

SB

204

<TARGET><BILL>SB 204</BILL><SUBJECT>SB
204</SUBJECT><COMM>SCRA27</COMM></TARGET>

Community Quota Entity Program (CQE)

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Community Quota Entities

(CQEs) are non-profit entities incorporated under the laws of the State, or tribal regulations in the case of one of the communities, to represent eligible communities. The CQEs obtain Quota Shares (QS) by transfer and hold the QS and lease the resulting annual IFQ to individual community residents. Unless otherwise specified, the restrictions that apply to any current QS holder apply to a CQE. CQEs, however, are subject to additional regulatory requirements beyond those applying to existing QS holders. A CQE could represent more than one eligible community. However, no community can be represented by more than one CQE.



This provision minimizes confusion and ensures effective and efficient administration of the program. To be considered eligible to hold QS on behalf of a community, a CQE must have been incorporated after April 10, 2002, the date of final Council action. The Council stated that the purpose of designating a new non-profit entity to hold QS is that existing administrative structures such as municipal governments, tribal councils, or other community organizations may be focused on other priorities. The Council also recommended that a non-profit organization provide proof of support from the community that it is seeking to represent. This support must be demonstrated in the application by a non-profit organization to become eligible as a CQE. The specific mechanism for the community to demonstrate its support for a CQE is described in the Administrative Oversight section of this preamble. Once an application to become a CQE has been approved, then that CQE is eligible to hold and receive QS, and lease IFQ to eligible community residents under the mechanisms established by this rule. If a CQE does not remain in compliance with the regulations applying to CQEs or IFQ holders generally, then NMFS can initiate administrative proceedings to deny the transfer of QS or IFQ to or from the CQE. As with other administrative determinations under the IFQ Program, any such determination could be appealed under the procedures set forth in regulations (50 CFR 679.43). The Council recommended regulatory measures, described below, as a means to monitor the ability of the non-profit entities to meet the goals of distributing IFQ among residents in these GOA communities.

Eligible Communities

Gulf of Alaska communities eligible to participate in this program must meet all the following criteria:

- have a population of less than 1,500 persons based on the 2000 United States Census;
- have direct saltwater access;
- lack direct road access to communities with a population greater than 1,500 persons;
- have historic participation in the halibut and sablefish fisheries; and
- be specifically designated on a list adopted by the Council and included in this rule (see Table 21 to part 679).

If a community appears to meet the eligibility criteria but is not specifically designated on the list of communities adopted by the Council, then that community must apply directly to the Council



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to be included. In this event, the Council may modify the list of eligible communities adopted by the Council through a regulatory amendment. Under this action, a total of 42 communities in the GOA qualify as eligible to purchase QS. These eligible communities may designate a new nonprofit entity to hold QS on behalf of that community.

Related Links

[Community Profiles](#)

Frequently Asked Questions

[Commercial Fishing Loan Fund](#)

[CQE Program Final Rule for Amendment 66](#)

[North Pacific Fishery Management Council \(NPFMC\)](#)

[SB387](#)

[Amending the IFQ Program for Gulf of Alaska Coastal Communities](#)

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Program Requirements Summary

- Eligibility for leasing of IFQ resulting from community owned QS shall be limited to residents of the eligible community.
- Communities must submit an application to NMFS and describe how their use of quota share will comply with program guidelines. The applications must maximize benefit from use of community IFQ for crew members that are community residents, insure that benefits are equitably distributed throughout the community, and insure that quota share allocated to an eligible community entity will not be held and unfished.
- A detailed statement of eligibility must be submitted to NMFS including a certificate of incorporation, verification as a qualified entity, documentation demonstrating accountability to the community, and an explanation of how community entity intends to implement performance criteria.
- A detailed Annual Report must be submitted to NMFS including a summary of business, employment, and fishing activities under the program, a discussion of corporate structure of entity, specific step taken to meet the performance standards, and a discussion of known impact to resources in the area.
- Communities represented by CQE's cumulatively would be limited to holding a maximum of 3% of the total halibut and sablefish QS in each area in area for the first seven years of program, with a 21% total by area.
- Restrictions would apply to QS transfer by CQE outside the program to ensure the goals of program are met.
- Communities participating in this program must adhere to performance standards established by NMFS in regulation.



