

HB

389

<target><bill>HB 389</bill><subject>HB
389</subject><comm>HFSH26</comm></target>

Alaska State Legislature

Rep. Cathy Muñoz, Vice-Chair
Rep. Wes Keller
Rep. Bob Buch



Rep. Peggy Wilson
Rep. Bryce Edgmon
Rep. Berta Gardner

Rep. Paul Seaton, Chairman
HOUSE EDUCATION COMMITTEE

MEMORANDUM

TO: Representative Bryce Edgmon
Chair, House Fisheries Committee

FROM: Representative Paul Seaton

DATE: March 9, 2010

RE: Request for hearing, HB 389

A handwritten signature in cursive script that reads "Paul Seaton".

I respectfully request a hearing before the House Fisheries Committee on HB 389, Alaska Manufacture Preference for the Commercial Fishing Loan Fund. In Summary, HB 389 allows the Department of Commerce, Community and Economic Development to reduce a borrower's interest rate up to two percentage points if they purchase an Alaska Manufactured Product with at least 50% of their Commercial Fishing Loan.

Attached please find: CSHB 389; HB 389; sponsor statement; Commercial Fishing Loan Fund home page; January Interest Rates; and DCCED Statistics for Loan Servicing.

Staff contact: Katie Koester: 465-2028

Alaska State Legislature

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REPRESENTATIVE Paul Seaton

District 35

MEMORANDUM

TO: Representative Bryce Edgemon, Chair
House Fisheries Committee

FROM: Representative Paul Seaton

DATE: March 18, 2010

RE: Questions on HB389

I would like to clarify questions relating to how the Division of Investments would determine whether or not a product is manufactured in the state of Alaska. The legislation states that in order for a borrower to be eligible for the rate reduction "at least 50 percent of the loan proceeds" need to be spent on a product that is manufactured or produced in the state (p.1, l.8). As long as half of the money borrowed is spent on an Alaskan product, the entire loan is eligible for the rate reduction. No determination needs to be made on how much of the actual product is manufactured in Alaska.

The committee had further questions of the definition of manufacture. HB 389 states " 'manufactured or produced' means processing, developing, or making an item into a new item with a distinct character and use." (p.1 l.13-14) Merely assembling a product from a kit, as Rep. Kawasaki questioned, would not be making a product with a new and distinct product. However, taking various parts – pieces of pipe, steel and wire – and making a new distinct purpose would be considered a product manufactured in Alaska. The Department would require the borrower to prove the product was manufactured in Alaska by presenting a statement from the Alaskan company before they would be eligible.

Walking the committee through a couple of hypothetical situations may be helpful.

Under the Product Quality Program:

A fisherman borrows \$40,000 under the Product Quality Program. They purchase an Alaskan made refrigeration unit for \$30,000 and spend \$10,000 to install it. Seventy-five percent of the loan is spent on an Alaska manufactured product, which makes the entire \$40,000 loan eligible for a rate reduction under HB389.

Under the Engine Efficiency Program:

A fisherman borrows \$20,000 under the Engine Efficiency Program. They purchase an Alaskan made marine electrical generator for \$14,000 and spend \$6,000 to install it. Seventy percent of the loan is spent on an Alaska manufactured product, which makes the entire \$20,000 loan eligible for a rate reduction under HB389.

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p. 2 March 18, 2010 Memo to HFSH on HB389

Mary Ellen, the AG for the Department of Commerce, Community and Economic Development, is confident that the language in the bill is clear enough for the Department to administer and that any further definitions can be dealt with in regulations. The language in the bill came from the State Procurement code, AS 36.30.332 and 338. I would also like to note that the HB389 was thoroughly vetted with the Division of Investments and their AG, Mary Ellen, before we brought it to the committee.

Staff contact: Katie Koester: 465-2028

26-LS1441\P
Kane
3/1/10

CS FOR HOUSE BILL NO. 389()

**IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-SIXTH LEGISLATURE - SECOND SESSION**

BY

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES SEATON, Peggy Wilson

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to loans made to commercial fishermen under the Commercial Fishing**
2 **Loan Act for product quality improvements and energy efficiency upgrades; and**
3 **providing for an effective date."**

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

5 *** Section 1.** AS 16.10.320 is amended by adding a new subsection to read:

6 (l) For a new loan under AS 16.10.300 - 16.10.370 made on or after the
7 effective date of this Act, the department may provide a reduction of the interest rate
8 of not more than two percent if at least 50 percent of the loan proceeds are used by the
9 borrower for product quality improvements or energy efficiency upgrades if the
10 improvements or upgrades use products manufactured or produced in the state. When
11 the department offers a reduction under this subsection, the department shall provide
12 the reduction to all loan applicants who meet the criterion described in this subsection.
13 In this subsection, "manufactured or produced" means processing, developing, or
14 making an item into a new item with a distinct character and use.

1

* Sec. 2. This Act takes effect immediately under AS 01.10.070(c).

