

CSSB 9

Original sponsors: Zharoff, Eliason  
and Jones

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 9 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to financing of fish processors and  
7 agricultural and timber processors and harvesters by  
8 the Commercial Fishing and Agriculture Bank; and  
9 providing for an effective date."

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 facilities, regardless of ownership, are an essential part of  
14 the state economy and provide for the development of a renewable resource  
15 tax base vital to many Alaska communities;

16 (2) shore-based fish processing and agricultural and timber  
17 processing facilities in the state, regardless of ownership, significantly  
18 contribute to the economic development and stability of Alaska's commu-  
19 nities; and

20 (3) shore-based fish processing and agricultural and timber  
21 processing facilities in the state, regardless of ownership, employ a  
22 significant resident work force and contribute substantially to local  
23 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 an agricultural processor or harvester that does not  
28 meet the resident ownership requirements of (a)(1) of this section for  
29 capital investment or operating capital if a facility of the processor

1 or harvester is located in the state and the majority interest in the  
2 processor or harvester is beneficially owned by residents of the  
3 United States.

4 \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).  
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# HOUSE COMMITTEE REPORT

(11)

Date referred: 5/1/87

FURTHER REFERRALS:

DATE: 5-14-87

The Finance Committee has considered CSSB 9 (Res)

"An Act relating to financing of fish processors and agricultural and timber processors and harvesters by the Commercial Fishing and Agriculture Bank; and providing for an effective date."

**RECOMMENDS:**

- replace with HCS CSSB 9 (FIN)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published \_\_\_\_\_
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

\_\_\_\_\_  
*Ronald J. Tamm*  
 \_\_\_\_\_  
*Steve Kucin*  
 \_\_\_\_\_  
*Mike Deen*  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

**SIGNING OTHER RECOMMENDATIONS:**

\_\_\_\_\_  
*Al Adams - NO Rec.*  
 \_\_\_\_\_  
*John Bunker NO REC*  
 \_\_\_\_\_  
*Pete Pace N.O.R.*  
 \_\_\_\_\_  
*Kay Wallin n.r.*  
 \_\_\_\_\_  
*Tam Brown - No Rec*  
 \_\_\_\_\_  
*Mark Boyan. no rec*  
 \_\_\_\_\_  
 \_\_\_\_\_

\_\_\_\_\_  
*Arthur P. Linder*  
 Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: MCS CSSB 9 (FIN)  
Publish Date: \_\_\_\_\_

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: Financing Fish, Agriculture & Timber Processors by CFAB  
Sponsor: Zharoff, Eliason, Jones  
Requestor: Senate Labor & Commerce

Agency Affected: Department of Revenue  
BRU: Treasury  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	-	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	-	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	-	-	-	-	-

FUNDING: (Thousands of Dollars)

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

POSITIONS:

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Milt Barker MB  
Division: Treasury

Phone: 465-2350  
Date: January 26, 1987

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

Date: 1/29/87

- Distribution (by preparer):
- Legislative Finance
  - Legislative Sponsor
  - Requestor
  - Office of Management and Budget
  - Impacted Agency(ies)
  - Senate Secretary



**SENATOR FRED F. ZHAROFF**  
**ALASKA STATE LEGISLATURE**

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

**DISTRICT N**

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

TO: Rep. Al Adams  
Chairman  
House Finance Committee

FROM: Senator Fred F. Zharoff

DATE: May 1, 1987

RE: CS For SB 9 (Resources) -- "An Act relating to financing of fish processors and agricultural and timber processors and harvestors by the Commercial Fishing and Agriculture Bank; and providing for an effective date."

I respectfully request you to schedule CSSB 9 for a hearing before the House Finance Committee at the committee's earliest convenience. The bill passed the Senate on April 30 by a 15-0 vote.

CSSB 9 would help CFAB diversify its loan portfolio by allowing the institution to have access to a larger market in the seafood processing industry. The way the industry currently is structured, most of the large shorebased processing companies in Alaska are owned by nonresidents.

CSSB 9 is a companion bill to HB 105, which is now before your committee. This same bill was introduced last year as HB 579, which passed the House and died in the Senate Rules Committee when the legislature adjourned.

