

HB

185

Alaska State Legislature



House of Representatives

MAR 21 1988

COMMITTEES

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REGIONAL AFFAIRS  
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March 15, 1988

Ms. Phyllis M. Day  
Prince William Sound Aquaculture Corp.  
P. O. Box 1110  
Cordova, Alaska 99574

Dear Phyllis:

*Hi Pretty lady!*

Thank you for sending a copy of the correspondence you sent to all Senators regarding HB 185 which includes amendments to the Fisheries Enhancement Loan Program.

I asked a member of my staff to verify some information with Kate Graham of UFA and Senate Labor and Commerce relative to the language "no state service charges" to PNP's.

Kate stated that her understanding was that intent language would be used as the mechanism to address service charges. However, John Ringstad of Labor and Commerce stated that although there was discussion on this point, the department had responded with information negating ever having charged a service fee for grant programs, did not intend to begin assessing service charges, and thus, it was not necessary to weight the bill with a letter of intent or attach intent language onto the bill.

My staff discussed this element with Jeff Bush, Assistant Attorney General, who attended that hearing and confirmed this information.

Thank you again for writing, Phyllis, and for bringing to my attention FWSAC's position on the bill.

Sincerely yours,

*Bette*

Representative Bette Cato  
House District 6

# Prince William Sound Aquaculture Corporation

P.O. Box 1110  
Cordova, Alaska 99574  
Phone: (907) 424-7511



March 4, 1988

Senator Jay Kerttula  
Alaska State Senate  
Pouch V, MS 3100  
Juneau, Alaska 99811

*"Back up file"*

Dear Senator Kerttula:

House Bill 185 is scheduled to be discussed in the Senate's Finance, Labor and Commerce, Resources, and Judiciary Committees. Prince William Sound Aquaculture Corporation supports this bill for several reasons:

1. Salmon enhancement taxes were collected from commercial fishermen specifically for distribution to the regional aquaculture associations. These funds are vital to our organization as they constitute approximately 30% of our total budget. The recently enacted procurement code makes the former method of distributing enhancement tax revenues via contract impractical and cumbersome. HB 185 authorizes the Department of Commerce and Economic Development to make grants to regional aquaculture associations enabling disbursement of enhancement tax revenues in a timely manner. If this bill is not passed, the release of funds could be significantly delayed.

2. The Salmon Enhancement Revolving Loan Fund is extremely important to the viability of the private nonprofit hatchery program. From it private nonprofit hatchery operators are able to build new facilities, maintain existing one and pay for operations when there is a shortfall in revenues. HB 185 protects the integrity of the revolving loan fund by clarifying that all principal and interest payments and any money collected through liquidation or foreclosure be returned to the fund. This insures that any money paid back to the fund will be available for use for future hatchery projects.

*Thomas Cordova  
when bill get  
to fund. I will  
come out*

March 4, 1988

3. HB 185 clarifies that only private nonprofit salmon hatcheries which release fish in the natural waters of the State for common use are eligible for a loan from the revolving loan fund. This provision insures that only nonprofit organizations who benefit a wide user group will be eligible for loan funds.

We urge your support of this bill to help maintain the highly successful statewide private nonprofit hatchery program. Thank you.

Sincerely,

*Bruce K. Suzumoto*  
*pmd*

Bruce K. Suzumoto  
President

BKS/pmd

Enc: PWSAC Alaska Salmon Enhancement Tax  
PWSAC Brochure

CC: Senate Labor and Finance Committee Members  
Senate Resource Committee Members  
Senate Judiciary Committee Members  
Senate Finance Committee Members

# Prince William Sound Aquaculture Corporation

## Alaska Salmon Enhancement Tax



Prince William Sound Aquaculture Corporation's Armin F. Koernig Hatchery, shown here, and Esther Island Hatchery have generated over \$40 million in revenues for Area E commercial fishermen since 1977. A salmon enhancement tax has returned two percent of that income to the aquaculture corporation since 1985.

## Alaska Salmon Enhancement Tax

Since 1985, Area E fishermen have paid the Prince William Sound Aquaculture Corporation two percent of all income from salmon catches for the purpose of salmon enhancement.

