

HB

141

<TARGET><BILL>HB 141</BILL><SUBJECT>HB
141</SUBJECT><COMM>HFIN27</COMM></TARGET>

FISCAL NOTE

STATE OF ALASKA
2011 LEGISLATIVE SESSION

Fiscal Note Number 1
 Bill Version HB 141
 (H) Publish Date 2/18/11

Identifier (file name) HB141-CCED-DED-02-15-11 Dept. Affected DCCED
 Title Community Quota Entity Revolving Loan Fund Appropriation Economic Development
 Allocation Economic Development
 Sponsor Representative Alan Austerman
 Requester House Fisheries OMB Component Number 801

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

	Appropriation Required	Information						
		FY 2012	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
OPERATING EXPENDITURES								
Personal Services	89.1		89.1	89.1	89.1	89.1	89.1	89.1
Travel	7.0		7.0	7.0	7.0	7.0	7.0	7.0
Services	6.5		6.5	6.5	6.5	6.5	6.5	6.5
Commodities	5.0		1.0	1.0	1.0	1.0	1.0	1.0
Capital Outlay								
Grants								
Miscellaneous (Fund Capitalization)								
TOTAL OPERATING	107.6	0.0	103.6	103.6	103.6	103.6	103.6	103.6

CAPITAL EXPENDITURES								
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CHANGE IN REVENUES (CQERLF)								
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
1178 Community Quota Entity RLF	107.6		103.6	103.6	103.6	103.6	103.6	103.6
TOTAL	107.6	0.0	103.6	103.6	103.6	103.6	103.6	103.6

Estimate of any current year (FY2011) cost _____

POSITIONS

Full-time	1		1	1	1	1	1
Part-time							
Temporary							

Why this fiscal note differs from previous version (if initial version, please note as such)

Initial Version

Prepared by Wanetta Ayers, Director
 Division Economic Development
 Approved by Susan K. Bell, Commissioner
Commerce, Community, and Economic Development

Phone 268-4048
 Date/Time 2/17/11 8:30 AM
 Date 2/17/2011

FISCAL NOTE #1

STATE OF ALASKA
2011 LEGISLATIVE SESSION

BILL NO. HB 141

Analysis

Community Quota Entity Revolving Loan Fund – This fiscal note funds the Division of Economic Development (DED) operating costs associated with the CQE loan program. This program will provide long term, low interest loans to promote the development of Community Quota Entities (CQE) in small coastal communities in an effort to improve their economies by increasing fishing opportunities for residents through leased fishing rights.

The fund will be set up as a revolving loan fund with all principal and interest loan repayments, fees, and investment earnings returned and retained by the fund to ensure growth that would provide for future lending and administrative expenses. Based on capitalization, CQE Revolving Loan Fund (RFL) is anticipated to be the third largest fund in the DED portfolio. The fund will serve a borrower population of 42 eligible CQE organizations. CQE RLF will most closely parallel the Fisheries Enhancement fund. Based on many years of experience in this lending area, the Division bases its projections on each loan taking a full month to process. A substantial level of advance work and due diligence will be required for each loan and ongoing servicing given the specialized features of the fund. The halibut and sablefish fisheries are federal fisheries managed through an international treaty. Although the Division finances quota for the open access fishery, the CQE program is managed under the Restricted Access Management program, and this structure is likely to introduce additional complexity to the lending and servicing process.

Operating expenses will be paid from earnings of the fund. The cost projections provided include personal services for a Loan/Collection Officer I/II and initial program expenses for supplies, equipment, community outreach travel, and a projected per employee annual contractual services cost through FY2017. The new position is projected due to the complexity of the proposed loans and the anticipated interaction required with the Community Quota Entities to service the loans.

Revenue projections for this new program are done through FY2017. We are estimating ten loans each year for the first four years and five loans each year thereafter with repayments, fees, and earnings providing the necessary cash flow to maintain future lending.

Mr. Chairman, members of the finance committee, my name is Steve Ricci, I am staff to Representative Alan Austerman.

The Community Quota Entity Program was created in 2004 by the North Pacific Fishery Management Council, in response to the significant out migration of commercial longline quota from rural villages in the Gulf of Alaska. The program allows 42 communities (21 in southeast & 21 in southcentral Alaska) to purchase quota and lease it to residence of those communities. By doing so, the communities and fisherman, would once again be active participants in the fisheries occurring off their shores.

Since inception only one of the eligible communities has been able to utilize the legal authority provided by the CQE program and purchase quota. The most significant barrier to participation is access to financing. HB141 establishes an independent revolving loan fund to assist the CQE communities in the procurement of quota. This will bolster the economy of rural, coastal, communities.

An active commercial fishing fleet in a rural community employs residence, provides tax revenues, and spends income locally, which has a substantial multiplier effect in small communities. It allows rural communities to be sustainable and self reliant.

Thank you Mr. Chairman and members of the Finance committee, I will be happy to answer any questions.



Representative Alan Austerman

Alaska State Legislature

The Community Quota Entity (CQE) program was developed in 2004 by the federal North Pacific Fishery Management Council to help communities maintain and build involvement in the halibut and black cod longline fisheries. The CQE program provided the legal opportunity for communities to form non-profit organizations to purchase individual fishing quota (IFQ), anchoring fishery participation in these coastal communities. In response, the 23rd Legislature modified the Commercial Fishing Revolving Loan Fund to provide authorization to finance fishing quota for CQEs.

Despite the Alaska Legislature's initial efforts to provide financing to the communities, only one of 42 eligible communities have procured quota share to date. In fact, small coastal communities continue to see a significant out-migration of fisherman and quota shares, leaving them with limited or no access to fisheries occurring just off their shores.

House Bill 141 will modify the financial instruments the state has previously provided, to assist communities to participate in the program and bolster their economies. By establishing an independent revolving loan fund modeled upon the existing Commercial Fishing Revolving Loan Fund, HB 141 will enable the state to structure a successful loan program that supports rural community development and strengthens Alaska's coastal regions.

An active commercial fishing fleet in a rural community employs residents, provides tax revenues, and spends income locally, which has a substantial multiplier effect in small communities. This piece of legislation is an important tool to support rural coastal communities and develop sustainable economies throughout the state.

~ Representing Alaska State House District 36 ~

Akhiok | Igiugig | Iliamna | Karluk | Kodiak | Kokhanok | Larsen Bay | Levelock
Newhalen | Nondalton | Old Harbor | Ouzinkie | Pedro Bay | Port Alsworth | Port Lions

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MEMORANDUM

February 8, 2011

SUBJECT: Sectional summary of HB 141 (Work Order No. 27-LS0158\I)

TO: Representative Alan Austerman
Attn: Steve Ricci

FROM: Brian J. Kane
Legislative Counsel

You have requested a sectional summary of HB 141, a bill relating to loans for the purchase of fishing quota shares by certain community quota entities.

Please note that a sectional summary of a bill is not an authoritative interpretation of a bill. The bill itself is the best statement of its contents.

Section 1 of the bill amends AS 16.10.320(a) to conform to changes made in the bill.

Section 2 of the bill provides that principal and interest payments, and any money chargeable to principal or interest that is collected through liquidation by foreclosure or other process, on loans made to community quota entities under AS 16.10.310(a)(1)(E) after June 30, 2011, shall be paid into the community quota entity revolving loan fund.

Section 3 of the bill states that a community quota entity may use loan terms under sec. 3 of the bill up to a total, cumulative take of 50,000 pounds and that a loan made under AS 16.10.310(a)(1)(E) may not exceed 95 percent of the appraised value of the collateral used to secure the loan. Also, a loan to a community quota entity may not exceed a term of 25 years (except for extensions), may not exceed \$1,000,000 to one entity, and may allow for deferred interest payments for up to 10 years.

Section 4 of the bill amends the creation of the commercial revolving loan fund statute to state that the fund may not be used to make loans under AS 16.10.310(a)(1)(E).

Section 5 of the bill makes an exception for AS 16.10.310(a)(1)(E) to conform with changes made in the bill.

Section 6 of the bill establishes the community quota entity revolving loan fund.

Representative Alan Austerman
February 8, 2011
Page 2

Section 7 of the bill states that the commissioner of commerce, community, and economic development shall administer the commercial fishing revolving loan fund and the community quota entity revolving loan fund.

Section 8 of the bill sets the effective date for the bill as July 1, 2011.