The following background materials are attached:

1. Sectional Analysis.
2. Fiscal Note.
3. Letter from Mr. Ed Crane, CFAB president, regarding fiscal impact on Alaska.
4. United Fishermen of Alaska resolution regarding SB 9.
5. Letter from Sitka processor T.E. Thompson in support of last year's bill.
6. Anchorage Daily News article, April 8, 1987.
7. CFAB analysis of Alaska processor ownership.
8. CFAB fact sheet in support of legislation.



1.

# SENATOR FRED F. ZHAROFF

## ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

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### DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

### SECTIONAL ANALYSIS

#### CS FOR SENATE BILL NO. 9 (Resources)

"An Act relating to financing of fish processors and agricultural and timber processors and harvestors by the Commercial Fishing and Agriculture Bank; and providing for an effective date."

#### SECTION 1

##### LEGISLATIVE FINDINGS.

- (1) Fish processing, agricultural and timber facilities, regardless of ownership, are important to Alaska.
- (2) Regardless of ownership, they contribute to Alaska's economy.
- (3) Regardless of ownership, they provide jobs for Alaska residents.

#### SECTION 2

44.81.210(c): New subsection. Allows CFAB to make loans to businesses engaged in shorebased fish processing, timber processing or harvesting, or agricultural processing and harvesting that are not majority owned by Alaskan residents. CFAB would have access to a broader market in which to make loans. The companies, however, must be majority owned by U.S. residents, not foreign interests.

#### SECTION 3

Effective date.



2550 Denali Street, Suite 1201  
P.O. Box 4-2070  
Anchorage, Alaska 99509-2070  
(907) 276-2007

January 26, 1987

Mr. Mark Johnson  
Counsel, Senate Labor & Commerce Committee  
Box V (M.S. 3100)  
Juneau, Alaska 99811

Dear Mr. Johnson,

Thank you for your letter of January 21, received today. I assume the Committee is interested in the financial impact on the State.

The financial impact of SB 8 and SB 9 can be addressed fairly definitely from a cost standpoint; a discussion of the potential financial benefits requires speculation.

With regard to SB 8, only Section 7(c) bears cost implications for the State. This paragraph subjects CFAB to an annual examination by the state bank examiners, and provides for CFAB to pay for that examination at the statutorily established rate (currently \$7,500) for other State-chartered financial institutions. To the extent that the cost of such an examination might exceed \$7,500, the State would be under-reimbursed by CFAB. The scope and nature of CFAB's activities are narrow, and much more limited than those of other institutions, so I would expect any net cost implications to be minimal (compared to those for other examinations). We believe strongly that it is in the State's interest to have the benefit of this regular professional and qualitative evaluation of the assets which represent CFAB's application of the funds invested by the State.

SB 9 bears no cost implications for the State. It should be noted that SB 9 is identical to two bills (HB 579 and SB 410) which were considered by the 1986 legislature with \$0 fiscal notes.

I hesitate to claim, and could not support, projection of specific amounts of financial benefits; they can only be addressed as "opportunities." Sections 1, 2, and 3 of SB 8 are "housekeeping" matters only, with significance internal to CFAB. Sections 4, 5, and 6 (all interrelated) of SB 8, and SB 9 in its entirety, broaden the circumstances and the market in which CFAB may make loans. CFAB's lending activities produce net income which, through various mechanisms, ultimately increases the value of the State's investment and incrementally enhances the liquidity which must be achieved for that investment to be retired. Furthermore, diversification or

Mark K. Johnson  
January 26, 1987  
Page 2

broadening of any kind tends to stabilize and strengthen CFAB, which in turn diminishes the threat of loss of that investment. Also, of course, to the extent that any CFAB loan made under SB 9 permits or encourages the maintenance of shorebased processing facilities which might otherwise be closed, there would be a variety of indirect financial benefits to the State. Finally, having said all that, I must acknowledge that CFAB operates in a competitive environment and that even though SB 8 and SB 9 may create new business opportunities, we cannot assert that we will achieve any particular level of success in making new loans.

It is our understanding that SB 8 and SB 9 will be heard in the Senate Labor and Commerce Committee on January 28; I plan to attend that session and will be pleased to respond to additional questions.