In 1980, the Alaska legislature created the Salmon Enhancement Tax, giving the Alaska Department of Revenue the authority to collect the tax with the approval of a majority of the fishermen served by a regional aquaculture association. Three other Alaskan aquaculture associations opted for the enhancement tax in 1981.

Although PWSAC received a voluntary assessment from Area E fishermen and processors, the corporation recognized the need for a more stable revenue source. In 1984, PWSAC asked the state to authorize an election among Area E fishermen. In January, 1985, a majority of those fishermen voted for the two percent enhancement tax, to begin with the 1985 season.

## How is the Enhancement Tax Collected?

The two percent enhancement tax is collected by the processors who buy salmon in Area E, in the form of income withheld from the fishermen. The value of the salmon is established by the actual price paid for the fish at that time. Additional payments made to fishermen—as in price settlements paid several months after the original sale—are also subject to the enhancement tax.

A report and payment of tax are due on the last day of the month following the month in which the fisherman received payment for the salmon. The Department of Revenue also requires an annual report



summarizing the year's activity, due by March 15 following the calendar year the salmon were acquired.

The money goes into the state's general fund from which it is then

Prince William Sound Aquaculture Corporation  
P.O. Box 1110  
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benefited from enhancement tax revenues from all gear types, with seine and drift gillnet fishermen contributing the majority of the income over the past three years.

The chart below shows the contribution by gear type, with three-year totals and percentages.

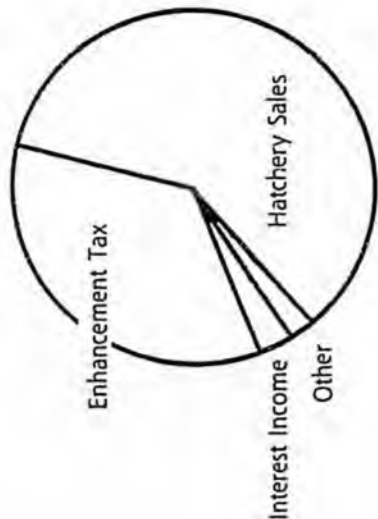
Year	Seine	Drift Gillnet	Set Gillnet	Totals
1984	na	na	na	na
1985	\$370,686	\$491,148		\$772,819
1986	\$227,174	\$328,210	\$835	\$556,219
1987	\$679,282	\$400,930	\$4,866	\$1,085,078
Totals	\$1,277,142	\$1,130,288	\$6,685	\$2,414,115
Percent	52.9%	46.8%	0.3%	

### Enhancement Tax Revenues

Revenues from the salmon enhancement tax may be used by PWSAC for any purposes mandated by the corporation's charter, subject to general state stipulations. Since the 1985 inception of the tax, the revenues have largely been used for operational expenses.

Enhancement tax income in 1987 made up 29.6% of the total revenues of the aquaculture corporation. The chart below shows the 1987 revenues.

1987 Revenues	
Hatchery Sales	\$2,450,000
Enhancement Tax	\$1,085,000
Interest Income	75,000
Other	51,000
	\$3,661,000
	100%



appropriated to PWSAC each year by the state legislature is based on an estimate—a forecast of the actual total revenue expected for that year. This system is necessary because—to use 1987 as an example year—the 1987 enhancement tax payment is disbursed to PWSAC near the beginning of the new fiscal year—July 1987—months before the tax on the 1987 catch is completely collected from the fishermen.

And how does the rate arrive at the estimate for the payment? For the 1987 disbursement the Department of Commerce and Economic Development—the state agency which administers aquaculture funding—begins working with preliminary figures in the fall of 1986. By February 1 of 1987, the Department of Revenue provides the actual collection figure for 1986, as shown in the Calculation Procedure Table (1); this amount is added to the prior three calendar years' collections (2) and divided by four to produce an actual rolling average of the four calendar years (3).

This amount becomes the estimate of what will be collected in 1987, and is sent to the legislature as a funding request. Assuming full funding by the legislature, the money is disbursed through the Dept. of Commerce on a quarterly basis. The first payment is expected after July, 1987, with the second in October.