BJK:ljw
11-082.ljw

Full report of all communities :

IFQ Community Report for Gustavus

WWW. ALASKA FISHERIES. NOAA. GOV/

RAM/REPORTS/IFQ_COMMUNITY_HOLDIN

-95-09.pdf

Table 1. Total IFQ Holdings by Year				Table 2. Gross IFQ Earnings						
Halibut	Year	2009 Equivalent		Halibut	Year	Fishable Pounds	Pounds Landed	Percent Fished	Estimated Earnings	Individuals
		Pounds	QS holder							
1995		49,503	21	1995		52,245	51,326	98%	104,383	12
1996		50,969	20	1996		66,894	*	*	*	9
1997		57,802	20	1997		93,459	75,942	81%	163,427	12
1998		53,752	18	1998		87,263	62,769	72%	107,251	9
1999		51,607	16	1999		86,782	*	*	*	9
2000		55,935	15	2000		78,083	*	*	*	8
2001		70,303	19	2001		112,538	*	*	*	12
2002		69,796	19	2002		109,979	*	*	*	15
2003		70,348	17	2003		100,685	*	*	*	14
2004		75,721	18	2004		121,169	*	*	*	13
2005		63,931	19	2005		103,256	*	*	*	14
2006		68,037	18	2006		109,707	*	*	*	12
2007		67,414	19	2007		94,372	*	*	*	12
2008		66,482	18	2008		74,353	*	*	*	12
2009		44,256	18	2009		42,444	*	*	*	11

Sablefish	Year	2009 Equivalent		Sablefish	Year	Fishable Pounds	Pounds Landed	Percent Fished	Estimated Earnings	Individuals
		Pounds	QS holder							
1995		43,175	4	1995		74,343	59,643	80%	\$189,784	3
1996		43,167	3	1996		59,126	***	***	***	3
1997		44,423	3	1997		49,818	46,833	94%	\$175,871	4
1998		44,423	3	1998		48,935	44,763	91%	\$110,898	3
1999		44,423	3	1999		46,241	***	***	***	3
2000		44,423	3	2000		51,874	***	***	***	3
2001		44,423	3	2001		52,222	***	***	***	3
2002		44,423	3	2002		49,998	***	***	***	3
2003		44,423	3	2003		60,581	***	***	***	3
2004		44,423	3	2004		63,528	***	***	***	3
2005		28,190	2	2005		59,195	***	***	***	3
2006		44,423	3	2006		58,906	***	***	***	3
2007		44,423	3	2007		53,918	***	***	***	3
2008		44,423	3	2008		51,674	***	***	***	3
2009		28,190	2	2009		29,243	***	***	***	3

Total IFQ Holdings by Year				Total IFQ Landings by Year			
Comparison	1995	2009	% change	Comparison	1995	2009	% change
Halibut lbs.	49,503	44,256	-11%	Halibut \$	\$104,383	*	*
No. Persons	21	18	-14%	No. Persons	12	11	-8%
Sablefish lbs.	43,175	28,190	-35%	Sablefish \$	\$189,784	***	**
No. Persons	4	2	-50%	No. Persons	3	3	0%

Table 3. Estimated Landings and Earnings of both Species		Fishable pounds	Pounds Landed	Percent Fished	Earnings	Individuals
Year	Year					
1995		126,588	110,969	88%	\$294,167	12
1996		126,020	100,647	80%	283,458	9
1997		143,277	122,775	86%	339,298	12
1998		136,198	107,532	79%	196,730	9
1999		133,023	113,881	86%	263,570	9
2000		129,957	69,025	53%	216,650	8
2001		164,760	107,365	65%	265,460	11
2002		159,977	117,854	74%	293,701	13
2003		161,266	115,117	71%	364,593	14
2004		184,697	137,080	74%	425,074	14
2005		162,451	133,681	82%	427,287	13
2006		168,613	139,351	83%	498,627	13
2007		148,290	113,716	77%	441,920	13
2008		126,027	85,828	68%	330,164	13
2009		71,687	70,654	99%	254,742	12

Comparison		1995	2009	% change
Earnings \$		\$294,167	\$254,742	-13%
No. Person		12	12	0%

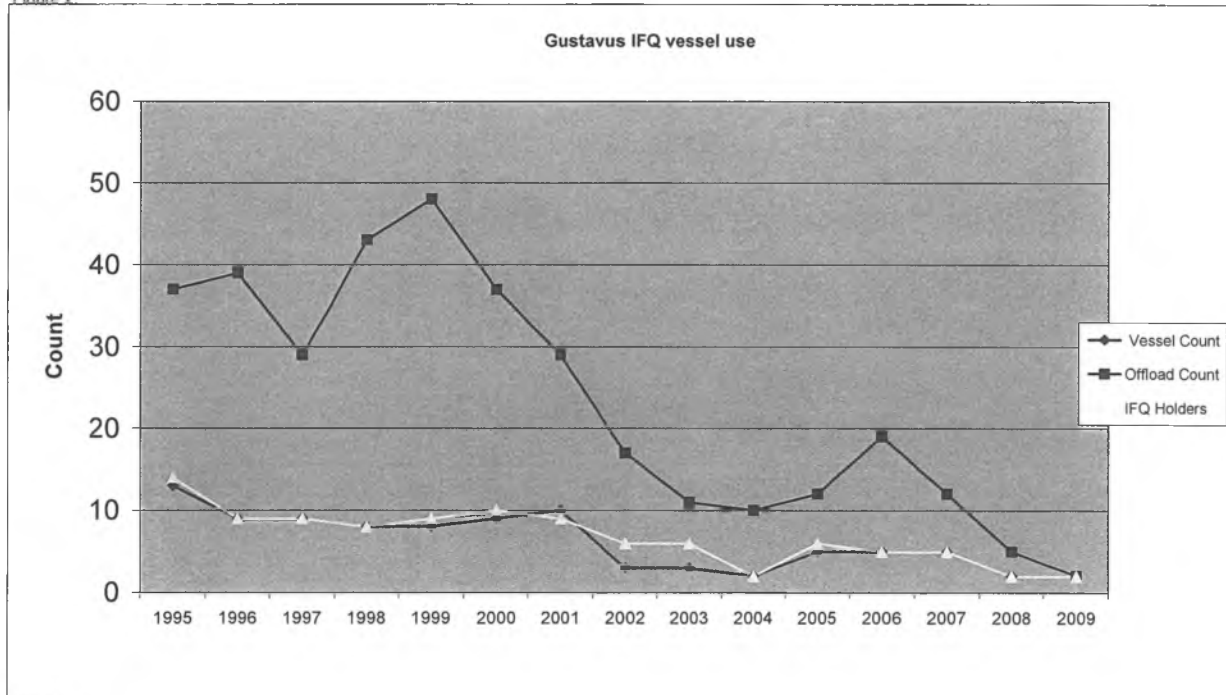
Figure 1.



IFQ Community Report for Gustavus

Table 4. Use of the port combined Halibut and Sablefish					
	Vessel Count	Offload Count	IFQ Holders	Sum quota Weight	Ave. weight vessel used
1995	13	37	14	41,178	3,168
1996	9	39	9	***	***
1997	9	29	9	***	***
1998	8	43	8	***	***
1999	8	48	9	***	***
2000	9	37	10	***	***
2001	10	29	9	***	***
2002	3	17	6	***	***
2003	3	11	6	***	***
2004	2	10	2	***	***
2005	5	12	6	***	***
2006	5	19	5	***	***
2007	5	12	5	***	***
2008	2	5	2	***	***
2009	2	2	2	***	***

Figure 2



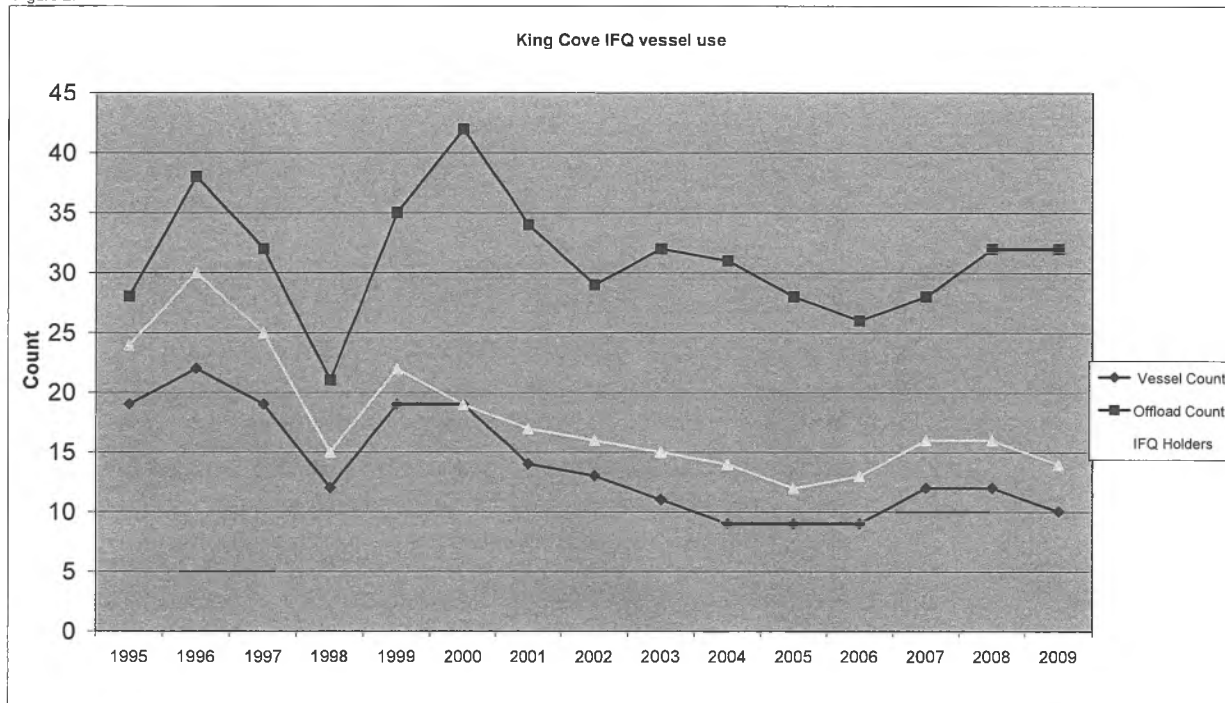
Notes:

