

COMMITTEE REPORT
SENATE

FURTHER:

5/6/86

Date

5/9/86

Mr. President

The Committee on FINANCE considered CSHB 579(Loans)am relating to financing of fish processors and agricultural and timber processors and harvestors by the Commercial Fishing and Agriculture Bank.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
DOR
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]
[Signature]
[Signature]
[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS

Rich Halford N/R
Paul Fitch N/Rec

[Signature]
Chairman
[Signature]
Chairman recommendation

Offered: 3/5/86
Referred: Resources and
Finance

Original sponsor: Herrmann

1 IN THE HOUSE
2
3 CS FOR HOUSE BILL NO. 579 (Loans) am
4 IN THE LEGISLATURE OF THE STATE OF ALASKA
5 FOURTEENTH LEGISLATURE - SECOND SESSION
6 A BILL
7 For an Act entitled: "An Act relating to financing of fish processors and
8 agricultural and timber processors and harvestors by
9 the Commercial Fishing and Agriculture Bank."
10 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:
11 * Section 1. FINDINGS. The legislature finds that
12 (1) shore-based fish processing and agricultural and timber
13 processing and harvesting facilities, regardless of ownership, are an
14 essential part of the state economy and provide for the development of a
15 renewable resource tax base vital to many Alaska communities;
16 (2) shore-based fish processing and agricultural and timber
17 processing and harvesting facilities in the state, regardless of ownership,
18 significantly contribute to the economic development and stability of
19 Alaska's communities; and
20 (3) shore-based fish processing and agricultural and timber
21 processing and harvesting facilities in the state, regardless of ownership,
22 employ a significant resident work force and contribute substantially to
23 local community economies through the demand for goods and services.
24 * Sec. 2. AS 44.81.210 is amended by adding a new subsection to read:
25 (c) Notwithstanding (a)(1) of this section, the bank may make a
26 variable or fixed rate loan to a shore-based fish processor, a timber
27 processor or harvestor, or an agricultural processor or harvestor
28 located in Alaska that does not meet the resident ownership require-
29 ments of (a)(1) of this section for capital investment or operating
capital if the majority interest in the processor or harvestor is

1 beneficially owned by residents of the United States.

4-130

STATE OF ALASKA 1986 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No: CS HB 579 (Loans)
Title: Financing of Fish, Agriculture
and Timber Processors by CFAB

Sponsor: House Loans
Requestor: House Resources
Date of Request: April 2, 1986

FISCAL DETAIL

Agency Affected: Department of Revenue
BRU: Treasury Management

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91
<u>OPERATING</u>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<u>TOTAL OPERATING</u>	-	-	-	-	-	-
<u>CAPITAL</u>	-	-	-	-	-	-
<u>REVENUE</u>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	-	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<u>TOTAL</u>	-	-	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: Attach a separate page for analysis.

Prepared By: Milt Barker MB
Division: Treasury

Phone: 465-2350
Date: April 3, 1986

Approved by Commissioner: [Signature]
Agency: Department of Revenue

Date: 4/4/86

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

TO: Representative Adelheid Herrmann
FROM: Eric F. Myers, Administrative Assistant
DATE: May 8, 1986
SUBJ: Sectional Analysis of CS HB 579 (Loans)

Section 1

This findings section describes the importance of Alaska shore-based fish processing and agricultural and timber processing and harvesting facilities to local communities.

Section 2

This section would allow the Commercial Fishing and Agriculture Bank (CFAB) to make loans to a shore-based fish processor, a timber processor or harvester, or an agricultural processor or harvester located in Alaska provided the majority interest of the processor/harvester is owned by residents of the United States.

Under current law, CFAB may only lend to Alaska residents or corporations of which the majority ownership and control rests with Alaska residents.

* * * *

Additional information on the need for the proposed statutory changes, prepared by CFAB, is attached.

1. Alaska Commercial Fishing and Agriculture Bank (CFAB) was created in 1978 by the Alaska State Legislature. Its purpose is to provide a source of credit to the Alaska fishing and agriculture industries, with emphasis on the development and broadening of those industries.
2. CFAB is structured under its statute as a cooperative. A cooperative is a corporation whose stockholders and customers are the same individuals or entities. A cooperative is subject to the same business and financial considerations as any other corporation.
3. The State of Alaska provided an initial capital base to CFAB through the purchase of stock; the State presently owns \$31.8 million of such stock. CFAB's statute requires that the State stock be repurchased within 20 years from the original investment (1980).
4. CFAB has no organic, structural, operational, or financial relationship with the State except for the capital investment and that two of CFAB's seven directors are appointed by the Governor.
5. CFAB's lending ability is not limited to the amount of the State's investment. CFAB borrows additional funds at "market" rates and terms, pledging its loans and other assets as security. It re-lends those funds to its borrower/owners at rates sufficient to cover its own interest costs, its operating expenses, and to generate capital through earnings. CFAB's outstanding loans to Alaska fishermen and farmers reached a year-end peak of nearly \$104 million at December 31, 1983, and had other assets of about \$19 million; a total nearly \$91 million greater than the State's investment.
6. CFAB's borrowers become owners through a purchase of stock at the time of borrowing and through payment of interest at a level high enough to create retained earnings.
7. Under its statute, CFAB may lend money only to those individuals who are bona fide residents of Alaska. There appears to be no sound and reasonable argument against that limitation.
8. A vast majority of CFAB's loans are to individual fishermen (about 80 to 85 percent by number); most of them are to finance a vessel and/or are secured by a lien on a vessel. This appears to be CFAB's most "natural" market and the credit void which CFAB was most intended to fill.
9. Compared to almost any other type of commercial lending, financing fishing vessels is extremely cumbersome and costly. Alaska geography adds considerable costs. Those factors, in addition to the dangerous concentration of risk, make it extremely difficult for CFAB to maintain a focus on that market without charging interest rates which are unusually burdensome to its borrowers.
10. CFAB has attempted to balance its loan portfolio, and to moderate its total circumstances, through loans to corporations which process seafood and timber. Those loans tend to be relatively large, but do not require servicing costs to a comparable degree. They permit basic operating expenses to be spread over a larger volume of loan dollars, moderating the pressure on smaller individual borrowers.

11. CFAB's statute provides that it can only finance corporations of which the majority ownership and control rests with Alaska residents.
12. A recent survey disclosed that of 22 shorebased Alaska processors having annual sales in excess of \$10 million, 17 are ineligible to borrow from CFAB by reason of ownership identity. CFAB has, or has had, lending relationships with four of the five others.
13. Statutory denial of eligibility by reason of ownership is inconsistent with the facts that these processing corporations own facilities in Alaska, pay local taxes in Alaska, provide employment to Alaskans, purchase and add value to Alaska seafoods, pay fish taxes to the State of Alaska, provide a competitive marketing environment for Alaska fishermen, and purchase supplies and services in Alaska. Interest paid on funds borrowed from CFAB (or any other Alaska entity) would be an additional and beneficial increment of Alaska seafoods proceeds within the Alaska economy.
14. While it is clear that the 1978 State Legislature intended to create an institution to serve Alaska interests exclusively, the requirement that the state investment be repurchased evidences the intent that CFAB be operated, and grow, on sound business principles. Removal of the statutory limitation with regard to shorebased processing corporations is consistent with the first intent and greatly enhances the opportunity for fulfillment of the second.