

**HB**

**261**

<TARGET><BILL>HB 261</BILL><SUBJECT>HB  
261</SUBJECT><COMM>HFSH27</COMM></TARGET>

**CS FOR HOUSE BILL NO. 261(FSH)**

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

**BY THE HOUSE SPECIAL COMMITTEE ON FISHERIES**

**Offered:**

**Referred:**

**Sponsor(s): REPRESENTATIVES EDGMON, MILLETT, AND THOMPSON**

**A BILL**

**FOR AN ACT ENTITLED**

1 **"An Act relating to loans for the purchase of commercial fishing entry permits; and**  
2 **providing for an effective date."**

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

4 **\* Section 1.** AS 16.10.320(a) is amended to read:

5 (a) Except as permitted in (h) **and (l)** of this section, a loan under AS  
6 16.10.300 - 16.10.370

7 (1) may not exceed a term of 15 years, except for extensions under AS  
8 16.10.310(a)(4);

9 (2) may not bear interest exceeding the prime rate, as defined by AS  
10 44.88.599, plus two percentage points, but not more than 10 1/2 percent;

11 (3) must be secured by a first priority lien and appropriate security  
12 agreement;

13 (4) may not exceed 80 percent of the appraised value of the collateral  
14 used to secure the loan; and

1 (5) may not be made to a person who has a past due child support  
 2 obligation established by court order or by the child support services agency under AS  
 3 25.27.160 - 25.27.220 at the time of application.

4 \* **Sec. 2.** AS 16.10.320(d) is amended to read:

5 (d) The total of balances outstanding on loans made to a borrower under AS  
 6 16.10.310(a)(1)(A) may not exceed \$300,000. The total of balances outstanding on  
 7 loans made to a borrower under AS 16.10.310(a)(1)(B) **may not exceed \$200,000 for**  
 8 **the purchase of an entry permit and** may not exceed \$100,000 **for all other loans**  
 9 **under that subparagraph.** The total of balances outstanding on loans made to a  
 10 borrower under AS 16.10.310(a)(1)(C) may not exceed \$300,000. The total of  
 11 balances outstanding on loans made to a borrower under AS 16.10.310(a)(1)(D) to  
 12 satisfy past due federal tax obligations may not exceed \$35,000. The total of balances  
 13 outstanding on loans made under AS 16.10.310(a)(1)(E) may not exceed \$2,000,000  
 14 for each community eligible under federal statute or regulation to establish or  
 15 participate in the establishment of a community quota entity. The total of balances  
 16 outstanding on loans made to a borrower under AS 16.10.310(a)(1)(F) may not exceed  
 17 \$300,000. Excluding loans made under AS 16.10.310(a)(1)(E), the total of balances  
 18 outstanding on all loans, including debt refinancing under AS 16.10.310(a), made to a  
 19 borrower under AS 16.10.300 - 16.10.370 may not exceed \$400,000.

20 \* **Sec. 3.** AS 16.10.320(i) is amended to read:

21 (i) If a loan is made to a borrower under AS 16.10.310(a)(1)(A), a subsequent  
 22 loan may not be made to the borrower under AS 16.10.310(a)(1)(B), unless the loan  
 23 requested under AS 16.10.310(a)(1) is for propulsion engine or generator engine  
 24 replacement on an existing vessel for the purpose of improving fuel efficiency **or is**  
 25 **for the purchase of an entry permit.** If a loan is made to a borrower under AS  
 26 16.10.310(a)(1)(B), a subsequent loan may be made to the borrower under AS  
 27 16.10.310(a)(1)(A) if the total of the balance outstanding on loans received by the  
 28 borrower under AS 16.10.310(a)(1)(A) and (B) does not exceed \$400,000.

29 \* **Sec. 4.** AS 16.10.320 is amended by adding a new subsection to read:

30 (J) A loan under AS 16.10.310(a)(1)(B) for the purchase of an entry permit  
 31 may not bear interest exceeding the prime rate, as defined in AS 44.88.599, minus two

1 percentage points, except that the interest rate may not be more than 10 1/2 percent or  
2 less than three percent.

