

HB

105



Alaska State Legislature

HOUSE OF REPRESENTATIVES
COMMITTEE ON RESOURCES

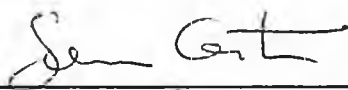
POUCH V
JUNEAU, ALASKA 99811
(907) 465-3715

Proposed
House Resources Committee
Letter of Intent for House Bill 105

It is the intent of the Legislature to affirm that CFAB was established to serve and enhance the participation of Alaskans and Alaska-owned entities in the commercial fishing and agriculture industries, and it is the further intent that during periods or on occasions in which the availability to CFAB of loanable funds is limited or constrained in any way CFAB shall ensure that the financing needs of eligible and credit-worthy Alaskans and Alaskan-owned entities are fully met prior to the granting of credit for any purposes to non-Alaskan applicants.

It is the intent of the legislature that financing from CFAB should not be used to enable a shore-based processor to close its shore-based plant and move its processing operation offshore to a floating processor operation.

Representative Adelheid Herrmann
Co-Chair, House Resources Committee
April 30, 1987



Representative Sam Cotten
Co-Chair, House Resources Committee
April 30, 1987



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*This
Version
Passed
Committee*

Adelheid Herrmann
Representative Adelheid Herrmann
Co-Chair, House Resources Committee
April 30, 1987

Sam Cotten
Representative Sam Cotten
Co-Chair, House Resources Committee
April 30, 1987

Amendment to House Bill 105

On page 1

on line 28 delete "if" and insert: "for"

on line 29 after "harvester" insert: "that"



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House Resources Committee Letter of Intent for
House Bill 105
An Act Relating to the

It is the intent of the legislature that CFAB shall manage its lending activities so as give priority to Alaskan borrowers.

It is further the intent of the legislature that in order to make a loan to a fish processing company CFAB must ensure that the applicant:

- 1) currently has a shore-based facility in operation, or
- 2) that the loan would enable a shore-based plant to operate.

While CFAB may make loans to applicants that have both shore-based and associated floating processing facilities it is the intent of the legislature that proceeds from the loan be used for capital requirements or operating expenses of the shore-based facility.

Representative Adelheid Herrmann
Co-chair, House Resources Committee
March 30, 1987



UNITED FISHERMEN OF ALASKA

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

2/6/87

Robert M. Blake
President

Date

Background on CFAB/HB 105

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.

1026V

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____ **Bill Version:** HB 105
Revision Date: _____ **Publish Date:** 2/4/87

Title: financing of fish, ag, timber processors by CFAB **Agency Affected:** None
BRU: None

Sponsor: Rep. Herrmann **Components:** None
Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS : (Attach a separate page if necessary)

No agencies are affected by this legislation.

Prepared by: house Resources Committee **Phone:** 465-4942
Division: _____ **Date:** 3-10-87

Approved by Commissioner: *Richard Herrmann* **Date:** _____
Agency: CO-Chair House Resources Committee

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

Alaska State Legislature

REPRESENTATIVE
ADELHEID HERRMANN

PO BOX 63
NAKNEK, ALASKA 99631
(907) 246-4405

While in Juneau
BOX V
JUNEAU, ALASKA 99811
(907) 465-4942, 465-4943



CO CHAIRMAN
RESOURCES COMMITTEE

MEMBER
TRANSPORTATION
COMMITTEE

House of Representatives

DISTRICT 26

ADAK
AKUTAN
ALEKNAGIK
ATKA
BELKOFSKI
CLARK'S POINT
COLD BAY
DILLINGHAM
DUTCH HARBOR
EGEGIK
EKUK
EKWOK
FALSE PASS
IGIUGIG
ILIAMNA
KING COVE
KING SALMON
KOKHANOK
KOLIGANEK
LEVELOCK
MANOKOTAK
NAKNEK
NELSON LAGOON
NEWHALEN
NEW STUYAHOK
NIKOLSKI
NONDALTON
PEDRO BAY
PILOT POINT
PORT ALSWORTH
PORT HEIDEN
PORT MOLLER
PORTAGE CREEK
SAND POINT
SOUTH NAKNEK
SOUAW HARBOR
ST GEORGE
ST PAUL
TOGIAK
TWIN HILLS
UGASHIK
UNALASKA

Sectional Analysis of HB 105 relating to CFAB.

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.



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April 30, 1987

Representative Sam Cotten
Co-Chair, House Resources Committee
April 30, 1987

Introduced: 2/4/87
Referred: Resources and
Finance

BY HERRMANN, CATO, HOFFMAN,
HUDSON, SUND, TAYLOR,
GRUSSENDORF AND FURNACE
BY REQUEST

1 IN THE HOUSE

2

HOUSE BILL NO. 105

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
agricultural and timber processors and harvesters by
the Commercial Fishing and Agriculture Bank."

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

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* Section 1. FINDINGS. The legislature finds that

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

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

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

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

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

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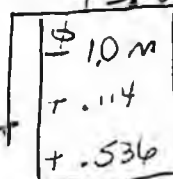
27

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29

HB0105A

-1-



HB 105

1 interest in the processor ^{in family} [or harvester] is beneficially owned by resi-
2 dents of the United States.