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REPRESENTATIVE Paul Seaton

District 35

HB 389

Alaska Manufacture preference

HB 389 allows the Department of Commerce Community and Economic Development to give Commercial Fishing Loan Fund borrowers a reduction in the interest rate on their loan if 50% of their loan is spent on a product produced or manufactured in the State of Alaska. The Commercial Fishing Loan Fund was created by the State of Alaska to aid commercial fishermen in securing new equipment, quota shares and upgrades to their vessels. The Department already allows reductions in interest rates for borrowers who pay on time, make engine and fuel efficiency upgrades or product quality improvements.

The Department needs to have the discretion to institute this rate reduction program when the market allows it, which is why HB 389 does not make the reduction mandatory. For example, in today's market the interest rates are so low, if the Department were required to issue the loan it would jeopardize the solvency of the fund.

To be eligible for the rate reduction under HB 389 at least 50% of borrower's purchases with the loan fund have to be manufactured in the State of Alaska. The definition of manufacture is "processing, developing, or making an item into a new item with a distinct character and use."

HB 389 promotes economic development in Alaska by encouraging Alaska fisherman to purchase equipment manufactured in the State of Alaska when using Commercial Fishing Loan Fund dollars.

[Home](#) [Commercial Fishing](#) [Interest Rates](#) [News](#) [Workplace Alaska](#)

Investments

find »

Commercial Fishing Loan Fund

State of Alaska > Departments > Commerce, Community, & Economic Development > Division of Investments

Vessel Upgrade or Gear Purchase/Upgrade - Section B

The following types of loans are available under this loan purpose category:

- All types of vessel upgrades (for product quality improvement, see PQI page)
- Gear purchases
- Engine rebuilds
- Engine replacements, including engine fuel efficiency

For engine replacement and rebuilds that will improve fuel efficiency, interest rate is prime minus 2%.

Eligibility

- At least 25% of applicant's total gross income for past 2 years was from commercial fishing;
- or
- Applicant lacks training or employment opportunities in areas of residence other than commercial fishing;
- and
- Applicant is not eligible for financing from a recognized commercial lender.

Section B applicants may not have received a prior loan under Section A at any time.

Lending Limit

- The total balances outstanding on all loans made under Section B of the Commercial Fishing Loan Program may not exceed \$100,000.
- The total balances outstanding on all loans made under the Program may not exceed \$400,000.

Collateral Requirements

- Generally, the maximum loan amount for a loan secured by a documented vessel is 75% of the survey value (65% for AK vessels).

Terms and Conditions

- Interest rate is 2% above the Prime Rate, not to exceed 10.5%, not less than 3%, fixed at the time of loan approval.
- Interest rate is 2% below the Prime Rate for engine replacement and rebuilds that will improve fuel efficiency, fixed at the time of loan approval.
- Maximum loan term is 15 years.
- Borrower is responsible for all direct costs incurred in processing an application.

Fees

- A \$100 application fee must accompany all applications.
- An Origination Fee of 1% of the loan amount will be deducted from your loan proceeds at closing.

Vessel Upgrade or Gear Purchase/Upgrade - Section B Loan Application Package

There are different pages 1 and 2 for each different type of loan (limited entry permit, vessel purchase, etc.). If you are applying for more than one type of loan, complete pages 1 and 2 for each type of loan, then complete one set of pages 3 through 14. A separate application fee is required for each type of loan.

The following Commercial Fishing Vessel or Gear Purchase/Upgrade Application pages are in PDF format. You will need the Adobe Reader in order to view/print them. Acrobat Reader is distributed freely and available for download from Adobe®.



Quick Links...

- Alaska Capstone Avionics Loan Program
- Community Quota Entity (CQE)
- Commercial Fishing
- Small Business Economic Development
- Rural Development Initiative Fund
- Fisheries Enhancement

Of Interest...

- Fisheries Enhancement Revolving Loan Fund Program Overview
- Interest Rates
- IFQs for Sale
- Permits for Sale
- Real Estate for Sale
- Vessels for Sale
- Auto Pay Program
- 'TEL' Payment Program
- Staff Photos
- Comments
- Related Sites

Loan Application

The Alaska Division of Investments, Department of Commerce, Community, and Economic Development complies with Title II of the Americans with Disabilities Act of 1990. This publication is available in alternative communication formats upon request. Please contact the Division of Investments at (907)465-2510 or TDD (907)465-5437 to make any necessary arrangements.

Toll Free 1-800-478-5526 within Alaska
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Interest Rates

State of Alaska > Departments > Commerce, Community, & Economic Development > Division of Investments

Effective January 01, 2010, the interest rates are:

Fund	Rate	Authority
Alaska Capstone Avionics (Fixed at 4.0%)	4.0%	3 AAC 75.045(c)
Commercial Fishing (Prime + 2%, not to exceed 10.5%, not less than 3%)	5.5%	3 AAC 80.055(k)
Engine Fuel Efficiency Upgrade (Prime - 2%, not to exceed 10.5%, not less than 3%)	3.0%	3 AAC 80.055(k)
Fisheries Enhancement (Prime + 1%, not to exceed 9.5%, not less than 3%)	5.0%	3 AAC 81.055(k)
Product Quality Improvement (Prime - 2%, not to exceed 10.5%, not less than 3%)	3.0%	3 AAC 80.055(k)
Rural Development Initiative Fund (Prime - 1%, not less than 6%)	6.0%	3 AAC 99.865
Small Business Economic Development (Prime - 4%, not less than 4%)	4.0%	Board Delegation



These rates stay in effect until changed, which will be no sooner than April 01, 2010, at which time they will be re-evaluated and may change.