3 \* **Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to  
4 read:

5 APPLICABILITY. (a) The increase in balances outstanding permitted by AS  
6 16.10.320(d), as amended by sec. 2 of this Act, on loans made to a borrower under AS  
7 16.10.310(a)(1)(B), applies only to a person who first receives a loan under AS  
8 16.10.310(a)(1)(B) on or after the effective date of this Act.

9 (b) AS 16.10.320(I), added by sec. 4 of this Act,

10 (1) applies only to loans made on or after the effective date of this Act; and

11 (2) does not apply to the refinancing of a loan made under 16.10.310 -  
12 16.10.370 before the effective date of this Act.

13 \* **Sec. 6.** This Act takes effect July 1, 2012.



AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE

TO: HB 261

1 Page 3, following line 2:

2 Insert a new bill section to read:

3 **"\* Sec. 5.** The uncodified law of the State of Alaska is amended by adding a new section to  
4 read:

5 APPLICABILITY. (a) The increase in balances outstanding permitted by  
6 AS 16.10.320(d), as amended by sec. 2 of this Act, on loans made to a borrower under  
7 AS 16.10.310(a)(1)(B), applies only to a person who first receives a loan under  
8 AS 16.10.310(a)(1)(B) on or after the effective date of this Act.

9 (b) AS 16.10.320(*I*), added by sec. 4 of this Act,

10 (1) applies only to loans made on or after the effective date of this Act; and

11 (2) does not apply to the refinancing of a loan made under 16.10.310 -  
12 16.10.370 before the effective date of this Act."

13

14 Renumber the following bill section accordingly.



**Sponsor**

**Statement**

**HB 261  
COMMERCIAL FISHING ENTRY PERMIT LOANS**

**SPONSOR'S INTENT**

House Bill 261 seeks to increase Alaskan ownership of Alaskan fisheries by enabling a larger number of state residents to purchase limited entry commercial fishing permits.

HB 261 would modify Section B of the Commercial Fishing Loan Act to allow loans for entry permits at two percent below the prime rate with an interest floor of three percent. Additionally, to address the reality of today's permit costs, HB 261 would increase the maximum loan amount for entry permits under Section B from \$100,000 to \$200,000.

These loans would only be available to Alaska-resident borrowers who are not eligible for financing from commercial banks; HB 261 therefore avoids putting the state in competition with private-sector lenders.

This legislation holds special promise for young Alaskan entrepreneurs, who in recent years have found it more difficult to secure the large amounts of capital needed to launch gainful, life-long fisheries businesses. By helping a larger number of young Alaskans pursue ownership-level careers in fisheries, HB 261 will contribute to efforts to reverse the "graying of the fleet"—the worrying increase in the average age of resident skippers in commercial fisheries across Alaska.

Your support for HB 261 will strengthen one of the Commercial Fishing Loan Act's most important purposes: To develop predominantly resident fisheries in Alaska. In turn, by helping to put a greater number of limited entry permits in residents' hands and by keeping a greater proportion of fisheries earnings in the state, HB 261 will strengthen Alaska's economy.

## Memorandum

**Date:** January 17, 2011

**To:** Representative Steve Thompson, Chair  
House Special Committee on Fisheries

**From:** Representative Bryce Edgmon

**RE:** HB 261 Hearing Request

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I respectfully request a hearing for HB 261—Commercial Fishing Entry Permit Loans—at your earliest possible convenience.

HB 261 would modify Section B of the Commercial Fishing Loan Act to allow loans for limited entry permits at two percent below the prime rate, with an interest floor of three percent. Additionally, to address the reality of today's permit costs, HB 261 would increase the maximum loan amount for entry permits under Section B from \$100,000 to \$200,000.

These loans would only be available to Alaska-resident borrowers who are not eligible for financing from commercial banks; HB 261 therefore avoids putting the state in competition with private-sector lenders.

This legislation holds special promise for young Alaskan entrepreneurs, who in recent years have found it more difficult to secure the large amounts of capital needed to launch gainful, life-long fisheries businesses. By helping a larger number of young Alaskans pursue ownership-level careers in fisheries, HB 261 will contribute to efforts to reverse the “graying of the fleet”—the worrying increase in the average age of resident skippers in commercial fisheries across Alaska.