Very truly yours,



Edward E. Crane  
President

EEC:1444V



# UNITED FISHERMEN OF ALASKA

4.  
Jack Cadigan  
Executive Director  
907-586-2820  
1-800-478-FISH

## UNITED FISHERMEN OF ALASKA

### RESOLUTION 87-8

WHEREAS the Commercial Fishing and Agriculture Bank (CFAB) was created by the Alaska Legislature for the purposes of providing sources of credit for Alaskan fishing businesses and encouraging the harvesting, processing and marketing of underutilized fish species as well as the technological development necessary to accomplish this; and

WHEREAS CFAB, a private sector lending cooperative, has its cost of doing business shared by all of its member-borrowers by the interest and loan fees they pay; and

WHEREAS the ability of CFAB to have access to the broadest market of potential borrowers within the fishing industry is necessary for it to have the greatest earnings potential, which translates into lower interest rates for its members; and

WHEREAS CFAB is restricted by statute from lending to seafood processors that are not beneficially owned by a majority interest of Alaska residents; and

WHEREAS the majority of long established, financially strong Alaska seafood processors do not meet this criterion; and

WHEREAS this category of seafood processors represents a potential market for CFAB that offers the possibility of lower losses and greater earnings; and

WHEREAS the Alaska seafood industry is in great need of capital investments in modern processing and marketing facilities that will serve to enhance the quality and value of its seafood products; and

WHEREAS all segments of the Alaska seafood industry will benefit from increased investment in the seafood processing industry that will provide more jobs for Alaskan workers and more market opportunities for Alaskan fishermen;

NOW THEREFORE BE IT RESOLVED that the United Fishermen of Alaska requests the Alaska Legislature to consider favorably Senate Bill 9 and House Bill 105, either of which will amend the statutes defining CFAB's lending authority so as to permit it to make loans to corporations

Resolution 87-8

beneficially owned by a majority interest of United States residents engaged in the processing and marketing of seafood products for the purpose of constructing or operating shore-side facilities within Alaska; and

BE IT FURTHER RESOLVED that Senate Bill 8 also be favorably considered as a necessary act to eliminate unnecessary restrictions that prevent CFAB from properly serving the fishermen of Alaska.

*Robert H. Blake*

Robert M. Blake  
President

*2/6/87*

Date

FRANK 5.

329-333 Katlian Street

Sitka, Alaska 99835



March 9, 1986

Senator Arliss Sturgulewski  
Chairman, Resources Committee  
Room 508, Capitol Building  
Juneau, Alaska 99811

Re: Senate Bill 410 (By Sharoff) (Same as SB 9)

Dear Senator Sturgulewski:

I am writing in support of the above-mentioned Senate Bill 410, for I believe it is important for the Alaska Commercial Fishing and Agriculture Bank to expand its base, and be allowed to take part in financing of shorebased plants other than those who meet the present eligibility requirements.

My company is 100% owned by Alaskan residents at present and I do not feel that this proposed expansion of the Bank's lending base would cause any hardship whatsoever. I feel that this legislation will enable the Bank to broaden its base and do a better job for all fishing industry in Alaska.

I wish to thank you for any consideration you may give on the above,

Sincerely,

T. E. Thompson  
President

Copy: Senator Richard Eliason

(907) 747-6662

Telex 090-45-391 SSSEAFOOD SIK

FRESH AND FROZEN SALMON, COD, BLACK COD, HALIBUT, ROCK FISH, CRAB, HERRING

# State fishing loan bank makes recovery

Anchorage Daily News

By JIM ERICKSON  
Daily News reporter

1/8/87

The Alaska Commercial Fishing and Agriculture Bank, its decks awash in red ink and in danger of being scuttled two years ago, has manned the pumps.

Rebounding from a near-fatal \$10 million loss in 1984, the lending cooperative posted a \$535,780 profit last year, according to figures released Wednesday. The organization's financial picture had brightened enough to justify the April 1 mailing of dividend checks to CFAB's 577 members, most of them Alaska fishermen.

The company made \$114,187 in 1985.

Ed Crane, president of CFAB, attributed the recovery to several factors. The most significant was a 31 percent reduction in overhead compared to the previous year. Operating expenses totaled \$1.9 million last year, the lowest annual outlay in the cooperative's six-year history.

Crane said much of the savings resulted from the closing of four regional offices in late 1985.

Larger fish harvests and higher prices in the Alaska fishing industry had little ef-

fect on CFAB's bottom line last year, Crane said. Interest income from loans, CFAB's main source of income, declined to \$6.1 million in 1986 from \$10.1 million in 1985. Total loans dropped to \$41.1 million last year from \$62.4 million.

"We've shrunk in (loan) volume really more than we're comfortable with," Crane said. Industry growth has been centered in areas that CFAB cannot participate in, such as joint ventures between Alaska fishermen and Outside companies, he said.