- * Indicates that the data may not be displayed because simple subtraction would allow confidential data to be computed.
 - ** Indicates that the data are confidential because they are derived from the landings of fewer than three IFQ permit holders.
 - *** Indicates that the offloading vessels delivered to fewer than three Register Buyers (RB) permit holders.
1. Halibut weights are reported in net (headed and gutted) pounds; sablefish weights are reported in round pounds.
 2. Residence determinations are based on unverified self-reported addresses provided by QS holders.
 3. Estimated earnings (dollar amounts) are nominal; they are not adjusted for inflation nor by year.
 4. Table 1:
 - a. "2009 Equivalent Pounds" are IFQ pounds derived from all QS held by residents of the subject community. They are computed using 2009 Quota Share Pool and TACs; therefore, they are comparable across all reported years. These reported pounds include pounds derived from QS held in all IFQ management areas.
 - b. "QS holders" includes all entities (including individuals, corporations, etc.) holding and reported the subject community, as a permanent business mailing address, as of the end of the indicated year.
 5. Tables 2 and 3:
 - a. "Fishable Pounds" are calculated from amounts of QS held by all residents of the subject community as of the end of the indicated year. These amounts are adjusted for "overages and underages" resulting from prior years fishing activities.
 - b. "Pounds Landed" display the actual pounds landed during the indicated year.
 - c. "Estimated Earnings" are calculated by multiplying the actual pounds landed by the estimated ex-vessel values as reported by the CFEC, State of Alaska for each area. (<http://www.fakr.noaa.gov/ram/ifqreports.htm#special> Annual Ex-Vessel Prices)
 - d. "Individuals making landings" includes all individuals with recorded landings of IFQ derived from QS held by persons reporting business address in subject community (as displayed on Table 1). The total includes hired skippers; accordingly, in some instances, the total number of individuals with landings may exceed the total number of "persons" who hold QS.
 6. Table 4:
 - a. "Use of port" shows the number of distinct vessels that landed IFQ in this location, regardless of the vessels homeport and of the IFQ permit holder.
 - b. Only years landings are shown.

IFQ Community Report for King Cove

Table 4. Use of the port combined Halibut and Sablefish					
	Vessel Count	Offload Count	IFQ Holders	Sum quota Weight	Ave. weight vessel used
1995	19	28	24	***	***
1996	22	38	30	***	***
1997	19	32	25	***	***
1998	12	21	15	***	***
1999	19	35	22	***	***
2000	19	42	19	***	***
2001	14	34	17	***	***
2002	13	29	16	***	***
2003	11	32	15	***	***
2004	9	31	14	***	***
2005	9	28	12	***	***
2006	9	26	13	***	***
2007	12	28	16	***	***
2008	12	32	16	***	***
2009	10	32	14	***	***

Figure 2.



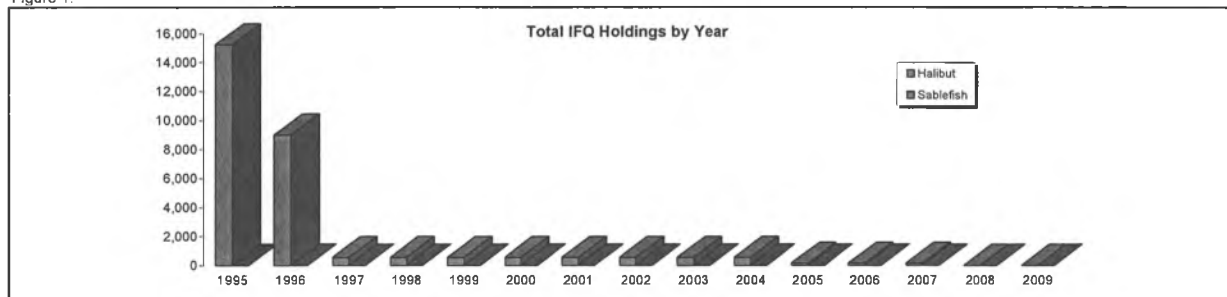
Notes:

- * Indicates that the data may not be displayed because simple subtraction would allow confidential data to be computed.
 - ** Indicates that the data are confidential because they are derived from the landings of fewer than three IFQ permit holders.
 - *** Indicates that the offloading vessels delivered to fewer than three Register Buyers (RB) permit holders.
1. Halibut weights are reported in net (headed and gutted) pounds; sablefish weights are reported in round pounds.
 2. Residence determinations are based on unverified self-reported addresses provided by QS holders.
 3. Estimated earnings (dollar amounts) are nominal; they are not adjusted for inflation nor by year.
 4. Table 1:
 - a. "2009 Equivalent Pounds" are IFQ pounds derived from all QS held by residents of the subject community. They are computed using 2009 Quota Share Pool and TACs; therefore, they are comparable across all reported years. These reported pounds include pounds derived from QS held in all IFQ management areas.
 - b. "QS holders" includes all entities (including individuals, corporations, etc.) holding and reported the subject community, as a permanent business mailing address, as of the end of the indicated year.
 5. Tables 2 and 3:
 - a. "Fishable Pounds" are calculated from amounts of QS held by all residents of the subject community as of the end of the indicated year. These amounts are adjusted for "overages and underages" resulting from prior years fishing activities.
 - b. "Pounds Landed" display the actual pounds landed during the indicated year.
 - c. "Estimated Earnings" are calculated by multiplying the actual pounds landed by the estimated ex-vessel values as reported by the CFEC, State of Alaska for each area. (<http://www.fakr.noaa.gov/ram/ifqreports.htm#special>) Annual Ex-Vessel Prices)
 - d. "Individuals making landings" includes all individuals with recorded landings of IFQ derived from QS held by persons reporting business address in subject community (as displayed on Table 1). The total includes hired skippers; accordingly, in some instances, the total number of individuals with landings may exceed the total number of "persons" who hold QS.
 6. Table 4:
 - a. "Use of port" shows the number of distinct vessels that landed IFQ in this location, regardless of the vessels homeport and of the IFQ permit holder.
 - b. Only years landings are shown.

IFQ Community Report for Larsen Bay

Table 1. Total IFQ Holdings by Year				Table 2. Gross IFQ Earnings					
Halibut	Year	2009 Equivalent		Halibut	Fishable Pounds	Pounds Landed	Percent Fished	Estimated Earnings	Individuals
		Pounds	QS holder						
	1995	15,232	8	1995	13,080	**	**	**	1
	1996	8,995	5	1996	7,131	**	**	**	2
	1997	538	3	1997	674	0	0%	\$0	0
	1998	538	3	1998	712	0	0	0	0
	1999	538	3	1999	684	0	0	0	0
	2000	535	2	2000	519	0	0	0	0
	2001	535	2	2001	592	0	0	0	0
	2002	535	2	2002	616	0	0	0	0
	2003	535	2	2003	619	0	0	0	0
	2004	535	2	2004	673	0	0	0	0
	2005	139	1	2005	179	0	0	0	0
	2006	139	1	2006	177	0	0	0	0
	2007	139	1	2007	183	0	0	0	0
	2008	0	0	2008	0	0	0	0	0
	2009	0	0	2009	0	0	0	0	0
Sablefish	Year	2009 Equivalent		Sablefish	Fishable Pounds	Pounds Landed	Percent Fished	Estimated Earnings	Individuals
		Pounds	QS holder						
	1995	0	0	1995	0	0	0%	\$0	0
	1996	0	0	1996	0	0	0	0	0
	1997	0	0	1997	0	0	0	0	0
	1998	0	0	1998	0	0	0	0	0
	1999	0	0	1999	0	0	0	0	0
	2000	0	0	2000	0	0	0	0	0
	2001	0	0	2001	0	0	0	0	0
	2002	0	0	2002	0	0	0	0	0
	2003	0	0	2003	0	0	0	0	0
	2004	0	0	2004	0	0	0	0	0
	2005	0	0	2005	0	0	0	0	0
	2006	0	0	2006	0	0	0	0	0
	2007	0	0	2007	0	0	0	0	0
	2008	0	0	2008	0	0	0	0	0
	2009	0	0	2009	0	0	0	0	0
Total IFQ Holdings by Year				Total IFQ Landings by Year					
Comparison	1995	2009	% change	Comparison	1995	2009	% change		
Halibut lbs.	15,232	0	-100%	Halibut \$	**	\$0	0%		
No. Persons	8	0	-100%	No. Persons	1	0	0%		
Sablefish lbs.	0	0	0%	Sablefish \$	\$0	\$0	0%		
No. Persons	0	0	0%	No. Persons	0	0	0%		
Table 3. Estimated Landings and Earnings of both Species				Fishable Pounds	Pounds Landed	Percent Fished	Earnings	Individuals	
Year									
	1995			13,080	**	**	**	1	
	1996			7,131	**	**	**	2	
	1997			674	0	0%	\$0	0	
	1998			712	0	0	0	0	
	1999			684	0	0	0	0	
	2000			519	0	0	0	0	
	2001			592	0	0	0	0	
	2002			616	0	0	0	0	
	2003			619	0	0	0	0	
	2004			673	0	0	0	0	
	2005			179	0	0	0	0	
	2006			177	0	0	0	0	
	2007			183	0	0	0	0	
	2008			0	0	0	0	0	
	2009			0	0	0	0	0	
Comparison				1995	2009	% change			
Earnings \$				\$0	\$0	0%			
No. Persons				1	0	0%			