Quick Links...

- ▶ [Alaska Capstone Avionics Loan Program](#)
- ▶ [Community Quota Entity \(CQE\)](#)
- ▶ [Commercial Fishing](#)
- ▶ [Small Business Economic Development](#)
- ▶ [Rural Development Initiative Fund](#)
- ▶ [Fisheries Enhancement](#)

Of Interest...

- ▶ [Fisheries Enhancement Revolving Loan Fund Program Overview](#)
- ▶ [Interest Rates](#)
- ▶ [IFQs for Sale](#)
- ▶ [Permits for Sale](#)
- ▶ [Real Estate for Sale](#)
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DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
STATISTICS FOR LOAN SERVICING

(Dollars in Thousands)

Effective December 31, 2009

DCCED LOANS

	COMM. FISH.	FISH. AK ENHANCE	CAPSTONE AVIONICS	HIST. DIST.	MINING	ALTERN. ENERGY	TOTAL
Number of Loans Outstanding	1,558	181	3	2	0	1	1,745
Principal Amount Outstanding	61,377.6	67,541.4	105.6	68.3	0.0	5.7	129,098.6
Average Loan Amount	39.4	373.2	0.6	34.2	0.0	5.7	74.0
Number of Other Accounts	530	143	0	0	1	3	677
Principal Amount Outstanding	11,613.1	39,722.2	0.0	0.0	383.7	14.9	51,733.9
Total Loans and other Accounts	2088	324	3	2	1	4	2422
Total Principal Amount Outstanding	72,990.7	107,263.6	105.6	68.3	383.7	20.6	180,832.5
Total Average Loan Amount	35.0	331.1	0.0	34.2	383.7	5.2	74.7

DELINQUENCY AND DEFAULT STATISTICS*Statistics Based on Balances Outstanding*

Delinquent	4.1%	0.0%	0.0%	0.0%	0.0%	100.0%	1.6%
Foreclosure	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%

**SERVICED FOR
OTHER AGENCIES**

	FISH. ENHANCE	VETERANS	SMALL BUS. ECON. DEV.	BULK FUEL BRIDGE GRANT	ALCOHOL	RURAL DEV RDIF	RURAL DEV FISH REVITAL	TOTAL
Number of Loans Outstanding	0	2	61	20	0	27	14	124
Principal Amount Outstanding	0.0	10.7	6,170.3	1,479.0	0.0	2,885.6	1,222.2	11,767.8
Average Loan Amount	0.0	5.4	101.2	74.0	0.0	106.9	87	94.9
Number of Other Accounts	1	0	12	0	0	3	0	16
Principal Amount Outstanding	26.2	0.0	783.5	0.0	0.0	21.9	0.0	831.6
Total Loans and Other Accounts	1	2	73	20	0	30	14	140
Total Principal Amount Outstanding	26.2	10.7	6,953.8	1,479.0	0.0	2,907.5	1,222.2	12,599.4
Total Average Loan Amount	26.2	5.4	95.3	74.0	0.0	96.9	87.3	90.0

DELINQUENCY AND DEFAULT STATISTICS*Statistics Based on Balances Outstanding*

Delinquent	0.0%	0.0%	3.7%	0.0%	0.0%	2.8%	4.0%	3.5%
Foreclosure	0.0%	0.0%	3.4%	0.0%	0.0%	0.0%	0.0%	2.0%

Notes:

Delinquent is defined as 30 days or more past due.

Other Accounts include judgments, deferred interest, accounts receivable, and repossessed property.

SUMMARY

Total No. of Loans Outstanding	1,869
Total Principal Amount Outstanding	140,866.4
Total Average Loan Amount	75.4

Total No. of Other Accounts	693
Total Principal Amounts of Other Accounts	52,565.5

Delinquency and Default Statistics*Statistics Based on Balances Outstanding*

Delinquent	1.7%
Foreclosure	0.3%

TOTAL LOANS AND OTHER ACCOUNTS	2,562
TOTAL PRINCIPAL OUTSTANDING	193,431.9

Serviced for other state agencies:

The Fisheries Enhancement, Veterans, Small Business and Economic Development, Rural Development Initiative Fund loan portfolios and the Rural Development Fisheries Revitalization loan programs are serviced for the Alaska Industrial Development and Export Authority.

The Bulk Fuel Bridge Loan Fund (BFBLF) portfolio is serviced for the Department of Commerce, Community, and Economic Development, Division of Community & Regional Affairs

The Alcohol and Drug Abuse (ADA) portfolio is serviced for the Department of Health and Social Services.

Prepared by Alaska Division of Investments 2/1/2010