The cooperative, which the Alaska Legislature established with a \$32 million capital infusion in 1981, can make loans only to Alaskans or Alaska companies.

"We've had numerous deals, particularly recently, where people have approached us for a loan to refurbish a processing plant, and we had to say no" because the company was not Alaska-based, Crane said. Despite efforts last year and this year to get law changed to allow CFAB to make out-of-state loans, lawmakers have shown little interest, he said.

CFAB is owned by members and by the state.

"The biggest frustration I feel personally is the lack of

flexibility and the orphan-like existence we live."

Commercial banks, which in the past have shown little interest in lending money to fishermen, now are competing on a small scale with CFAB, he said.

Crane said CFAB has "turned around" runaway loan losses and delinquencies that threatened to ruin the organization two years ago.

CFAB's non-earning loans increased slightly last year to \$17 million. But that amount was still far less than the \$32 million in delinquent loans CFAB carried in 1984.

Ten delinquent borrowers accounted for more than \$13 million of CFAB's current delinquencies.

Continuing problems with bad loans mean the organization must charge higher interest rates on new loans, Crane said.

Partly to provide a "rate rebate," CFAB's board of directors decided to pay members a 1986 dividend. The total amount paid was \$214,309, or 40 percent of CFAB's net income last year. The average check was for \$371, although the amounts varied from \$1.18 to \$29,282.

Despite CFAB's return to modest profitability, it remains unclear whether the

cooperative will be able to repay all of the state's \$32 million investment when it comes due at the turn of the century, Crane said.

"Somehow, we've got to get \$32 million in liquidity built in there" in the next 13 years, he said. "I'm skeptical we can do that."

CFAB now has \$17 million in "solid assets," Crane said. Two years ago, if CFAB had been liquidated, "the state would have lost the whole \$32 million."

The cooperative also faces another threat. CFAB borrows money to lend to members from the Spokane Bank for Cooperatives, and has \$5.4 million invested in that organization. The Spokane bank is one of 37 banks in the troubled Farm Credit System, which holds nearly one-third of the nation's farm debt.

If the condition of the system worsens or if proposed federal help does not come, CFAB could have trouble borrowing what it needs for members, and borrowing costs could remain "at a relatively high level," CFAB's annual report states.

CFAB ultimately could suffer a paper loss of \$8.4 million if the system collapses, Crane said.

# MEMORANDUM

TO: Ed Crane

FROM: Larry Linegar

DATE: October 21, 1985

SUBJ: SUMMARY/ANALYSIS OF SEAFOOD PROCESSOR OWNERSHIP

At your request, I have compiled the attached breakdown of seafood processors licensed to do business in the State of Alaska. From our discussions, it is my understanding that the motivation for initiating this project was to establish an understanding for the market potential of seafood processors that are not presently eligible to do business with CFAB. The reason why these companies would not be eligible would be because their ownership is greater than 50% non-Alaskan.

The primary source for the information necessary to perform the analysis was the State of Alaska. Several state agencies declared the information requested confidential. However, the Department of Commerce and Economic Development provided a complete list of all processors licensed to do business in the state for the years 1984 and 1985. From this list, copies of corporate bi-annual reports, which provided limited information on stock ownership, was requested. However, many processors do business as d/b/a's, partnerships or as individuals for which bi-annual reports were not available. Information on the ownership of these operations were identified through interviews with knowledgeable individuals and direct contacts.

The Department of Fish and Game provided a report categorizing processors both by sales in dollars and by pounds purchased. They were not able to provide exact figures but were willing to provide a list that grouped processors into broad categories.

The attached compilation was assembled from these two lists. While the ownership of shorebased operations stays relatively constant, floater processors tend to change significantly from year to year. The information presented is based upon year-end 1984 information.

In general, the report indicates that Alaskan owned shorebased processing operations (those with greater than 50% ownership being Alaskan residents) are primarily concentrated in the smaller, single plant operations.

Of the processors with \$10,000,000 or more in sales, only 5 out of a total of 22 companies were controlled by Alaskans. This was less than 23% by number and an even smaller percentage by total sales. Comparatively, Alaskans controlled 20 or 61% of the total of 33 companies with sales of \$1,000,000 to \$10,000,000. Of companies with sales less than \$1,000,000, only 3 out of the total of 23 were controlled by non-Alaskan residents.