Figure 1.



Letter of Support - House Bill No. 141

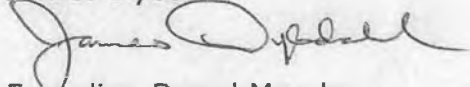
As a board member of Hoonah's CQE, **Hoonah Community Fisheries Corporation**, I am in total support of the House Bill 141 sponsored by Representative Alan Austerman.

Hoonah's CQE has been inactive, due mainly to not having resources to purchase IFQs on the open market. If HB 141 passes, we anticipate that our CQE will have a financial vehicle to assist in being able to obtain quota shares for the entity to manage. Commercial fishing is a major economic factor for our community, and our CQE will be a positive contributor to the local revenue if the entity is successful in its mission. House Bill 141 provides the means for CQE's like ours to start functioning in the manner that was originally envisioned.

Please enter in to record this letter of support for House Bill No. 141.

Respectfully submitted, April 5th, 2011.

James Dybdahl



Founding Board Member
Hoonah Community Fisheries Corporation

HB 141

Duncan Fields' Testimony

January 17, 2011

Mr. Chairman, Fishery Committee Members

My name is Duncan Fields. I'm a consultant to several CQE communities on Kodiak Island and have worked on the structure and development of the Community Quota Entity program for almost 15 years. I've been involved in fisheries all my life. I currently serve as one of the State of Alaska's representatives on the North Pacific Fisheries Management Council. I was chairman of the Alaska Fisheries Marketing Board and a former Alaska Seafood Marketing Institute board member. Serve on the executive committee of United Fishermen of Alaska and manage a family salmon fishing operation. In other words, I'm both an active fisherman and a fisheries advocate.

I would like to first thank Representative Austerman for introducing HB 141. Discussions regarding funding for CQE's have been ongoing since the program was created in 2004 and many communities talked with Alan in his capacity as Governor's fisheries advisor as well as legislator regarding their concerns. Alan is experientially aware of the limited funding options available to CQE communities and has submitted HB 141 as the best solution to meet significant funding limitations. I trust the committee will appreciate that this bill represents several years of work regarding alternative funding for CQE purchases and the realization that a dedicated State loan program may be our only hope.

Why Community Quota Entities (CQEs)?

Limitation of State fishing licenses starting in 1973 combined with the Halibut and Sablefish IFQ program implemented in 1995 resulted in significant and accelerated loss of fishing licenses and quota shares for smaller Gulf of Alaska fishery dependent communities. For many of these communities fishing is their only economic activity. With the loss of community based permits and quota shares, families, especially young families, started leaving. Population losses initiated a downward spiral of revenue loss, essential services limitation, school teacher and school activity reductions, increased costs, expanding social issues and yet further population declines. Many of these communities have inherent social and cultural

value and are important to Alaska's overall economic health. These communities need revitalization and one approach to stabilizing the communities' economic base was to allow the community to purchase fishing quota and licenses that would then be held in trust for the community residents in perpetuity. Many community residents believe that if fishing opportunities are available, young families are more likely to remain in the community. This is the fundamental concept behind the Community Quota Entity program; the community is given the opportunity to enter the market place and purchase and hold quota shares that are then fished annually by community residents.

What is a Community Quota Entity?

It's best to understand the Community Quota Entity program by contrasting it with the Community Quota Development Program. These two acronyms sound the same but represent very different programs. First, there is no allocation of fishing quota to CQE communities. In contrast, the CDQ program enjoys an annual allocation of quota that generates substantial revenue each year. Secondly, there are no requirements that CDQ quota be fished by community residents. The basic purpose of the CQE program is to have quota fished by resident community members. CDQs are not limited in the amount of quota they can purchase and can expand freely both in and out of the fishing industry. CQEs are significantly limited both in the type of quota that can be acquired and the amount of quota that each community can purchase. In addition community residents are limited in the amount of CQE quota each individual can fish as well as the amount of quota fished on an individual vessel. In summary, and in contrast to the CDQ program, there is no annual revenue source for the CQEs and they are significantly limited in how much quota they can purchase.

When Will the CQE Program Be Successful?

Currently about half of the CQE eligible communities have formed CQEs. To form a CQE the community must come together and create a new entity. The CQE is not tribal, it is not part of the village or regional ANLCSA entity and it is not formed by the city or borough, should one exist. In short, the CQE represents all the residents of smaller fishing communities, both native and non-native. The CQEs are structured so that any resident may participate in the program. Once the community entity is formed, the CQE must adopt guidelines for distribution of quota. These guidelines might include criteria such as how many resident crewmen will be employed, how much existing quota do you have, what is your

fishing plan, experience age etc. Many CQE's favor younger community members who will be fishing in skiffs or smaller vessels. Once the distribution plan is adopted the CQE is ready to enter the IFQ market and acquire quota. When the regulatory process to form CQEs was started, halibut IFQs in Area 3-A were around \$7.00 per pound. Now the same IFQs sell for about \$30.00 per pound. CQEs quickly realized that they had funding issues. CQE's didn't have assets or income from other sources to put toward the down payment and with the ratio between exvessel value and quota purchase costs so high, the CQE would need a much longer time period to repay loans. In short, the reason that only one of 42, soon to be 45, CQEs has purchased quota is that they have not had to access capital for quota purchases.

Where can the CQEs go for funding?

The Gulf of Alaska Coastal Communities Coalition, Sea Grant and other entities initiated two conferences to help CQEs organize and find funding. Traditional lenders, NGOs, corporate representatives and the State attended these events. Conventional lenders were not interested in CQE loans. As one banker said, a borrower needs the 4 C's: Collateral, Capacity, Credit and Capital. CQE's lacked all four. NGO's had some funding available but it still required startup capital and the funding was limited to a 5 year term. The State quickly qualified CQEs for their existing loan programs but the terms of the program, at that time 40% down and 15 years, didn't work for the CQE's. Recently, as you may know, the State has modified its permit loan program to 20% down and 20 years. Although comes closer to what is needed for quota share purchases, it still doesn't pencil for the CQE communities (examples provided).

Remember, other borrowers can bring fishing revenue or income from other assets to pay the down payment or meet debt service. However, the CQE does not have other revenue streams. Tribal funding sources are limited to programs that are tribe specific and the CQE is community based --- native and non-native alike. Finally, the ANCSA corporations were quickly advised that funding CQE could be viewed as a disproportionate distribution of dividends. Over the past 6 years CQE representatives have had numerous meetings trying to obtain funding and have not been successful to date. It appears that a State loan program may be the only answer.

How will a State Loan program like HB 141 help fund CQE quota share Purchases?

CQE's are not like individuals and consequently State of Alaska loans need to be structured to recognize the CQEs uniqueness. CQEs view quota shares differently from individuals. When the quota is purchased, it is likely to remain in the community and be fished by community members for the foreseeable future. Consequently, conventional loan terms of 15 or 20 years don't make sense for the CQE. HB 141 extends the loan term to 25 years. I would like to committee to also consider a 30 year term to further smooth debt repayment. Remember, we're not talking about the career or earning curve of an individual but the long term use of quota in the community. As mentioned previously, CQEs don't have start up capital for down payments and don't have alternative revenue sources to "bring to the table". Consequently, a CQE loan program must have low initial capital requirements. HB 141 provides for a 5% initial down payment with a 95% debt to equity ratio. Although this may still be a barrier for some CQE's, the 5% down provision makes program participation much more likely.