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Community Quota Entity Program (CQE)

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Eligible Communities

- Eligible Gulf of Alaska Communities include rural communities with a population of less than 1,500 people, lack of direct road access, direct access to saltwater, and have historic participation in the halibut and sablefish fisheries.
- There are 42 eligible communities with 13,030 residents in the Gulf of Alaska. The eligible communities are listed below by region.

21 communities in Southeast Alaska: Angoon, Coffman Cove, Craig, Edna Bay, Elfin Cove, Gustavus, Hollis, Hoonah, Hydaburg, Kake, Kassan, Klawock, Metiakatia, Meyers Chuck, Pelican, Point Baker, Port Alexander, Port Protection, Tenakee Springs, Thorne Bay, and Whale Pass. Total population is 8,119 residents.

14 communities in Southcentral Alaska: Akhiok, Chenega Bay, Halibut Cove, Karluk, Larsen Bay, Nanwalek, Old Harbor, Ouzinkie, Port Graham, Port Lions, Seldovia, Tatitiek, Tyonek, and Yakutat. Total population is 2,711 residents.

7 communities in Southwest Alaska: Chignik, Chignik Lagoon, Chignik Lake, Ivanof Bay, King Cove, Perryville, and Sand Point. Total population is 2,200 residents.

- Implementing this proposal will require NMFS review of CQE applications for eligibility and an Annual Report by January 31 detailing the use of Quota Share (QS) by the CQE and community residents to insure compliance with purpose of program. DCED will have 30 days to provide comments to NMFS.



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State Involvement

- DCED fully supported SB 387 which passed the House and Senate this legislative session pending signature from the governor. The bill allows the Alaska Department of Economic Development, Financing Section to provide a loan program for CQE's to purchase halibut and sablefish IFQ's.
- The CQE Program is a federal program administered by NMFS, but the state will provide assistance to eligible communities from three divisions within the Department of Commerce, Community, and Economic Development.
 - The Division of Banking, Securities, and Corporations will be able to answer questions regarding how to setup a non-profit corporation. The Division of Banking, Securities, and Corporations home page is: <http://www.commerce.state.ak.us/bsc/home.htm>
 - The Division of Community Advocacy will be able to answer questions regarding sample by-laws and provide a non-profit corporation handbook with ideas regarding how to setup a non-profit corporation. The Division of Community Advocacy home page is: <http://www.commerce.state.ak.us/dca/>
 - The Department of Economic Development, Financing Section will be able to provide loan applications and explain the application requirements to obtain financing for halibut and sablefish IFQ's. The Financing Section home page is: <http://www.commerce.state.ak.us/investments/index.cfm>
- Eligible communities can contact DCED to schedule workshops regarding the CQE program.



Quick Links...