The collection of the tax on the 1987 salmon catch begins in May and continues through the end of the year; the total collected is thus not known until the first months of 1988. In the example, the actual amount of tax collected for 1987 (4) is not the same as the payment made to PWSAC for 1987. The difference (5) is calculated in 1988 and added to the 1988 payment.

The 1988 payment is calculated in the same way as the 1987 payment. The actual tax collection in 1987 is added to the

four-year rolling average, and the 1988 figure is taken off (6). The total is divided by four to arrive at the 1988 estimate (7).

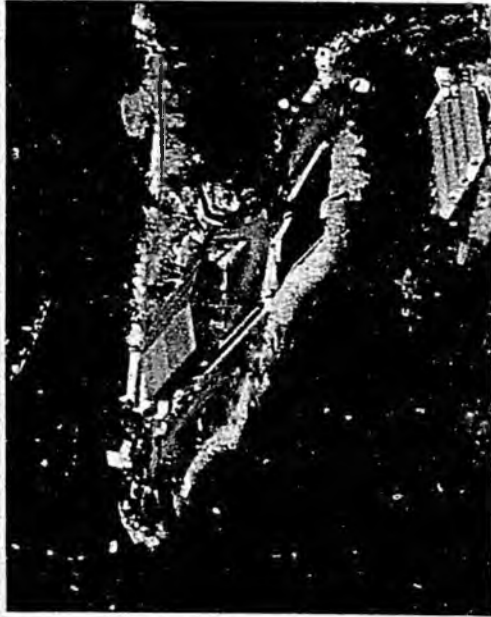
Then, the difference between the actual 1987 collection and the 1987 payment (8) is added on, to arrive at the total 1988 payment (9).



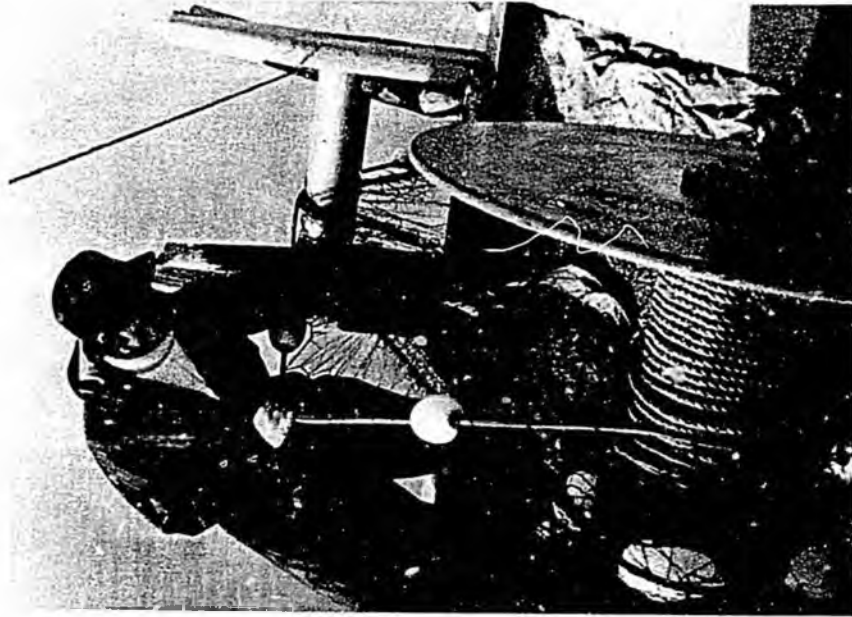
### Calculation Procedure

using hypothetical figures

- (1) Actual collection in 1986  
2% of 1986 fish revenue \$ 580,000
- (2) 1983 collection 550,000  
1984 collection 500,000  
1985 collection 450,000  
1986 collection 580,000  
\$2,080,000
- (3)  $\$2,080,000 \div 4 = \$520,000$   
Four-year rolling average for 1987 payment \$ 520,000
- (4) Actual collection in 1987 600,000
- (5) Difference between 1987 collection and payment +\$ 80,000
- (6) 1984 collection 500,000  
1985 collection 450,000  
1986 collection 580,000  
1987 collection 600,000  
\$2,130,000
- (7)  $\$2,130,000 \div 4 = \$532,500$   
Four-year rolling average for 1988 payment \$ 532,500
- (8) Difference between 1987 collection and payment +\$ 80,000
- (9) Total 1988 payment \$ 612,500



Esther Island Hatchery is PWSAC's newest facility, completed in 1985. In 1988, the multi-species hatchery is expected to release over 300 million salmon fry — pink, chum, coho, chinook and sockeye.