Please find the following materials in the HB 261 packet:

- HB 261.
- Sponsor Statement.
- Summary of the Commercial Fishing Revolving Loan Fund, with Details on Section B.
- Financial and Statistical Information relating to the Commercial Fishing Revolving Loan Fund.
- Examples of average salmon fishery limited entry permit costs in 2011.

My staff contact for this legislation is Tim Clark, who can be reached at 465-2839.

Thank you for your consideration of this request.

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

January 19, 2012

**SUBJECT:** Sectional Summary (HB 261) (Work Order No. 27-LS0968\A)

**TO:** Representative Bryce Edgmon  
Attn: Tim Clark

**FROM:** Alpheus Bullard *AB*  
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

**Section 1.** Conforms AS 16.10.320(a) to special conditions, added by section four of the bill, for loans made for the purchase of entry permits.

**Section 2.** Adds language to AS 16.10.320(d) which provides that the total of balances outstanding on loans made to a borrower, under AS 16.10.310(a)(1)(B), may not exceed \$200,000 for the purchase of an entry permit and \$100,000 for all other loans made under that paragraph (AS 16.10.310(a)(1)).

**Section 3.** Amends AS 16.10.320(i) to provide that a person who received a loan under AS 16.10.310(a)(1)(A) for the purchase of an entry permit may receive a subsequent loan under AS 16.10.310(a)(1)(B).

**Section 4.** Adds a new subsection "(d)" to AS 16.10.320 that establishes certain conditions for loans made for the purchase of an entry permit.

**Section 5.** Provides an effective date of July 1, 2012.

TLAB:plm  
12-031.plm

# FISCAL NOTE

**STATE OF ALASKA**  
**2012 LEGISLATIVE SESSION**

Bill Version HB 261  
 Fiscal Note Number \_\_\_\_\_  
 ( ) Publish Date \_\_\_\_\_

Identifier (file name) HB261-DCCED-DED-01-20-2012 Dept. Affected DCCED  
 Title Commercial Fishing Entry Permit Loans Appropriation Economic Development  
 Allocation Economic Development  
 Sponsor Representative Edgmon  
 Requester House Fisheries OMB Component Number 383

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Services	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Capital Outlay								
Grants, Benefits								
Miscellaneous								
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

FUND SOURCE		(Thousands of Dollars)						
1002	Federal Receipts							
1003	GF Match							
1004	GF							
1005	GF/Prgm (DGF)							
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

POSITIONS								
Full-time								
Part-time								
Temporary								

<b>CHANGE IN REVENUES</b>	<b>(200.0)</b>	<b>(392.4)</b>	<b>(576.3)</b>	<b>(751.0)</b>	<b>(915.7)</b>	<b>(1,069.2)</b>
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Estimated SUPPLEMENTAL (FY12) operating costs \_\_\_\_\_ (separate supplemental appropriation required;  
 (discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs \_\_\_\_\_ (separate capital appropriation required)  
 (discuss reasons and fund source(s) in analysis section)

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

Initial fiscal note

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

Phone 269-4048  
 Date/Time 1/25/12 1:00 PM  
 Date 1/25/2011

FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

BILL NO. HB 261

**Analysis**

HB 261 will change the terms available under Section B of the Commercial Fishing Revolving Loan Fund (CFRLF) for limited entry permits (LEP). The interest rate for these loans would be set at prime minus two points, or three percent under current terms. Loans limits would be raised to \$200.0 for LEP and \$100.0 for all other eligible purposes.

Based on projected loan demand and existing borrowers under Section B, lowering the interest rate on LEP will cause significant loss in revenue to the CFRLF. DED anticipates these change will decrease revenues to the fund by approximately \$200,000 in FY2013, \$392,364 in FY2014, \$576,319 in FY2015, \$751,043 in FY2016, \$915,656 in FY2017, and \$1,069,215 in FY2018. This would result in total losses to CFRLF in the amount of \$3.9 million over the first six years. This fiscal note reflects estimated interest rate reductions based on current interest rates of 5.5 percent for new loan demand with a volume of \$1.2 million per year, and refinancing of 255 existing accounts with an average interest rate of 6.25 percent.