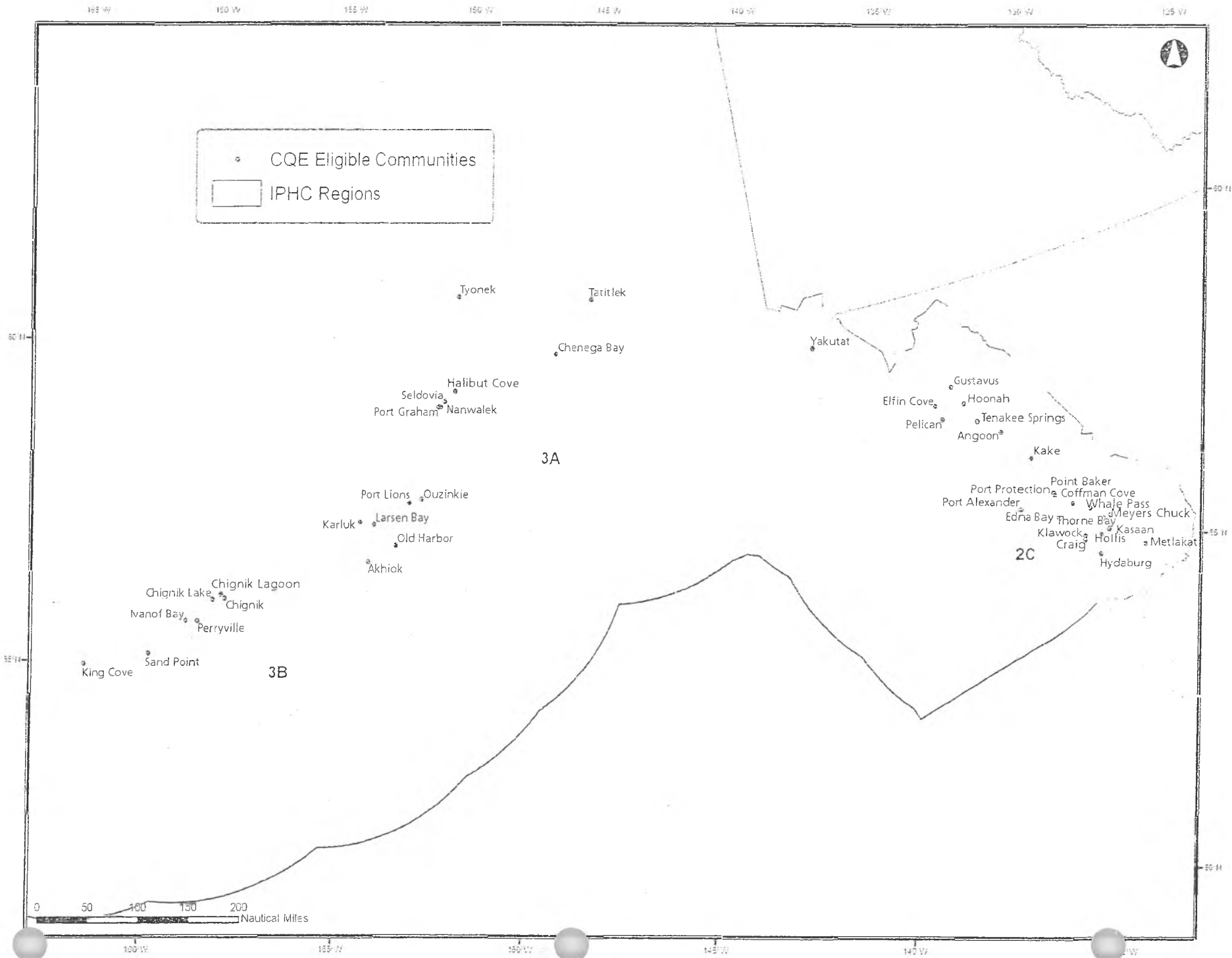
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ALASKA STATE LEGISLATURE

SENATOR DONALD C. OLSON

Session

Alaska State Capitol, Rm. 508
Juneau, AK 99801
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Interim

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Chair

Community & Regional Affairs

Member

Senate Finance Committee
Ethics Committee
Legislative Council
Northern Waters Task Force
Education Funding District Cost Factor
Finance Subcommittee Chair
Fish & Game
Health & Social Services
Public Safety
Finance Subcommittee Member
Environmental Conservation

Senator_Donny_Olson@legis.state.ak.us

	Current Law	SB 204
Down Payment	20%	5%
Interest Rate	Fixed at 2% above prime; not to exceed 10.5%	Fixed at 2% above prime; not to exceed 10.5%
Loan Term	15 years max	25 years max
Loan Limit	\$2 million max	\$1 million max
Payment Deference	None	Up to 10 years

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SPONSOR STATEMENT SB 204 - LOANS TO CQE / PERMITS

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.

Senate Bill 204 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, SB 204 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.

SB 204 – Sectional

AS 16.10 is Fisheries & Fishing regulations

AS 16.10.300 thru 16.10.370 is Commercial fishing Loan Act

SECTION 1 16.10.320(a) LIMITATIONS ON LOANS

is amended to reflect the new subsection created in Section 3.