An Area F gillnet fisherman picks a salmon from his net.

**Prince William Sound  
Aquaculture Corporation**  
*A regional private non-profit association for  
the enhancement of salmon.*

P.O. Box 1110  
Cordova, Alaska 99574  
(907) 424-7511

# PRINCE WILLIAM SOUND AQUACULTURE CORPORATION



Photography by Rose Arvidson, Nancy Bird,  
Cordova, Alaska

Answering the need to save a declining Prince William Sound salmon industry, a group of volunteer fishermen from Cordova, Alaska, founded the PRINCE WILLIAM SOUND AQUACULTURE CORPORATION (PWSAC) in 1975. Just over a decade later, this private, non-profit regional association operates two of the largest and most productive salmon hatcheries in North America.

The beginning of PWSAC's hatchery program was marked by tremendous volunteer effort and a strong spirit of cooperation. An abandoned cannery at Port San Juan in the southwestern Sound was transformed into what is now the Armin F. Koernig (AFK) Hatchery. Since 1977, the hatchery has generated \$28.5 million in revenues for Area E commercial fishermen, and is now producing 115 million pink salmon fry each year.

The AFK Hatchery was only the first step toward realizing PWSAC's goal of supplementing the region's natural salmon runs for commercial, sport and subsistence fishing. Completed in 1985, the Esther Island Hatchery is a multi-species facility that in 1988 is expected to release over 300 million salmon fry destined for both the seine and gillnet fisheries.

The huge incubation building at Esther holds millions of pink and chum salmon eggs, as well as an expanding rearing program for chinook and coho. With a potential

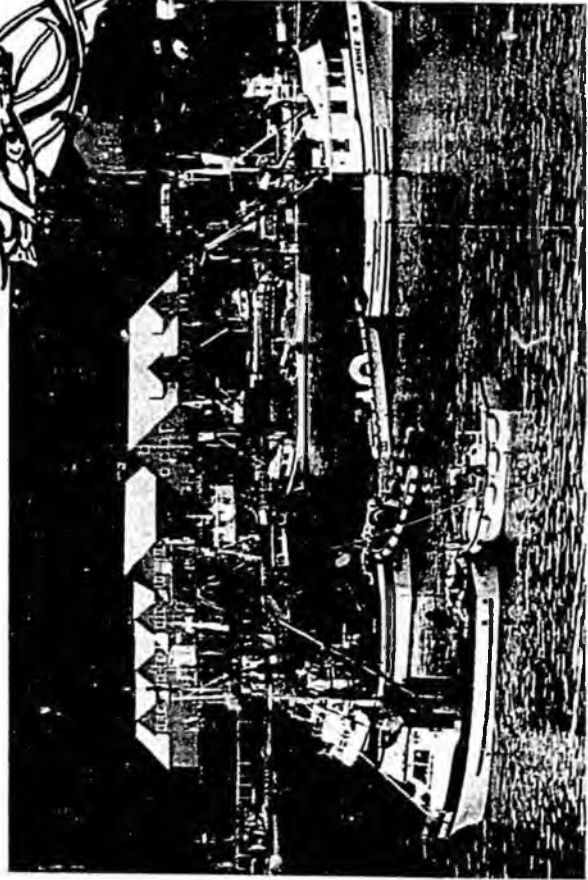


Armin F. Koernig Hatchery at Port San Juan.