HB 141 provides the conventional "prime plus 2%" interest rate used in existing State quota share loan programs. The committee may want to consider the "prime" or a "prime plus 1%" interest rate used by the State in other loan programs that encourage economic development. A slightly lower interest rate would further incentivize CQE participation. Finally, CQEs borrowing money from the State must have the opportunity to build up some reserves so that annual quota fluctuations (recently a reduction of 28% in area 3A) don't interrupt revenue flow to the extent that the CQE can't make its payments. HB 141's suspension of interest payments for up to 10 years provides the time needed for the CQE to build reserves. In summary, HB 141 is carefully crafted to meet the specific and unique financing needs of the CQEs.

Who will oppose a State of Alaska loan program specific to CQEs?

Opposition to the CQE program has always come from individuals or fishing organizations that don't want competition for the purchase of fishing quota shares. They believe that CQE's will "drive the price of quota shares up" and their personal economic interests will be harmed. Those fears have not been realized and it is unlikely that the loan program proposed in HB 141 will substantially impact the quota share market. Let me give some perspective. If each CQE community qualified for the maximum loan amount under HB 141 of \$1,000,000, they could each buy approximately 30,000# of quota or

cumulatively about 1.3 million pounds of quota. This is less than 5% of the quota held by individual in areas 2C, 3A and 3B and far less than the 21% authorized by the NPFMC when creating the CQE program. In addition, 30,000# of quota is only about 20% of what the CQE's individual community limit of approximately 150,000#. In other words, the CQE loan program may have some impact in the market place but it is highly, unlikely because of substantial regulatory limitations, that the impact would be significant.

Other fishermen may argue that it is inequitable for communities to have loan opportunities that individuals don't have. The CQE program was created to address economic development and revitalization needs in communities and to mitigate adverse economic community impacts from regulatory fishery management changes. The CQEs are purchasing quota for use by a defined set of individuals residing in rural Alaska communities. Any suggested inequities created by the loan program need to be seen in light of the historical inequities experienced by Alaska communities when the IFQ halibut and Sablefish management program was put in place.

In closing let me say that HB 141 is a carefully crafted piece of legislation to meet a significant and real need by 45 smaller, isolated, fishery dependant, Alaska communities. It will not solve all community issues nor will it solve all the challenges the CQEs face. Nevertheless, it will go a long way toward creating a positive partnership between the State of Alaska and fishery dependent communities to provide jobs and economic opportunity. The State's investment in the CQE program is likely to pay significant dividends over time — both in loan repayment and community health.

Bay View Incorporated

7926 Old Seward Highway, Suite A-7 * Anchorage, Alaska 99518

Phone: (907) 344-8252 Fax: (907) 344-8252

RESOLUTION 2011-02

Community Quota Entity Funding

This Resolution is entered into by Ivanof Bay Tribe, federally recognized Tribe, representing its tribal members as of the date set forth herein below.

WHEREAS: the community of Ivanof Bay is a remote and isolated community in Southwest Alaska accessible only by air and water; and

WHEREAS: the community's historic and current economic development activities has been primarily focused on local participation in the fisheries in the waters off its coast; and

WHEREAS: the community and its residents are struggling to sustain themselves in the current economic climate; and

WHEREAS: the Community Quota Entity (CQE) program was created under federal law to assist coastal communities in the Gulf of Alaska in participating in the fisheries within the region; and

WHEREAS: the community looks to previous actions by federal and state regulators in Western Alaska when the Community Development Quota (CDQ) program was established, including the economic advantages provided to that program, and the historic nature in which it ushered in a new and sustainable economic model for the residents of that region; and

WHEREAS: the members of Ivanof Bay Tribe question why similar substantial efforts and outreach have not been secured on their behalf in and for the benefit of the communities and residents in the Gulf of Alaska; and

WHEREAS: the communities are quickly losing hope in the ability to provide for their long-term futures absent meaningful assistance from the elected leaders in Alaska; and

WHEREAS: the CQE program needs real, non-illusory and substantial financial backing to make it an effective and meaningful program that all Alaskans can be proud of; and

WHEREAS: the CQEs and their sponsoring communities want a "hand up", not a "hand out" when it comes to the type of financial backing necessary to make the CQE program successful; and

WHEREAS: a package has been assembled to establish the basic economic underpinning and long term success of the CQE program that is reasonable and prudent, and that will insure there is a local Alaska owned presence in the related fisheries in perpetuity; and

WHEREAS: it is now time for the Legislature to act to provide said financial backing and access to capital to the CQEs in a program that is real and meaningful;

NOW THEREFORE BE IT RESOLVED that Ivanof Bay Tribe approves the following actions:

- 1) The Tribal Council of the Ivanof Bay Tribe is authorized and instructed to sign a letter of support to the Governor, its State Senators and Representatives in the Alaska Legislature urging them to introduce, debate, adopt and fund a meaningful CQE loan program along the lines of the package that has been put together for the benefit and viability of the CQE program;
- 2) The Tribal Council of Ivanof Bay Tribe is instructed to provide a copy of this Resolution to our Congressional Delegation in Washington, DC, to informing them of our support for this effort;
- 3) The Tribal Council of Ivanof Bay Tribe is instructed to assist the Gulf of Alaska Coastal Communities Coalition and other regional and local entities and communities in pushing for adoption and funding of the proposed CQE legislative package; and
- 4) The Tribal Council of Ivanof Bay Tribe is instructed to inform the fishermen and residents of Ivanof Bay that a package to fund the CQE program is being offered in the State Legislature and that they should contact the Governor and their State Senator and Representative urging them to introduce and seek passage of the bill.

CERTIFICATION:

I, the undersigned, hereby certify that the foregoing resolution was passed unanimously by the Bay View Board of Directors on the 16th of February, 2011 via telephone poll to be ratified at the April 2011 regularly scheduled board meeting.

Signed: Edgar J. Shangin

Edgar J. Shangin

President

Signed: Nicole D. Cabrera

Nicole D. Cabrera

Board Secretary



Gulf of Alaska Coastal Communities Coalition (GOAC3)
PO Box 201236, Anchorage Alaska 99520
Phone: (907) 561-7633
Web: www.goac3.org Email: goaccc@alaska.net

Testimony in support of HB141 / CQE Revolving Loan Fund
Alaska House of Representatives Special Committee on Fisheries
February 17, 2011

**GULF OF ALASKA COMMUNITY QUOTA ENTITY (CQE) PROGRAM:
FAQS (Frequently Asked Questions) and Background Information**
Affecting 42 Gulf of Alaska fisheries dependent communities
Prepared by: The Gulf of Alaska Coastal Communities Coalition (GOAC3)

For the record, my name is Gale Vick and I am the Executive Director of the Gulf of Alaska Coastal Communities Coalition, or GOAC3, a private non-profit representing certain interests of 42 fishing communities in the Gulf of Alaska. Thank you for this opportunity to speak to HB141 proposing a CQE Revolving Loan Fund.

GOAC3 supports HB141 and we appreciate the efforts of Representative Austerman and Representative Wilson in introducing this legislation.

Small Gulf of Alaska fishing communities face an unprecedented collective loss of fishing access which directly translates into loss of culture, income, jobs, future jobs, and infrastructure with a corresponding increase in social problems. This has resulted in an out-migration of population, more burden on existing residents and, in too many cases, loss or threatened loss of a school. This dramatic shift can only be stopped by creating ways to bring back non-transferable fishing effort that is "anchored" within the community.

Unlike the highly successful CDQ program of Western Alaska, the once highly diversified and stable fishing communities of the Gulf of Alaska, did not receive any portion of the 1995 Halibut and Sablefish IFQ program, the first federal rationalization program in the Gulf. The 2004 CQE program was created by federal regulation as a way to bring back fishing effort to smaller Gulf communities that illustrated a significant loss of fishing revenue since 1995.

The CQE program is *purchase only* and unfunded, the price of entry into the quota market is enormously high, and conventional financing is both unavailable and unsupportable for a remote community non-profit, resulting in a miniscule amount of CQE participation. The GOAC3, with the assistance of economists, social scientists and policy summits, has concluded that the only way to facilitate COE participation is through a massive buy-out or a highly specialized loan program. No such private or public loan options exist.

The CQE program is a highly sustainable program with the right financing package but if financing does not support the right economic model, the program becomes too marginalized. The 2004 CQE loan program has not been utilized because of the steep requirements for a 35% collateral match and high interest.

It has taken over six years for CQE communities to fully illustrate the inherent difficulties of purchasing quota as a community. With the help of the University of Alaska, the Alaska Marine Advisory Program and the North Pacific Fisheries Trust as well as community economists, the GOAC3 has identified an economic model that allows a CQE to purchase the minimal amount of quota share needed for community stimulation with the appropriate lease rates and debt service.

