1,800
- C. Postage, etc..... 600
- D. Printing and Advertising..... 1,600
- E. Professional fees and services (includes research and legal fees of organization).. 65,000

4. Commodities

- A. Office Supplies..... 600

5. Equipment

- A. 2 desks, 2 chairs..... 1,100
- B. File cabinets, book cases..... 400
- C. Calculator, typewriter, and misc..... 800

TOTAL FY-79.....\$148,836

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PMS HONORABLE ALVIN OSTERBACK, REPORT DELIVERY

MEMBER HOUSE OF REPRESENTATIVES

ALASKAN STATE LEGISLATURE COPY MESSAGE , FONE ASAP

JUNEAU AK 99801

REFERENCE HOUS BILL 763 DUE FOR MARKUP SESSION OF RESOURCES

COMMITTEE, PLEASE CONSIDER THE FOLLOWING THE FEDERAL INTERMEDIATE

CREDIT BANK OF SPOKANE UNDER THE FARM CREDIT ACT OF 1971 IS CHARGED

WITH THE SUPERVISION OF PROVIDING SHORT AND INTERMEDIATE TERM CREDIT

FOR AGRICULTURE, INCLUDING FARMERS, RANCHERS AND HARVESTERS AND

PRODUCERS OF AQUATIC PRODUCTS FOR THE STATE OF ALASKA BY PRODUCTION

CREDIT ASSOCIATION AND OTHER FINANCING INSTITUTIONS. COMMENCING IN

THE LATE 60S THE NORTHWEST LIVE STOCK PRODUCTION CREDIT ASSOCIATION

HAS EXTENDED AGRICULTURAL CREDIT TO QUALIFIED FARMERS AND RANCHERS

IN ALASKA. IN 1973, NORTHWEST LIVE STOCK PRODUCTION CREDIT

ASSOCIATION ALSO BEGAN FINANCING FISHERMAN FISHING IN ALASKAN

WATERS. TO DATE, EXPERIENCE HAS BEEN SATISFACTORY.

THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE WOULD NOT REGISTER

OBJECTION TO THE CREATION OF A COMMERCIAL FISHING AND AGRICULTURAL

COOPERATIVE DEVELOPMENT BANK AS PROPOSED IN HOUSE BILL 763. IN FACT,

THE FICB OF SPOKANE LOOKS FORWARD TO WORKING CLOSELY WITH THE BANK

WHEN AUTHORIZED IN ITS CREATION. THIS IS PARTICULARLY IMPORTANT

BECAUSE THE PROPOSED BANK SHOULD BE STRUCTURED SO AS TO QUALIFY FOR

DISCOUNTING LOANS WITH THE FEDERAL INTERMEDIATE CREDIT BANK OF

SPOKANE.

FOR FURTHER INFORMATION, CONTACT THE FEDERAL INTERMEDIATE CREDIT

BANK OF SPOKANE WEST 705 FIRST AVE SPOKANE WASHINGTON 99204,

TELEPHONE (509) 456-7380. SINCERELY,

WILLIAM F BARRATT PRESIDENT FEDERAL INTERMEDIATE CREDIT BANK

OF SPOKANE

HB 763

EARL R. COMBS, INC.

CONSULTANTS IN ECONOMICS AND PLANNING

2737 - 77th Ave. S.E. • Mercer Island, WA 98040 • (206) 232-3991 • TWX 32-9472 MIS MRID

March 27, 1978

Rep. Al Osterback, Chairman
House Resources Committee
Pouch V State Capitol
JUNEAU, AK 99811

Dear Al:

As reported to your office by phone on March 27, I would recommend that the Resources Committee consider the following changes to HB763:

1) Section 1 - FINDINGS

The concept of the target group for assistance throughout Section 1 (fishermen and farmers) could be expanded to include processing firms and other businesses whose primary function is to service farmers and fishermen, by referring to "agriculture and fishing businesses" instead of "farmers and fishermen". This would appear to make the FINDINGS more consistent with Sec. 41.45.210 POWERS OF THE BANK as written (and as proposed for change in the remainder of this letter).

Sec. 41.45.210 POWERS OF THE BANK

Para (1) line 25, remove; replace with , and to seafood and agriculture processors, marketers and firms providing technical services to the agriculture and fishing industries for projects which will establish a facility within Alaska or which will establish or expand a market for the harvests of resident commercial fishermen or farmers.

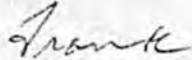
Para (7) and (8) could be clarified by merging them and defining target projects as defined under para (1). This could be done by adding of the type approved under para (1) of this section at the end of line 7. Paragraphs (7) and (8) would then be replaced by a single paragraph:

(7) invest in projects conducted by shareholders of the bank of the type approved under para (1) of this section by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 percent of the capital stock of a corporation;

March 27, 1978
Rep. Al Osterback
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I am hopeful that these comments will be of assistance. If any clarification is needed, please contact me.

Sincerely,



Franklin L. Orth
Senior Economist

FLO:TOE