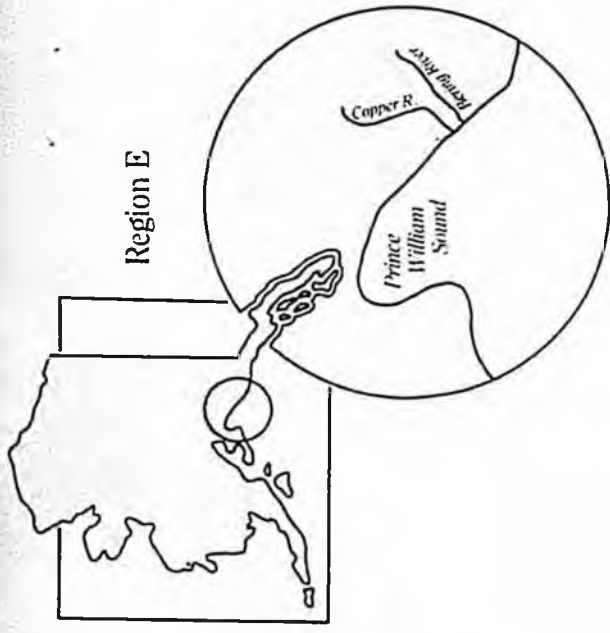
capacity of up to 30 million eggs, a separate facility rears sockeye salmon for the enhancement of Sound lakes and streams. Esther and AFK Hatcheries are expected to generate more than \$20 million in annual revenue for Area E fishermen by 1989.

In addition to the two hatcheries, the aquaculture corporation supports other projects to help assure abundant salmon returns. Guided by a comprehensive 20-year plan benefiting all user groups, PWSAC works cooperatively with both the enhancement and management divisions of the Alaska Department of Fish and Game.

The success of PWSAC's enhancement program is built on a historic partnership of fishermen and state government. In 1985, Area E fishermen voted to pay a two percent assessment tax on their annual catch. In addition, the Alaska Department of