The proposed CQE loan legislation, HB141, has identified loan parameters that come the closest to fitting the CQE economic model as anything that currently exists. Because of the extraordinary needs of start-up non-profit CQEs with no collateral or capital assets, the GOAC3 respectfully suggests that the terms of the loan program be altered to 30 year terms, no equity match on the first purchases, and prime + 1%.

The economic stimulus of HB141's ability to fund CQE quota could reach into a multitude of jobs and thousands of dollars of local income. It will encourage growth of other fisheries and will encourage young families to stay or move back to their home communities.

Thank you for your time and consideration of this very important legislation.

The following is a brief history of the CQE program, why it is important to seek adequate loan legislation, and what terms are needed for such a loan.

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BASIC FACTS

- (1) Gulf of Alaska fishing communities have a long history, in some cases hundreds of years, of economic sustainability utilizing their access to multi-species marine resources. Many of these communities have no other economic engine than productivity from the sea.
- (2) Catch share allocations or “rationalization” of fisheries within the last 15 years have resulted in significant economic loss to small fisheries dependent communities of the Gulf of Alaska to the point that economic survival is threatened.
- (3) As the CDQ (Community Development Quota of Western Alaska) has illustrated, the only way to have stability for community fisheries economics is to have fishing effort anchored within the community in perpetuity through a community allocation. The Gulf of Alaska does *not* have a corresponding community allocation program to the highly successful CDQs who have received much of their quota as a direct allocation of annual catch limits or of quota.
- (4) Individuals in a community normally must consider family and personal needs before community needs in their decision making. Communities dependent on those decisions are much more vulnerable under a rationalized rather than an open access fishery.
- (5) Years of research¹ indicated that the 1995 Halibut and Sablefish IFQ program had resulted in a dramatic out-migration of fishing effort within isolated Gulf of Alaska fisheries-dependent communities that were under 1500 in population, at tidewater and not connected to a hub by a road system.
- (6) Because the Halibut and Sablefish IFQ program was already fully allocated, it was necessary to find an alternative way for communities to hold quota. Based on the requirements of National Standard #8 of the Magnuson-Stevens Fishery Conservation and Management Act (MSA) to provide for consideration of community impacts, the Gulf of Alaska Coastal Communities Coalition (GOAC3) began petitioning the North Pacific Fishery Management Council (NPFMC) in 1999 to consider alternatives.
- (7) The NPFMC passed Amendment #66 in April of 2002 that was approved by the U.S. Department of Commerce in June of 2004, creating the CQE - Community Quota Entity program - to allow 42 fishing communities in the Gulf of Alaska to form non-profit organizations eligible to *purchase* halibut and sablefish quota in IPHC (International Pacific Halibut Commission) Areas 3A, 3B and 2C of the Gulf of Alaska to *lease*, on an annual basis, to local community residents. There was no funding for purchase or operations attached or identified.

¹ Some of the earliest indicators came through a CFEC (Alaska Commercial Fisheries Entry Commission) report.

- (8) GOAC3 worked with many financing groups around Alaska and the country to help identify favorable loan options. Despite some heroic efforts, including private sector, none of the existing options worked with a CQE economic model. The previous CQE loan program the Alaska Legislature passed in 2004 required a 35% equity match which immediately proved to be too onerous to unfunded non-profits with no collateral. Many people outside the CQE communities thought that local and regional corporations would be able to assist but there were a number of legal and economic reasons why this could not happen.
- (9) Because of the lack of funding and viable loan options, the CQE program, since being implemented in 2004, has resulted in only a single purchase of a small amount of halibut quota by one CQE group.

BACKGROUND

“To follow the history of fishing in Alaska is to understand Alaska itself. Fishing has been the primary or secondary economic support industry for the state for centuries. There is nothing that captures so much the very essence of Alaska’s collective culture as the epic battles for the rights to fish. . . . It can easily be argued that the history of fishing in Alaska belongs to the millennia, to the indigenous coastal and river populations who have depended on their adjacent marine resources since possibly 12,000 years ago. Many indigenous cultures are thought to have been incredibly rich by the standards of times past, with an abundance of food caught and preserved by some very ingenious methods. Fisheries in the indigenous world were harvested for the communal good and the sea was the primary source of sustenance. The name “Alaska” itself is most commonly felt derived from the Aleut word “*alaxsxaq*” often translated as “mainland” or “great land” but meaning literally “the object toward which the action of the sea is directed” or “where the sea breaks its back.” The concept of “ownership” of Alaska’s marine resources changed dramatically with Western contact, beginning with the arrival of the Russians in the late 18th century and continuing through a roller coaster of events and actions that sought – and still seeks - to control the incredibly productive North Pacific. Control over Alaska’s fisheries resource was one of the primary motivators for Alaskan Statehood in 1959 and from statehood to the present, there has been continual friction between State and federal fisheries management and beneficiaries.”²

As this introduction implies, Alaska’s coastal communities have historically been dependent on their adjacent marine resources for survival. As remote Alaskan fishing communities have merged into cash economies, this survival has been seriously threatened by an increasing shift in regulatory management that has sought to manage each fishery more efficiently. However, “unintended” consequences of these regulatory actions have rocked the foundations of small fishing community economics.

1. WHAT IS “RATIONALIZATION” AND WHY IS IT A PROBLEM?

Rationalization is a term that describes a change from an open access fishery to a closed access system where fishermen have certain rights to fish a specific amount of fish and no more.

² “A Brief Timeline of Commercial Fishing in Alaska”, by Gale K. Vick, published by *The Alaska Business Monthly*, 2007

Rationalization describes a process. In current terminology the outcome is often a “catch share” program.” Initial issuance or initial allocations to individuals (IFQs) are based on previous fishing history formulas, although not all fishing history is considered. Community allocations have other bases. Individuals or communities who receive initial quota they have not had to buy have an extreme advantage over participants who do have to buy all their quota.

In state waters, Alaska implemented the Alaska Limited Entry program in 1975 which limited the number of salmon permits that could be held in a given area. In 1991 specific communities of Western Alaska were allocated 7.5% of pollock total allowable catch (TAC) in the Bering Sea, forming the CDQ (Community Development Quota) program. In 1995, the federal government implemented the Halibut and Sablefish IFQ program without any community provisions. In 1998, the American Fisheries Act was established rationalizing the Bering Sea pollock industry. In 2004 the CQE (Community Quota Entity) program for 42 communities of the Gulf of Alaska was approved but not funded. In subsequent years, crab fishing was rationalized in the Bering Sea, rockfish was rationalized in the Gulf of Alaska, Pacific cod and other groundfish were allocated to sectors in the Gulf of Alaska and halibut charterboats were placed in a limited entry system.

As species are rationalized, the ability to sustain multi-species (or “combination”) fishing is severely compromised or eliminated. This is an essential point for small boat fleets in small isolated communities. Open access management regimes gave small communities one major advantage - the cost of local expert traditional fishermen was low and essentially guaranteed that the community would have the access to the resource they needed to survive as a community. With the loss of fishing effort, there is a corresponding loss of experienced fishermen, boats and gear. It is a downward spiral affecting all in the community.

Catch shares are very controversial. There is extensive data illustrating the socioeconomic downsides to catch share systems that do not have sufficient community protections. The social and cultural costs to our small fishing communities as a result of catch share programs is inestimable. One of the most haunting and notable images is how empty the docks are in many fishing communities now. Less than 20 years ago, the docks would be teeming in-season, with kids swaggering because they were going out to work on family fishing boats. They learned valuable skills for the future and even if they did not eventually go into fishing for a living, those skills served them well in other ventures. Now boats are gone, parents have moved elsewhere to find jobs, fewer kids are working in family fishing operations and there is an increase in social problems such as abuse and addictions. All of this is really unnecessary, to say nothing of unfair.

The aggregate outcome of species-specific rationalization is that it benefits a few and shuts out many. Catch shares become commodities and show consolidation trends. Fishing catch shares, unless specifically tied to a community, encourage the out-migration of fishing effort from low or non-capitalized arenas to highly capitalized arenas. Markets in a rationalized fishery have shown steady, if not dramatic, growth, making catch shares very valuable and thus, expensive. Community groups who have been allocated TAC or catch shares (Bering Sea / Aleutian Islands west) have grown exponentially while communities that have not received any allocations (as in the Gulf of Alaska) have shown dramatic declines in fishing economics. Individuals who own quota can leverage to buy more quota (up to use caps) and individuals who have other equity can use that to leverage. Of course, there are down sides to this. Quota that is sold or defaulted goes into a highly competitive market; it can then only be bought by those who can afford the high

market cost. Individuals must make decisions based on personal economics; not the needs of the community. Fishing effort is likely to continue to migrate out from all Alaskan communities, for various reasons.