# FISCAL NOTE

STATE OF ALASKA  
2012 LEGISLATIVE SESSION

Bill Version HB261  
Fiscal Note Number \_\_\_\_\_  
( ) Publish Date \_\_\_\_\_

Identifier (file name) HB261-DFG-CFEC-01-25-2012 Dept. Affected Fish and Game  
Title An Act relating to loans for the purchase of commercial Appropriation Comm Fisheries Entry Commission  
Allocation Comm Fisheries Entry Commission  
Sponsor Representatives Edgmon, Millett, and Thompson  
Requester House Special Committee on Fisheries, Finance OMB Component Number 471

**Expenditures/Revenues** (Thousands of Dollars)

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

	FY13 Appropriation Requested	Included in Governor's FY13 Request	Out-Year Cost Estimates					
			FY13	FY14	FY15	FY16	FY17	FY18
<b>OPERATING EXPENDITURES</b>								
Personal Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Outlay	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants, Benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**FUND SOURCE** (Thousands of Dollars)

1002	Federal Receipts							
1003	GF Match							
1004	GF							
1201	CFEC Rcpts (DGF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
1037	GF/MH (UGF)							
1178	temp code (UGF)							
<b>TOTAL</b>		<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**POSITIONS**

Full-time	0	0	0	0	0	0	0
Part-time	0	0	0	0	0	0	0
Temporary	0	0	0	0	0	0	0

**CHANGE IN REVENUES**

	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Estimated SUPPLEMENTAL (FY12) operating costs 0.0 (separate supplemental appropriation required)  
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY13) costs 0.0 (separate capital appropriation required)  
(discuss reasons and fund source(s) in analysis section)

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

Initial Version

Prepared by Shirley Penrose, Operations Manager Phone 907-790-6960  
Division Commercial Fisheries Entry Commission Date/Time 1/25/12 7:48 AM  
Approved by Benjamin E. Brown, Commissioner Date 1/25/2012  
Commercial Fisheries Entry Commission

**FISCAL NOTE**

**STATE OF ALASKA  
2012 LEGISLATIVE SESSION**

**BILL NO. HB261**

**Analysis**

There are no significant fiscal impacts for CFEC associated with this bill.

# Commercial Fishing Revolving Loan Fund Summary; With Details on Section B

## CFRLF Declaration of Policy (AS 16.10.300):

**“It is the policy of the state, under AS16.10.300—16.10.370 to promote the rehabilitation of the state’s fisheries, the development of a predominantly resident fishery, and the continued maintenance of commercial fishing gear and vessels throughout the state by means of long-term low interest loans.”**

## Provides Loans For:

- **Section A**—up to \$300,000 for the purchase of Entry Permits, or for existing Vessel or Gear upgrades for improving seafood quality, or for main or generator engine replacement for improving energy efficiency.
- **Section B**—up to \$100,000 for the purchase of Entry Permits, Vessel and Gear Upgrades (including engine energy efficiency upgrades), Vessel and Gear purchases, and Vessel Construction—with differing eligibility criteria, the most significant being that the applicant must not be able to obtain financing from a commercial bank.
- **Section C**—up to \$300,000 for the purchase of Quota Shares—with eligibility requirements similar to Section B applicants.
- **Section D**—up to \$35,000 to satisfy past due federal Tax Obligations.
- **Section E**—up to \$2 million for each eligible community for the purchase of Quota Shares by a Community Quota Entity (CQE).
- **Section F**—up to \$300,000 for existing Tender Vessel and Gear upgrades.

## Current Section B Eligibility Requirements for Entry Permit Loans

- Must have been a state resident for a continuous period of two years immediately preceding date of application.
- Must not be eligible for financing through a commercial bank or through the Commercial Fishing and Agriculture Bank (CFAB).
- Must lack employment opportunities, other than commercial fishing, in area of residence, or must be economically dependent on commercial fishing as a livelihood and as a traditional way of life.
- Must not be past due on any child support obligations.
- Must never have received a loan under the Section A program.