SECTION 2 16.10.320(j) LIMITATIONS ON LOANS

is amended to reflect the creation of the CQE Revolving Loan Fund created in Section 6.

SECTION 3 16.10.320 LIMITATIONS ON LOANS

adds a new section to set specific terms of any loan to a CQE.

50K #

SECTION 4 16.10.340 CREATION OF FUND

is amended to add conforming language that severs the Commercial Fishing Revolving Loan Fund from the new CQE Revolving Loan Fund created in Section 6.

SECTION 5 16.10.342(c) SPECIAL ACCOUNT ESTABLISHED

is amended to add conforming language that further severs the Commercial Fishing Revolving Loan Fund from the new CQE Revolving Loan Fund created in Section 6.

SECTION 6 16.10.345 CQE REVOLVING LOAN FUND

adds a new section to create the CQE Revolving Loan Fund.

SECTION 7 16.10.350(a) ADMINISTRATION OF FUND

is amended to delineate that the Commissioner will also administer the CQE fund.

SECTION 8 EFFECTIVE DATE

7/1/2012 *Commerce Com*

FISCAL NOTE

STATE OF ALASKA
2012 LEGISLATIVE SESSION

Bill Version SB 204
 Fiscal Note Number _____
 () Publish Date _____

Identifier (file name) SB204-DCCED-DED-02-25-12 Dept. Affected DCCED
 Title LOANS TO COMMUNITY QUOTA ENTITIES/PERMITS Appropriation Investments
 Allocation Investments
 Sponsor Senate Community and Regional Affairs
 Requester Senate Community and Regional Affairs 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				
			FY14	FY15	FY16	FY17	FY18
OPERATING EXPENDITURES	FY13	FY13					
Personal Services	83.7		93.8	93.8	93.8	93.8	93.8
Travel	7.0		7.0	7.0	7.0	7.0	7.0
Services	10.0		10.0	10.0	10.0	10.0	10.0
Commodities	5.0		1.0	1.0	1.0	1.0	1.0
Capital Outlay							
Grants, Benefits							
Miscellaneous							
TOTAL OPERATING	105.7	0.0	111.8	111.8	111.8	111.8	111.8

FUND SOURCE		(Thousands of Dollars)					
1002	Federal Receipts						
1003	GF Match						
1004	GF	105.7					
1005	GF/Prgm (DGF)						
1007	GF/MH (UGF)						
1008	temp code (UGF)		111.8	111.8	111.8	111.8	111.8
TOTAL		105.7	0.0	111.8	111.8	111.8	111.8

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

CHANGE IN REVENUES							
--------------------	--	--	--	--	--	--	--

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)

This is the initial fiscal note for SB204

Prepared by Wanetta Ayers, Director
 Division Economic Development
 Approved by JoEllen Hanrahan, Director Administrative Services
Commerce, Community and Economic Development

Phone 269-4048
 Date/Time 2/25/12 4:30 PM
 Date 2/26/2012

FISCAL NOTE

Analysis

Community Quota Entity Revolving Loan Fund – This fiscal note funds the Division of Economic Development (DED) operating costs associated with the Community Quota Entities (CQE) loan program. This program will provide long term, low interest loans to promote the development of 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 the ongoing servicing, given the specialized features of the fund. These loans will be to newly formed non-profits rather than to individuals. In addition, the halibut and sablefish fisheries are federal fisheries managed through an international treaty. And, although the Division finances quota for the open access fishery under the Commercial Fisheries program, 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 for one year training then flexed to a II in succeeding years, and initial program expenses for supplies, equipment, community outreach travel, and annual contractual core services cost. The new position is needed due to the complexity of the proposed loans and the anticipated interaction required with the Community Quota Entities to service the loans.

We are estimating ten loans each year for the first four years and then five loans each year thereafter with repayments, fees, and earnings providing the necessary cash flow to maintain future lending.