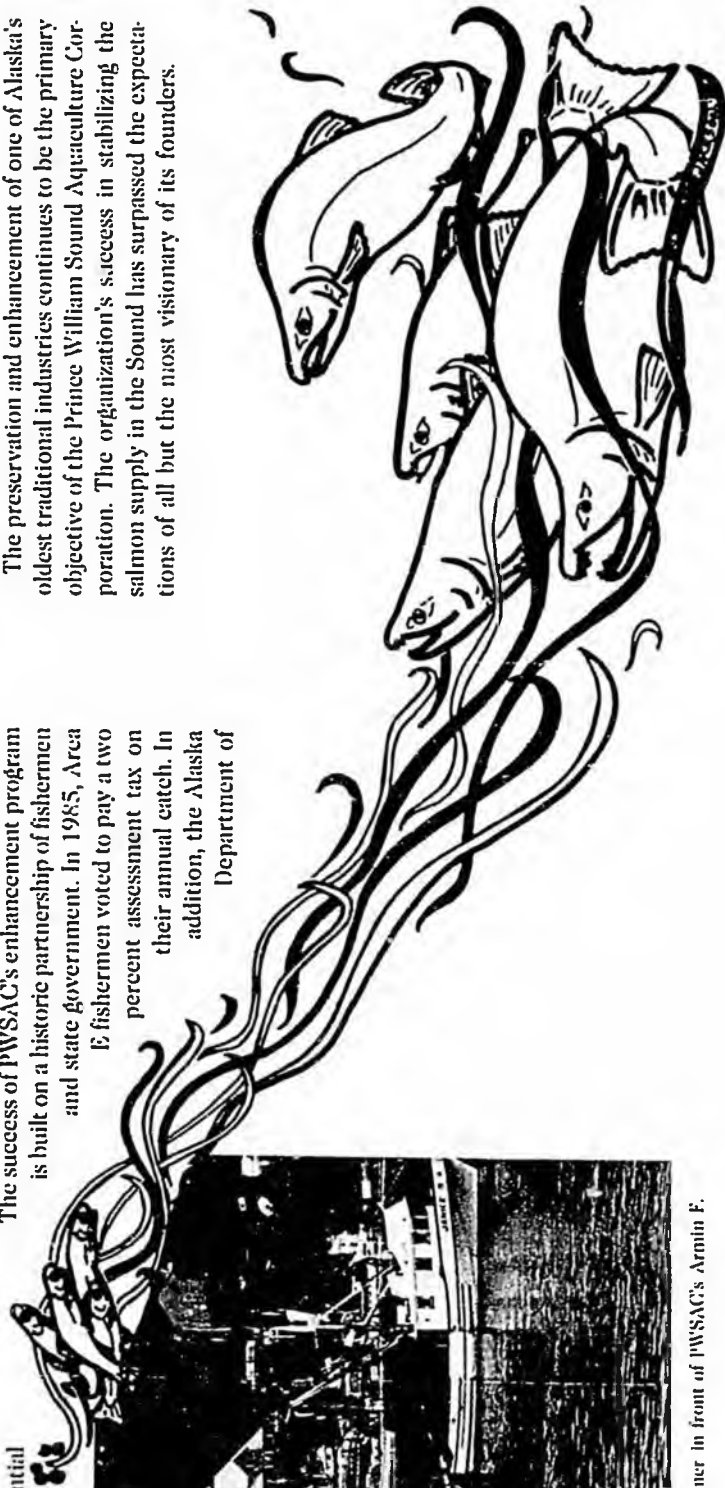


Prince William Sound seiners set their nets during a 1987 special opener in front of PWSAC's Armin F. Koernig Hatchery.



Commerce and Economic Development has provided loans for the construction of both PWSAC hatcheries. Legislators have responded with enthusiastic support to the spirit of self-sufficiency and cooperation which continues to motivate the aquaculture program.

The preservation and enhancement of one of Alaska's oldest traditional industries continues to be the primary objective of the Prince William Sound Aquaculture Corporation. The organization's success in stabilizing the salmon supply in the Sound has surpassed the expectations of all but the most visionary of its founders.





STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

March 16, 1987

The Honorable Ben Grussendorf  
Speaker of the House  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Representative Grussendorf:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill repealing five active and various inactive state loan programs and making miscellaneous changes in other state loan programs. The programs affected are:

1. Commercial Fishing Loan Program
2. Fisheries Enhancement Loan Program
3. Veterans' Revolving Loan Program
4. Mining Loans
5. Area Redevelopment
6. Outdoor Recreational, Open Space, and Historic Properties Development Fund
7. Child Care Facility Revolving Loan Fund
8. Alternative Energy Revolving Loan Fund
9. Residential Energy Conservation Fund
10. Tourism Revolving Fund
11. Fishery Product Revolving Loan Guarantee Fund
12. Forest Products Business Loan Guarantee Program
13. Small Business Loans
14. Historical District Revolving Loan Fund

Each affected loan program will be discussed in turn. A section-by-section description of those loan programs administered by the Department of Commerce and Economic Development, prepared by that department, is also being made available to the legislature.

1. Commercial Fishing Loan Program. This bill repeals AS 16.10.320(b) (sec. 21 of the bill), a subsection that is now obsolete due to changes in federal law.

2. Fisheries Enhancement Loan Program. This bill makes numerous changes to the fisheries enhancement loan program, AS 16.10.500 -- 16.10.560. First, it changes the title of the loan fund to the "Salmon Enhancement Revolving Loan Fund" (secs. 1, 2, and 3 of the bill), and reorganizes the

statutes for clarity. It also amends the statutes to make it clear that they apply only to salmon hatchery projects. Sections 1 and 4 of the bill.

The bill repeals the mandatory six-year deferral on interest and principal contained in AS 16.10.525 (sec. 21 of the bill), but retains the authority to defer interest and principal for up to 10 years. Section 5 of the bill. This will allow earlier repayment requirements if they are considered financially feasible. This will also cure a problem that exists when the department grants a preconstruction loan to assess a proposed project, but the project is then considered unfeasible. Despite the fact that no project ever is built in such a case, the state currently cannot collect on its preconstruction loan, nor charge interest, for at least six years.