## Current Section B Entry Permit Loan Terms

- ❖ Maximum loan amount of \$100,000.
- ❖ Interest is prime rate plus two percentage points.
- ❖ Term of 15 years.
- ❖ Must be secured by a first priority lien and appropriate security agreement.
- ❖ Loan may not exceed 80 percent of the appraised value of the collateral used as security.

## Average Costs for Salmon Fishery Entry Permits in 2011

Southeast Seine	\$129,500
Southeast Drift Gillnet	\$80,100
Prince William Sound Seine	\$140,000
Prince William Sound Drift Gillnet	\$161,600
Cook Inlet Seine	\$31,300
Cook Inlet Drift Gillnet	\$51,700
Kodiak Seine	\$44,000
Chignik Seine	\$95,100
Alaska Peninsula Seine	\$55,800
Alaska Peninsula Drift Gillnet	\$127,800
Bristol Bay Drift Gillnet	\$143,900

**Division of Economic Development  
Department of Commerce, Community, and Economic Development**

**Commercial Fishing Revolving Loan Fund (CFRLF)  
Historical Information**

***Monies Transferred From the CFRLF to Fund the Department of Fish & Game Operating Budget (DOFG)***

FY04	\$ 800,000.00
FY05	\$ 1,976,300.00
FY06	\$ 1,976,300.00
FY07	\$ 1,326,300.00
FY08	\$ 1,326,300.00
FY09	\$ 1,326,300.00
FY10	\$ 1,326,300.00
FY11	\$ -
	\$ 10,057,800.00

Over the life of the CFRLF program, almost \$58 million was transferred out of the CFRLF to fund other government operations. From FY04 through FY10, over \$10 million was used to fund DOFG operating budget. In FY11 there was not a transfer from the CFRLF to DOFG.

***GeFONSI Earnings on CFRLF Cash Balances:***

	Interest Earnings	Interest Rate
FY07	\$ 2,054,419.72	5.51%
FY08	\$ 2,348,491.02	5.85%
FY09	\$ 1,331,665.63	2.68%
FY10	\$ 1,343,210.11	3.38%
FY11	\$ 543,848.66	1.61%
<b>As of Nov 30, 2011</b>	<b>FY12 \$ 216,333.89</b>	<b>0.73%</b>

CFRLF cash is managed by the Department of Revenue and is invested in a pool of funds referred to the GeFONSI (General Fund and Other Non-Segregated Investments). These earnings are retained by the General Fund.

***Division of Economic Development, Finance Section Staff Positions Dedicated to CFRLF funding:***

FY12	41
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# Bristol Bay Economic Development Corporation

P.O. Box 1464 • Dillingham, Alaska 99576 • (907) 842-4370 • Fax (907) 842-4336 • 1-800-478-4370



January 23, 2012

Representative Bryce Edgmon  
Capitol Building, Room 416  
Juneau, Alaska 99801

Dear Representative Edgmon and Committee Members,

The Bristol Bay Economic Development Corporation, the CDQ group for Bristol Bay has been working with the State of Alaska and CFAB for many years trying to obtain salmon fishing permits for watershed fishermen. We have a Permit Loan Program at BBEDC for all watershed residents of Bristol Bay. I believe that it is the only one in the State of Alaska and with HB 261 and the lower interest rate we may be able to get more locals involved in the fishery.

HB 261 would help our watershed fishermen out greatly, especially our young fishermen. As you know the average age of the commercial fishermen of Bristol Bay is climbing, we need to encourage and support our younger fishermen to get involved. When you have a watershed resident owning a fishing permit, that means three local jobs and important dollars for the community.

Commercial fishing is the main economic engine for Bristol Bay. As most of you know Limited Entry Permits are migrating to outside interests from watershed residents and we need to reverse this trend.

I urge the Alaska Legislature to pass House Bill 261 into law, let's get as many commercial fishing permits into Alaskan's hands as possible.