What does this mean to Alaska? *The only way to guarantee that rationalized federal fishing effort will stay in Alaska is to “anchor” that effort in community ownership.*

2. WHAT IS A FISHERIES-DEPENDENT COMMUNITY?

A “fishery-dependent community” is a community that is predominantly dependent on fishing – commercial, charter or other – as the primary source of income for community residents. This also tends to mean that there are few, if no, other resource options for community sustainability.

For the Gulf of Alaska, a *sustainable* fishing community has historically been a community with a small boat fleet (generally 58’ and under) fishing in a multi-species open access fishery which allowed maximizing fishing seasons, closures or bad weather.

There are in excess of 85 communities in the Gulf of Alaska at tidewater. 42 of them have been designated “CQE” communities by the federal government.

3. WHAT IS A CQE?

As early as 1998, the Gulf of Alaska Coastal Communities Coalition (GOAC3) was concerned about the “out-migration” of fishing effort from small Gulf of Alaska fishing communities as a result of the 1995 Halibut and Sablefish IFQ program. Because that program was already fully subscribed, there were few options for community inclusion except a *purchase* or “buy-in” option. In 2002, the CQE program was approved by the North Pacific Fishery Management Council but not made into regulation until approved by the Secretary of Commerce in 2004.

A CQE is a community non-profit in the Gulf of Alaska, formed after 2004 and subject to the rules and regulations of the CQE program as defined by 50 CFR Part 679, published in the *Federal Register*/Vol. 69, No. 84/Friday, April 30, 2004/Rules and Regulations. CQEs are authorized to be buyers of halibut and sablefish quota for lease to local community residents. There are a multitude of rules that further define the limits of purchase, how they are to be used and what is required of the CQEs for performance.

Eligible CQE Communities:

Southeastern Alaska

Angoon, Coffman Cove, Craig, Edna Bay, Elfin Cove, Gustavus, Hollis, Hoonah, Hydaburg, Kake, Kasaan, Klawock, Metlakatla, Meyers Chuck, Pelican, Point Baker, Port Alexander, Port Protection, Tenakee, Thorne Bay

Southcentral and Aleutians East Alaska

Akhiok, Chenega Bay, Chignik, Chignik Lagoon, Chignik Lake, Halibut Cove, Ivanof Bay, Karluk, King Cove, Larsen Bay, Nanwalek, Old Harbor, Ouzinkie Perryville, Port Graham, Port Lions, Sand Point, Seldovia, Tatitlek, Tyonek, Whale Pass, Yakutat

4. WHY IS A CQE DIFFERENT THAN AN INDIVIDUAL BUYER?

While this seems like a nonsensical question, many people do not think about the vast differences between how an individual might buy and fish quota vs. how a CQE must operate. A CQE is only a buyer of quota, through a non-profit organization, but cannot fish the quota themselves. CQEs must find financing that will loan to an unproven organization with no initial assets. CQEs must charge lease rates that help the CQE pay its debt service and minimal overhead as well as allow leasees to have sufficient benefit to run their operations. CQEs have several extra layers of costs and responsibilities that individuals do not.

CQEs must fund operational costs and oversight and must identify potential local leasees on an annual basis. Further, CQES have specific reporting requirements to the National Marine Fisheries Service. CQEs have many restrictions and limitations on how, where and what kind of quota they can purchase.

5. HOW IS THE CDQ PROGRAM COMPARED TO THE CQE PROGRAM?

The CDQ (Community Development Quota program of Western Alaska) is almost the polar opposite of a CQE. The CDQ program – which preceded the H&S IFQ program by a few years – is incredibly successful because it received initial issuance of quota, starting with a percentage of the pollock TAC and eventually all rationalized species. Because the CDQ communities were a small boat fleet they developed joint venture partnerships with the highly industrialized fleet of the Bering Sea.

The CDQ participants have been able to leverage that “gifted” allocation into building an infrastructure that has allowed them to buy additional quota and other fisheries and non-fisheries holdings. It has been a very powerful economic engine for Western Alaska and will continue to grow if well managed. It will anchor a certain amount of fishing effort in western Alaskan fishing communities long into the future. This is a good thing in general. How the CDQ program evolves will be up to the people of those regions.

In contrast, the purchase-only CQE program of the Gulf of Alaska has a “pail without water” as one of our board members puts it. It remains an unfunded program, implemented nine years after the original program was fully allocated.

The contrasts between the CDQ (Community Development Quota) program in Western Alaska vs. the CQE (Community Quota Entity) in the Gulf of Alaska offers a perfect laboratory for comparison of ways to protect (or not) local fishing communities in an increasingly rationalized fish world. This comparison should be a lesson to all of us.

6. WHY HAVEN'T CQES BOUGHT QUOTA?

It is certainly not from lack of trying. CQE groups have worked individually with their accountants and economic advisors and have worked collectively, trying to identify a loan program that is not a recipe for failure.

CQEs are authorized to *purchase* up to a specific amount and kind of halibut and sablefish quota share but were never given initial issuance³ of quota nor any funding to purchase quota, so funding is the essential issue.

CQEs are stand-alone non-profits. While there is an identified local government or tribal organization that (by law) must “approve” the creation of the CQE, there is no local group that can assume their fiduciary responsibility. CQE communities have both Native and Non-Native populations, which hinders the restrictions on potential assistance from Native corporations.

CQE communities are remote, have very little to no access to capital, and cannot afford to take on a huge debt-service that won't pay for itself. CQEs currently have no equity and will not have equity until they buy quota. But so far they have not been able to buy quota because they can't put up the collateral.

The local pool of people who can manage CQE responsibilities can be very small. And, still, most of the communities know that they must regain their access to fisheries in order to survive.

8. WHY CAN'T NATIVE CORPORATIONS OR TRIBAL GOVERNMENTS GUARANTEE CQE LOANS?

- (a) Native corporations have a fiduciary responsibility to all their shareholders
- (b) Native corporations have been sued for “disproportionate dividends”
- (c) Natives corporations have gone bankrupt investing in fisheries
- (d) CQEs are “community” organizations, not exclusively Native
- (e) Native corporations must individually make a decision on their level of participation with CQEs depending on their own circumstances and policies
- (f) Participation by Native corporations in the CQE quota purchase cannot be mandated
- (g) Tribal governments have further legal and financial limitations

9. WHY CAN'T COMMUNITY ORGANIZATIONS FUND CQE QUOTA PURCHASE?

- (a) Cities, borough governments and community associations all have fiduciary responsibility to their constituents and cannot place assets into jeopardy
- (b) City, borough and association participation in CQE quota purchase cannot be mandated

10. WHAT IS THE “RIGHT” ECONOMIC MODEL AND FINANCING FOR A CQE?

While all buyers of quota share many variables in common – market value of quota, annual catch limits, annual ratio of pounds to quota share, availability of quota in either blocked or unblocked shares, ex-vessel values, vessel limitations, etc., - CQES face additional burdens of leasing and monitoring, meeting and reporting, and establishing lease rates that benefit the community while also paying debt service.

With the help of the University of Alaska, the Alaska Marine Advisory Program and the North Pacific Fisheries Trust as well as community economists, the GOAC3 has identified an economic

³ Initial issuance: Quota allocated to an individual (IFQ) or group (CDQ) at the onset of a rationalized program

model that allows a CQE to purchase the minimal amount of quota share needed for community stimulation with the appropriate lease rates and debt service.

Basic components of a supportive CQE loan program would be (a) 0 down on the first purchases of quota (after that quota share is the basic equity), (b) principal and interest payments deferred for at least the first five years, (c) terms of 30 years. The CQE economic model must also consider administrative costs as well as the impact of lease rates on participants. The primary goal of the CQE leasing is to help local residents build up their own portfolio so that they "graduate" out of the CQE leasing program.

The CQE program has a complex set of requirements. The CQE program requires extensive reporting and assumes a "code of conduct" that would allow for a fair and equitable distribution of leasing to local community residents. CQEs are not limited to purchase of halibut and sablefish but they are subject to the rules of the both the CQE program and the Halibut and Sablefish program in those markets.

11. WHY ARE SOME PEOPLE OPPOSED TO THE CQE PROGRAM?

There is always a considerable amount of tension among existing or potential participants in catch share programs. The CQE program was established by federal regulation and was intended to be not only just another potential buyer but a way to bring back fishing quota to communities that were disenfranchised by the creation of a quota share program. The CQE program has had opposition from several user groups who apparently feel that additional market buyers create too much competition and therefore raise the market prices of quota even higher as well as create competition for the availability of quota. It is hoped that, over time, these objections will be laid to rest as people realize that the social and economic health of our small communities is good for our hub communities and, in turn, good for the state of Alaska.