The bill also changes the statutory loan limits. At present, these limits are ambiguous. See 1986 Inf. Op. Att'y Gen. (Aug. 13; 663-87-0020). This bill sets loan limits in terms of the total amount that may be loaned for a single project. Sections 6 and 7 of the bill. Also, the bill repeals AS 16.10.540 (sec. 21 of the bill), which specifically authorizes voluntary assessments by fishermen as collateral to repay loans. First, such voluntary assessments represent no real collateral because of their voluntary nature. Second, if the department were to change its position and consider a voluntary assessment as sufficient collateral, proposed AS 16.10.518(a) would permit the use of a voluntary assessment as collateral. Third, current practice is for these organizations to assess fishermen through salmon enhancement taxes under AS 43.76, and the bill approves this practice and recognizes these assessments as valid collateral. Section 5 of the bill.

Finally, the hearing procedure provisions of the Administrative Procedure Act (APA), AS 44.62.330 -- 44.62.630, currently apply to the fisheries enhancement loan program (AS 16.10.500 -- 16.10.620). The reason for this application is unclear, since the 10 other loan programs administered by the Department of Commerce and Economic Development, division of investments and division of accounting and collections, are not subject to the APA. The department has adopted regulations providing for administrative adjudication of loan issues for all of its loan programs, and there is no apparent reason for this particular program to be subject to different rules. This bill amends the APA, by repealing AS 44.62.330(a)(46), to remove that part of the

APA's applicability to the fisheries enhancement loan program. Section 21 of the bill.

3. Veterans' Revolving Loan Program. AS 26.15 establishes the Alaska veterans' loan program. Originally, the Department of Commerce and Economic Development was authorized to make four types of veterans' loans: personal loans, housing loans, business loans, and multiple dwelling (condominium) loans. AS 26.15.040(a). The authority to make housing loans was repealed in 1980 (sec. 77, ch. 106, SLA 1980), and the same legislation provided that no business loans could be made after July 1, 1981. Sec. 71, ch. 106, SLA 1980. Although the authority to make personal and multiple dwelling loans still exists, neither type of loan has been made since 1982.

At present, there is no money available in the veterans' revolving fund for any additional loans. Only a small amount of money still comes into the fund, since most loans have been transferred to the Alaska Industrial Development Authority (AIDA) or recently sold to the Alaska Housing Finance Corporation (AHFC). Sec. 102, ch. 138, SLA 1986. The money in the revolving fund, in turn, has been reappropriated to the general fund. Sec. 118, ch. 105, SLA 1985; secs. 18 and 23, ch. 129, SLA 1986; secs. 39, 427, and 645, ch. 130, SLA 1986.

This bill repeals all lending authority under the veterans' loan program, but leaves intact those statutes dealing with management and collections (secs. 9, 10 and 21 of the bill). The sentence added to AS 26.15.040(e), limiting the total amount that an assignee of a loan can assume, is taken from AS 26.15.040(c), which is repealed in sec. 21 of the bill.

These repealers and amendments do not affect AHFC veterans' mortgages under AS 18.56.

4. Mining Loans. This bill repeals all lending authority under the mining loan program, but leaves intact those statutes dealing with management and collections (secs. 11, 12, and 21 of the bill). This program has historically had a very high loan default rate and has consequently cost the state a great deal of money. With revenues declining, I do not believe that this program should be continued.

5. Area Redevelopment. AS 41.30 sets up a program for redevelopment loans administered by the Alaska State Development Corporation. This program, and the corporation, are both currently inactive, and there are no outstanding loans.

The entire program is repealed under this bill. Section 21 of the bill.

6. Outdoor Recreational, Open Space, and Historic Properties Development Fund. AS 41.98.170 establishes an outdoor recreational, open space, and historic properties development fund administered by the Department of Natural Resources, division of parks and outdoor recreation. The fund may be used by the state to develop recreational sites and to acquire and preserve historic sites, buildings, and monuments (AS 41.98.170), and for grants and loans to municipalities for similar purposes. AS 41.98.175(a). However, there has been no loan made under this program, and none is anticipated. This bill repeals the lending authority under the program, but leaves the remainder of the program intact. Sections 13 and 21 of the bill.