Thank You

H. Robin Samuelsen Jr.  
President/CEO



**Cordova District Fishermen United**  
PO Box 939 | 509 First Street | Cordova, AK 99574  
phone. (907) 424 3447 | fax. (907) 424 3430  
web. www.cdfu.org | email. cdfu@ak.net

January 24, 2012

Representative Steve Thompson  
Special Committee on Fisheries  
State Capitol, Room 428  
Juneau, AK 99801-1182

**Re: Support HB 261 – Commercial Fishing Entry Permit Loans**

Dear Mr Chairman and Committee members,

I am writing on behalf of the Cordova District Fishermen United Board of Directors, our 300 members and their families to support HB261 – “Commercial fishing entry permit loans”.

Passing an increase in the maximum loan amount of section B to \$200,000 will allow many young Alaskans a continued opportunity to obtain entrance into independent commercial fishing businesses by increasing finance opportunities unavailable to them from commercial lending institutions.

Since 2008, in PWS alone, the price of limited entry permits has increased over 50% to values in excess of \$100,000. According to the CFEC, estimated average value of a PWS drift gillnet permit for 2011 is \$161,600. In this same time the lending maximum of the Commercial Fishing Loan Program has remained static, limiting the number of state residents' access to purchase limited entry permits.

This bill will increase opportunity for young Alaskans interested in entering the commercial fishing business at the ownership level by aligning the Commercial Fishing Loan Program lending maximums with the increasing value of limited entry permits. Thank you for the opportunity to comment in support of HB 261.

Sincerely,

Alexis Cooper  
Executive Director

CC: Rep. Edgmon

**BRISTOL BAY NATIVE ASSOCIATION  
P.O. BOX 310  
DILLINGHAM, ALASKA 99576  
Ph. (907) 842-5257 Fax (907) 842-5932  
By Executive Committee**

**RESOLUTION 2012 - 05**

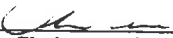
**A RESOLUTION SUPPORTING HOUSE BILL 261 – COMMERCIAL FISHING  
ENTRY PERMIT LOANS**

- WHEREAS:** It is among the missions of the Bristol Bay Native Association to foster the creation of rewarding livelihoods for the residents of the Bristol Bay region;
- WHEREAS:** Commercial fishing has been a mainstay industry for Bristol Bay residents for more than 100 years;
- WHEREAS:** Alaska resident owners of commercial fishing operations make considerable economic and social contributions to their communities;
- WHEREAS:** Since the institution of a limited entry commercial salmon fishery in Bristol Bay there has been a significant migration of limited entry permits from the region, with many of them now owned by fishermen who do not live in Alaska;
- WHEREAS:** The Bristol Bay Native Association supports reversing this “permit drain” and significantly increasing the level of local ownership of commercial salmon fishing operations in Bristol Bay;
- WHEREAS:** The average cost of a Bristol Bay Drift Gillnet salmon permit in 2011 was \$143,900;
- WHEREAS:** Many residents of Bristol Bay—especially younger residents with ambitions to establish ownership-level careers in commercial fishing—face considerable difficulties in securing the substantial financing necessary to launch commercial fishing businesses;
- WHEREAS:** It is the policy of the State of Alaska under the Commercial Fishing Loan Act to promote predominantly resident Alaskan fisheries;
- WHEREAS:** Only Alaska residents are eligible for financing through the Commercial Fishing Loan Act; and
- WHEREAS:** Representative Bryce Edgmon has introduced House Bill 261—Commercial Fishing Entry Permit Loans—which is legislation to amend Section B of the Commercial Fishing Loan act to:

- allow loans for the purchase of entry permits that may not bear interest exceeding the prime rate minus two percentage points, except that the interest rate may not be more than 10 ½ percent or less than three percent;
- increase the maximum loan amount for entry permits, only under Section B, from \$100,000 to \$200,000;
- eliminate the prohibition of someone who has ever received a Section A loan from receiving a Section B loan, but only if the purpose of the Section B loan is for the purchase of a limited entry permit.

NOW THEREFORE BE IT RESOLVED that the Bristol Bay Native Association enthusiastically supports House Bill 261—Commercial Fishing Entry Permit Loans—and respectfully urges the members of the 27<sup>th</sup> Alaska State Legislature to pass House Bill 261 into law.