Memorandum

To: Curtis Thayer, Deputy Commissioner

Wynetta Ayers, Director Division of Economic Development

From : Duncan Fields

Shoreside Consulting

Date: March 1, 2012

RE: HB 141 Energizing the Community Quota Entity (COE) Program

In 2003 the North Pacific Fisheries Management Council recognized the need to increase fisheries access in smaller Gulf of Alaska fishery dependent communities -- those under 1,500 people and without road access. The Council understood that halibut and sablefish quota shares held in trust for community residents would have significant long term benefits. Consequently, the Council qualified 42 Gulf of Alaska communities to purchase and retain IFQ quota shares. Each qualified community needed to form a non-profit Community Quota Entity (CQE) for the acquisition and management of their quota.

About 22 communities have formed CQEs. However, the expected rural development benefits from the program have not been realized. The market costs of acquiring quota shares has increased significantly to about \$34.00 per pound for area 3A quota or a ratio of between 5 & 6 times the exvessel value. With the current State loan program, expected annual CQE returns from fishing quota does not cover debt service and does not provide reserves for quota fluctuation. More importantly, current programs require 20% down or an 80% loan to value ratio and are limited to a 20 year term. This type of down payment and term is simply beyond the capabilities of these smaller, economically depressed, Alaska communities. Competing purchasers are able to use income from other fisheries to finance their down payment and, if needed, meet debt service. However, community CQEs don't have "other" income.

The CQE community halibut and sablefish purchase program would "cash flow" if these communities could obtain loans with a 5% down payment, 25 year term and unique interest rates that could be waived for a period of time to build up CQE reserves. (see examples) Remember, the purchased quota would remain in the community in perpetuity. Consequently, the term of the loan should be viewed differently for the CQE than for the individual. If a revised state loan program for CQE that has a low down payment, extended term, and lower interest were approved, it is likely to have significant long term economic benefits, especially jobs creation, in many of the 42 qualifying CQE communities

CQE

Background and Fact Sheet

(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 research 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.

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.

FREQUENTLY ASKED QUESTIONS

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 rights to fish a specific amount of fish and no more. Rationalization provides a management system that enables those with "capital" to increase market share by acquiring IFQs. With halibut IFQs, many fishermen were able to bring "capital" from other investments and fisheries to purchase quota. However, most rural residents did not have this type of "capital" to invest. Consequently, IFQ's moved from Alaska's smaller coastal communities. Now rural residents are separated from the marine resources in proximity to their communities.

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.

3. WHAT IS A CQE?

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?

CQEs have no initial assets to use as collateral for loans and no revenue or income streams from other investments that can be used to purchase quota. The CQE is a buyer of quota but cannot fish the quota themselves. Consequently, at least 50% of the quota revenue must be paid to the "lessee".

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

The CDQ (Community Development Quota program of Western Alaska) was actually "granted" quota without cost. The CQE must purchase quota. CDQs have been able to leverage that "gifted" allocation into additional quota and capital investments. The CQEs have nothing to leverage.

6. WHY HAVEN'T CQES BOUGHT QUOTA?

CQE groups have worked individually with their accountants and economic advisors trying to identify a loan program and/or grants that would make quota purchase viable. To date, nothing has been found and it unlikely that any traditional commercial lending institution will finance CQE quota purchases.

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

(a) Native corporations have a fiduciary responsibility to all their shareholders and only a fractional percentage of shareholders live in the traditional/historical community. Consequently, native corporations must be careful regarding "disproportionate distribution" of Corporate Benefits.

(b) CQEs are "community" organizations, not exclusively Native and Native Corporations have been hesitate to finance quota that may be "leased" to both non-natives and/or non-sharholders

(c) Tribal governments have further legal and financial constraints because the benefits from tribal funding are primarily limited to tribal members.

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

(a) Cities and Borough governments are not generally in the lending business and do not operate with capital reserves that can be used for CQE purchases.

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

Basic components of a supportive CQE loan program would be low down payment, long term and, if possible, "prime" interest rate. Our models show that this will ensure adequate cash flow to address the annual quota variables.

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. The program, if fully funded by the legislature and quota was purchased would account for about 5% of the total quota.

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/CQ_Ereport210.pdf

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.