Memo/Ed Crane  
October 21, 1985  
Page 2 of 2

To date, CFAB has done business at one time or another with four out five of the companies noted eligible in the \$10,000,000 or more sales category. Of the 20 companies noted eligible in the \$1,000,000 to \$10,000,000 sales category, CFAB has provided financial services to 13.

For the floater processors, Alaskan residents had only a minor presence in the total category. Of the 14 floater processor operations with \$10,000,000 or more in sales, only 3 or 21% could be considered controlled by Alaskans. When considering the total number of vessels in this category, Alaskans had less than 10%.

Certainly from the numbers presented, one could assume that there does exist significant market potential for CFAB should its legislation be amended to allow for financing of non-Alaskan residents. However, beyond market potential, the inclusion of the larger processors could have a stabilizing effect on the bank's loan portfolio both from a volume and a risk standpoint.

Companies in the \$10,000,000 or more sales categories tend to be more financially stable. They have multiple plant operations in diverse locations throughout the state. If one area has a low production, another plant in a different area can generally make up the difference. The companies also tend to have developed a diversified product mix, not just focusing on crab, salmon or bottom fish but on a number of different species and product types such as both canned and frozen. The larger companies also tend to be more sophisticated in the planning, budgeting and marketing processes all of which adds to their financial stability.

CFAB's current market is essentially the smaller companies which do not have the market and production diversity of the larger companies nor the management sophistication which has put the Bank at greater risks.

LLL:0730V

SUMMARY

<u>SALES</u>	<u>NUMBER</u>	<u>INELIGIBLE BY STATUTE</u>	<u>PER- CENT</u>	<u>ELIGIBLE</u>	<u>PER- CENT</u>
<u>Shorebased</u>					
10,000,000 or More	22	17	77	5	23
\$1.0 to \$10.0 Million	33	<del>8</del> 13	<del>24</del>	<del>25</del> 26	<del>76</del>
\$.25 to \$1.0 Million	<u>23</u>	<u>3</u>	13	<u>20</u>	87
Total	<u>78</u>	<u><del>28</del> 33</u>	<del>36</del>	<u><del>50</del> 45</u>	<del>64</del>
<u>Floater</u>					
\$10,000,000 or More	14	11	78	3	22
\$1.0 to \$10.0 Million	24	20	83	4	17
\$.25 to \$1.0 Million	<u>5</u>	<u>4</u>	80	<u>1</u>	20
Total	<u>43</u>	<u>35</u>	81	<u>8</u>	19
Grand Total	<u>121</u>	<u>63</u>	52	<u>58</u>	48

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.

Original sponsors: Zharoff, Eliason  
and Jones

1 IN THE SENATE BY THE RESOURCES COMMITTEE  
2 CS FOR SENATE BILL NO. 9 (Resources)  
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1       the processor or harvester is located in the state and the majority  
2       interest in the processor or harvester is beneficially owned by resi-  
3       dents of the United States.

4       \* Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE SENATE

BY ZHAROFF, ELIASON  
AND JONES

2

SENATE BILL NO. 9

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act relating to financing of fish processors and  
7 agricultural and timber processors and harvesters by  
8 the Commercial Fishing and Agriculture Bank."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. FINDINGS. The legislature finds that

11 (1) shore-based fish processing and agricultural and timber  
12 processing and harvesting facilities, regardless of ownership, are an  
13 essential part of the state economy and provide for the development of a  
14 renewable resource tax base vital to many Alaska communities;

15 (2) shore-based fish processing and agricultural and timber  
16 processing and harvesting facilities in the state, regardless of ownership,  
17 significantly contribute to the economic development and stability of  
18 Alaska's communities; and

19 (3) shore-based fish processing and agricultural and timber  
20 processing and harvesting facilities in the state, regardless of ownership,  
21 employ a significant resident work force and contribute substantially to  
22 local community economies through the demand for goods and services.

23 \* Sec. 2. AS 44.81.210 is amended by adding a new subsection to read:

24 (c) Notwithstanding (a)(1) of this section, the bank may make a  
25 variable or fixed rate loan to a shore-based fish processor, a timber  
26 processor or harvester, or an agricultural processor or harvester that  
27 does not meet the resident ownership requirements of (a)(1) of this  
28 section for capital investment or operating capital if a facility of  
29 the processor or harvester is located in the state and the majority

1 interest in the processor or harvester is beneficially owned by resi-  
2 dents of the United States.