Signed: \_\_\_\_\_

  
Chairman of the Board

CERTIFICATION:

I, the undersigned Recording Secretary of the Bristol Bay Native Association, do hereby certify that the Executive Committee of the Board of Directors of the Bristol Bay Native Association duly passed the foregoing resolution on the 23<sup>rd</sup> day of January, 2012, at a duly called and convened meeting, and that a quorum was present.

Signed: \_\_\_\_\_

  
Secretary



January 25, 2012

Lela F. Klingert  
President

Finance Committee  
Alaska House of Representatives  
Juneau, AK 99801

At first glance the intent of HB261 seems commendable; provide resident Alaskans with below market interest rate loans in an effort to boost their prospects of entering the Alaska commercial fishing industry, while simultaneously addressing the looming issue of the "graying fleet" and all this without competing with the private commercial lenders. Unfortunately when interest rates and credit standards are relaxed for the purpose of promoting access, the opposite generally occurs.

These types of programs generally result in driving up demand which then drives up price. While this may be good for the seller of the permit, it is generally not good for the buyer. Interest rates rise and fall, **but** the price one pays for the permit is fixed at the time of sale. An unfortunate but excellent example can be seen with the current state of the national housing market; liberalized lending practices drove up home values--the unintended consequences of well-intentioned efforts. Unlike limited entry permits, however, the housing market had the potential for infinite supply. The effect of liberalized lending for Limited Entry Permits tends to be exaggerated and consequently more damaging because it is within a "limited" market.

We wholeheartedly support assisting resident Alaskans purchase Limited Entry Permits, and that in fact is part of our mission. We would even take it one step further and encourage you to work toward preparing borrowers to be able to operate on a level playing field so that they not only get into the fishery, but have the wherewithal and commitment to be competitive in it. Regretfully we do not believe this change will do that.

In closing, the statement that this "avoids putting the state in competition with other private-sector lenders" sounds good, but when you review the language used to impart this requirement - "*must not be eligible for financing from a commercial bank or through the Commercial Fishing and Agriculture Bank (CFAB)*" - the language is ambiguous with regard to how this determination will be made. Historically, this determination has been made by the staff of the loan program based on their limited knowledge of other lenders requirements. If the intent is truly not to compete with other commercial lenders, it should firmly state that the applicant(s) must be declined by two other lenders, one of which must be CFAB.

Thank you for the opportunity to testify on HB 261.

Respectfully,

  
Lela F. Klingert  
President

*Alaska Commercial Fishing and Agriculture Bank*

(907) 276-2007 • Fax (907) 279-7913 • 3040 Lakeshore Drive • Anchorage, Alaska 99517

## CFAB and HB261

In a letter to committee members, Lela Klingert, the president of the Commercial Fishing and Agriculture Bank (CFAB), states that she believes offering low-interest loans for limited entry permits will inflate the costs of entry permits.

This argument is not credible.

If you look at the values of salmon fishery entry permits since 1980, you will find that permit costs closely track the price of salmon, not the interest rates for entry permit loans.

- Since 1980, 66.8 percent of all permit purchases have been through self-financing.
- Only 15 percent of permit purchases have been financed through the Commercial Fishing Revolving Loan Fund.
- The remainder was financed either by the transferor or through commercial banks or through CFAB.

Clearly, with more than two thirds of permit purchases being self-financed, it is not the terms of loans through the state's financing program that drives permit costs.

More evidence that it is salmon prices and not interest rates that drive permit costs can be found by looking at historic permit values and historic interest rates.

- At the time that entry permits were at their highest costs in history (late 80s/early 90s) the prime lending rate averaged more than nine percent—three times what the rate is now.
- As interest rates dropped significantly during the early to mid- 1990s, permit costs did not increase—in fact, permit costs fell.

CFAB's opposition to HB 261 is especially puzzling when you consider that Section B CFRLF permit loans are only available to borrowers who are not eligible for financing through a commercial bank or CFAB.

- A borrower is only eligible for Section B loans if he or she “is **not eligible** for financing from a state financial institution as defined in AS 06.01.050, a federally chartered financial institution, **or the Commercial Fishing and Agricultural Bank.**” (AS 16.10.310(a)1(B))

It is the responsibility of the Financial Section within the Division of Economic Development to uphold this statute.