12. WHY IS SUCCESSFUL DEVELOPMENT OF A CQE PROGRAM SO IMPORTANT TO PARTICIPATING COMMUNITIES AND THE STATE OF ALASKA?

- (a) Most, if not all, of the CQE communities are experiencing an unprecedented loss of fishing effort that, in turn, puts their local economies at extreme risk
- (b) The CQE program can potentially allow CQE communities to rebuild their fishing economies, expend their economic options and stabilize their communities long into the future.

13. WHERE CAN I FIND MORE INFORMATION ABOUT THE CQE PROGRAM?

- (a) Federal Register Final Rule for Amendment #66 to the Halibut and Sablefish IFQ program, creating the CQE program:
Federal Register/Vol. 69, No. 84/Friday, April 30, 2004/Rules and Regulation
- (b) National Marine Fisheries Service / Restricted Access Management (RAM) for rules and regulations relative to the CQE program, as well as CQE applications
<http://www.fakr.noaa.gov/ram/cqp.htm>
- (c) State of Alaska / CQE
<http://www.commerce.state.ak.us/bsc/CDQ/cqe/cqe.htm>
- (d) North Pacific Fishery Management Council/ Review of CQE program 2010
http://alaskafisheries.noaa.gov/npfmc/current_issues/halibut_issues/CQEreport210.pdf



Ivanof Bay Tribal Council

7926 Old Seward Highway, Suite B-5 * Anchorage, Alaska 99518

Phone: (907) 522-2263 Fax: (907) 522-2363

RESOLUTION 2011-02

Community Quota Entity Funding

This Resolution is entered into by Ivanof Bay Tribe, federally recognized Tribe, representing its tribal members as of the date set forth herein below.

WHEREAS: the community of Ivanof Bay is a remote and isolated community in Southwest Alaska accessible only by air and water; and

WHEREAS: the community's historic and current economic development activities has been primarily focused on local participation in the fisheries in the waters off its coast; and

WHEREAS: the community and its residents are struggling to sustain themselves in the current economic climate; and

WHEREAS: the Community Quota Entity (CQE) program was created under federal law to assist coastal communities in the Gulf of Alaska in participating in the fisheries within the region; and

WHEREAS: the community looks to previous actions by federal and state regulators in Western Alaska when the Community Development Quota (CDQ) program was established, including the economic advantages provided to that program, and the historic nature in which it ushered in a new and sustainable economic model for the residents of that region; and

WHEREAS: the members of Ivanof Bay Tribe question why similar substantial efforts and outreach have not been secured on their behalf in and for the benefit of the communities and residents in the Gulf of Alaska; and

WHEREAS: the communities are quickly losing hope in the ability to provide for their long-term futures absent meaningful assistance from the elected leaders in Alaska; and

WHEREAS: the CQE program needs real, non-illusory and substantial financial backing to make it an effective and meaningful program that all Alaskans can be proud of; and

WHEREAS: the CQEs and their sponsoring communities want a "hand up", not a "hand out" when it comes to the type of financial backing necessary to make the CQE program successful; and

WHEREAS: a package has been assembled to establish the basic economic underpinning and long term success of the CQE program that is reasonable and prudent, and that will insure there is a local Alaska owned presence in the related fisheries in perpetuity; and

WHEREAS: it is now time for the Legislature to act to provide said financial backing and access to capital to the CQEs in a program that is real and meaningful;

NOW THEREFORE BE IT RESOLVED that Ivanof Bay Tribe approves the following actions:

- 1) The Tribal Council of the Ivanof Bay Tribe is authorized and instructed to sign a letter of support to the Governor, its State Senators and Representatives in the Alaska Legislature urging them to introduce, debate, adopt and fund a meaningful CQE loan program along the lines of the package that has been put together for the benefit and viability of the CQE program;
- 2) The Tribal Council of Ivanof Bay Tribe is instructed to provide a copy of this Resolution to our Congressional Delegation in Washington, DC, to informing them of our support for this effort;
- 3) The Tribal Council of Ivanof Bay Tribe is instructed to assist the Gulf of Alaska Coastal Communities Coalition and other regional and local entities and communities in pushing for adoption and funding of the proposed CQE legislative package; and
- 4) The Tribal Council of Ivanof Bay Tribe is instructed to inform the fishermen and residents of Ivanof Bay that a package to fund the CQE program is being offered in

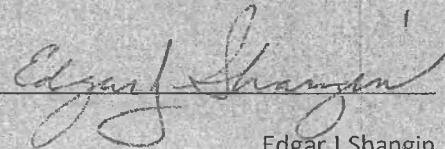
the State Legislature and that they should contact the Governor and their State Senator and Representative urging them to introduce and seek passage of the bill.

CERTIFICATION:

I, the undersigned, hereby certify that the foregoing resolution was passed by the tribal council via a telephone pole on 02/15/11 to be ratified at the March 2011 regularly scheduled council meeting.

There were five FOR, zero AGAINST and ZERO abstentions. Five of five council members were polled.

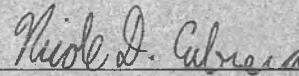
Signed: _____



Edgar J. Shangin

President

Signed: _____



Nicole D. Cabrera

Tribal Administrator/ Council Secretary



CITY & BOROUGH of YAKUTAT

P.O. Box 160
Yakutat, Alaska 99689
Phone (907) 784-3323
Fax (907) 784-3281

February 16, 2011

The Honorable Steve Thompson, Chair
House Special Committee on Fisheries
Alaska State Capitol, Room 428
Juneau, AK 99801

Dear Representative Thompson:

I write to you in strong support of HB 141 and urge your committee to pass this legislation on to the Finance Committee.

The City and Borough of Yakutat is one of the 42 communities on the coast of Alaska that are eligible for the Community Quota Entity program. Like all but two of these communities, Yakutat has been unable to initiate the purchase of quota shares for our own CQE due to the very high value of these shares in today's market.


The current loan program administered by the Alaska Department of Commerce (DCCED) does not reflect current economic factors, and is not realistically useful for the coastal communities the CQE program intends to help.

HB 141 makes several important changes to the Alaska loan program that will enable Yakutat to begin to operate our CQE. This will provide very positive opportunities for our local fishermen and our community-owned seafood processing plant, the largest employer in Yakutat. Enabling communities such as ours to access the valuable resources off our shores will significantly benefit our local economy by providing base economic

activity. Revenues generated will accrue not only to our resident fishermen, but will also offer the opportunity to fund other local services such as schools.

The City and Borough of Yakutat is very grateful to the sponsors of HB 141 for their efforts in recognition of coastal seafood economies. We look forward to participating in the CQE program, and we strongly urge the House Special Committee on Fisheries to pass this legislation to the next committee of referral.

Sincerely,



Frank Ryman, Manager
City and Borough of Yakutat



Southwest Alaska Municipal Conference

3300 Arctic Boulevard, Suite 203 Anchorage, AK 99503 p: 907.562.7380 www.swamc.org

Alaska Peninsula
Aleutian Chain
Bristol Bay
Kodiak Island
Pribilof Islands

February 16, 2011

Representative Alan Austerman – District 36
State Capitol, Room 204
Juneau, AK 99801

RE: Support for HB 141 – CQE Revolving Loan Fund

Representative Austerman:

I am writing in support of House Bill 141, which will modify the financial instruments available to eligible Community Quota Entity (CQE) participants. In recent years, small communities have faced increasing pressure to remain competitive in light of the push into quota managed fisheries. This was made clear with the development of the Community Development Quota (CDQ) program that was initiated to hedge the outflow of traditional resources from communities of the Bering Sea. In much the same way today, many small, non-CDQ communities do not have the capacity to mobilize capital necessary to take part in fisheries that require the purchase of large vessels and quotas to allow participation in those fisheries.

The creation of the CQE program last decade was an admirable attempt to increase fisheries allocations for many small, rural Alaskan coastal villages; however, the initial CQE program regulations did not provide the necessary financial support needed for the successful implementation of the high risks involved in purchasing capital required to participate in the halibut and sablefish fisheries. Risks of buying into quota managed fisheries are clearly revealed in the adjustments to the 2010 & 2011 Total Allowable Catch (TAC) allocations which drastically reduced quota in all districts of the Gulf of Alaska, events that could have bankrupted communities who purchased quotas during this period of declining quotas.

The Southwest Alaska Municipal Conference (SWAMC) represents 11 communities on Kodiak Island, the Alaska Peninsula and the Aleutian Chain that drastically need further support necessary to participate in the CQE program. We support HB 141, which will provide additional financial assistance to communities that have been unable to utilize the CQE program as it is currently designed. This is evidenced by the fact that only two of the 42 eligible CQE communities have procured quota share to date. Thank you for introducing this legislation. I urge your colleagues to support this bill to press for changes to the CQE program that will increase fishing access to our coastal communities in hopes of improving their local economic conditions.

Sincerely,

Andy Varner
Executive Director