HALIBUT "CQE-Model" - Community Based Quota Entity Model - WITH HB 141

Calculations are based on % of ex-vessel sales prices

Quota Shares to Pounds Conversion

Quota Shares Purchased	272,000
QS:IFQ Ratio	9.2502
Pound Equivalent	29,405
IPHC Region to be analyzed	
Landed Price / Ex-vessel Sales Price \$\$ per pound	\$ 6.00
NMFS Management Fee %	3%
Net Revenue per Quota Pounds Fished	\$ 5.82

Community Quota Entity Input Field

Purchase cost of Quota per harvestable pound	\$ 34.00
Total Quota Purchase Price	\$ 999,762.17
Deferred Interest and payments for # years	0
Down Payment on Quota Shares as X%	5.00%
Down Payment Amount	\$ 49,988.11
Debt Svc / Financing Cost (Percentage/rate)	5.50%
Loan Amortization period (# years)	25
Total Annual Quota Debt Service / Financing Cost	\$70,805.04
Accumulated Deferred Interest	\$0.00
Total Accumulated Deferred Pmts	\$0.00
Administration costs (enter as % Revenue or \$#,### Amt)	0.10
Projected Quota Harvest Decline (from Harvestdata worksheet)	
Deferred Interest Compounds Y for yes, N for No	N

Leasee (Fisherman) Quota revenue share

IFQ Holder Gross (all pounds fished)	\$ 97,035.74
Fuel	\$ 10,793.61
Provisions	\$ 1,126.41
Bait	\$ 19,352.75
Crew Share (each gets 9% of net:revenue - expenses)	27% \$ 17,756.00
Net to Leasee / Fisherman w/boat	\$ 48,006.97

Community Quota Entity Share Returns

	%	
Community Quota Share (As a percent of landed/ex-vessel \$)	45%	\$ 79,392.88
Quota Leasee (Fisherman) Share	55%	\$ 97,035.74
CQE Gross Quota Receipts		\$ 79,392.88
Less:		
Community Quota Entity Admin/Overhead Cost		\$ 7,939.29
Total Annual Quota Debt Service / Financing Cost		\$ 70,805.04
Community Quota Entity Net Profits		\$ 648.55

HALIBUT "CQE-Model" - Community Based Quota Entity Model - Current State Loan Program

Calculations are based on % of ex-vessel sales prices

Quota Shares to Pounds Conversion

Quota Shares Purchased	272,000
QS:IFQ Ratio	9.2502
Pound Equivalent	29,405
IPHC Region to be analyzed	
Landed Price / Ex-vessel Sales Price \$\$ per pound	\$ 6.00
NMFS Management Fee %	3%
Net Revenue per Quota Pounds Fished	\$ 5.82

Community Quota Entity Input Field

Purchase cost of Quota per harvestable pound	\$ 34.00
Total Quota Purchase Price	\$ 999,762.17
Deferred Interest and payments for # years	0
Down Payment on Quota Shares as X%	20.00%
Down Payment Amount	\$ 199,952.43
Debt Svc / Financing Cost (Percentage/rate)	5.50%
Loan Amortization period (# years)	20
Total Annual Quota Debt Service / Financing Cost	\$66,927.54
Accumulated Deferred Interest	\$0.00
Total Accumulated Deferred Pmts	\$0.00
Administration costs (enter as % Revenue or \$#,### Amt)	0.10
Projected Quota Harvest Decline (from Harvestdata worksheet)	
Deferred Interest Compounds Y for yes, N for No	N

Leasee (Fisherman) Quota revenue share

IFQ Holder Gross (all pounds fished)	\$ 97,035.74
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Community Quota Entity Share Returns

	%	
Community Quota Share (As a percent of landed/ex-vessel \$)	45%	\$ 79,392.88
Quota Leasee (Fisherman) Share	55%	\$ 97,035.74
CQE Gross Quota Receipts		\$ 79,392.88
Less:		
Community Quota Entity Admin/Overhead Cost		\$ 7,939.29
Total Annual Quota Debt Service / Financing Cost		\$ 66,927.54
Community Quota Entity Net Profits		\$ 4,526.05