7. Child Care Facility Revolving Loan Fund. This bill repeals the lending authority for the child care facility program, AS 44.33.240 -- 44.33.275, but still retains the necessary collection statutes. Sections 14, 15, and 21 of the bill.

8. Alternative Energy Revolving Loan Fund. This bill also repeals the lending authority for the alternative energy loan program, AS 45.88. The bill leaves intact those statutes dealing with management and collections. The bill also makes a technical amendment of AS 45.88.030(d), removing reference to "technology" in this subsection consistent with a 1979 amendment to the program (ch. 56, SLA 1979). Sections 16 and 21 of the bill.

9. Residential Energy Conservation Fund. This bill also repeals the lending authority for the residential energy conservation fund, AS 45.89, but leaves intact the statutes dealing with management and collection of existing loans. Sections 17 and 21 of the bill.

10. Tourism Revolving Fund. AS 45.90 provides a statutory scheme for tourism loans. However, in 1980 a session law was enacted to provide that no further loans would be made under the program after July 1, 1981. Sec. 71, ch. 106, SLA 1980. This bill repeals the lending authority statutes of the tourism revolving fund, but leaves intact those provisions of the statutes dealing with on-going management of the loan portfolio. Section 21 of the bill.

11. Fishery Product Revolving Loan Guarantee Fund. AS 45.-92 establishes a fishery product revolving loan guarantee

fund in the Department of Revenue. There is no outstanding loan under this program, and there is no money currently in the fund. This program is inactive, and this bill repeals it. Section 21 of the bill.

12. Forest Products Business Loan Guarantee Program. AS 45.94 establishes a forest products business loan guarantee fund in the Department of Revenue, under a statutory scheme similar to that of the fishery product revolving loan guarantee fund. No money has ever been appropriated to this fund, and it is therefore inactive. This bill repeals this program. Section 21 of the bill.

13. Small Business Loans. AS 45.95 establishes a small business loan program in the Department of Commerce and Economic Development. However, as with the tourism revolving fund, the legislature has prohibited making any further loans under this program. Sec. 71, ch. 106, SLA 1980. This bill repeals the statutory lending authority under this program, but leaves intact the loan management and collection statutes. Sections 18 and 21 of the bill.

14. Historical District Revolving Loan Fund. Finally, the bill repeals the lending authority under the historical district revolving loan fund. Sections 19, 20, and 21 of the bill.

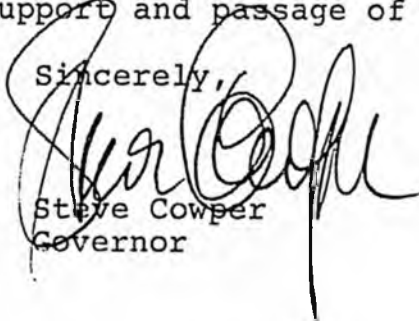
The bill also repeals secs. 3 and 4, ch. 156, SLA 1984, which provide that the balances in the tourism and small business revolving loan funds are appropriated annually to the general fund. Recent court decisions have called into question the validity of continuing appropriations such as these. Therefore, to avoid that question, and because I believe that annual appropriation of these balances would be a better approach, I am recommending the repeal of these continuing appropriations and the substitution of annual appropriations from the revolving funds. Thus, if this bill passes, the following language should be added to the budget bill, HB 75:

\* Sec. \_\_\_\_\_. The cash balances of the Alaska World War II veterans' revolving fund (AS 26.15.090), the mining loan fund (AS 27.-09.010), the child care facility revolving loan fund (AS 44.33.240), the alternative energy revolving loan fund (AS 45.88.010), the residential energy conservation fund (AS 45.89.010), the tourism revolving fund (AS 45.90.010), the small business revolving

loan fund (AS 45.95.060), and the historical district revolving loan fund (AS 45.98.010), attributable to loans owned by those funds as of June 30 of the fiscal year, after any appropriations from the funds to the Department of Commerce and Economic Development for operating expenses, are appropriated from those funds to the general fund.

This bill cleans up the state loan statutes. It eliminates defunct loan programs that need not and should not remain in the statutes. I urge your support and passage of this bill.

Sincerely,



Steve Cowper  
Governor