

SCOMM

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FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 456
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title Commercial Fishing Loan Program BRU Investments (122)
Component Investments
Sponsor Representative Coghill
Requester House Fish Component No. 383

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	(576.9)	(998.3)	0.0	0.0	0.0	0.0
Travel	(2.3)	(2.3)	0.0	0.0	0.0	0.0
Contractual	(303.7)	(340.2)	0.0	0.0	0.0	0.0
Supplies	(8.9)	(15.3)	0.0	0.0	0.0	0.0
Equipment	(2.7)	(2.1)	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	(8.1)	(8.1)	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	(902.6)	(1,366.3)	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	10,351.3	(11,821.9)	(12,570.1)	(13,223.7)	(13,717.2)	(14,040.6)
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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						
1036 Commercial Fishing Loan Fund	(902.6)	(1,366.3)				
TOTAL	(902.6)	(1,366.3)	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: ☒ X

POSITIONS

Full-time	-13	-11				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Please see analysis continuation on the second page.

Prepared by: Greg Winegar, Director Phone 907-465-2510
Division Investments Date/Time 4/12/02 5:17 PM
Approved by: Deborah B. Sedwick, Commissioner Date 4/12/2002
Agency Department of Community & Economic Development

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. HB 456

DCED ANALYSIS CONTINUATION

The fiscal impact to the Commercial Fishing Revolving Loan Fund in FY 03 is based on the assumption that loans secured by Limited Entry Permits (87% of the portfolio) are being sold to the Commercial Fishing and Agriculture Bank (CFAB) and the balance of the portfolio is being sold to CFAB or other private lenders. The Department anticipates very limited interest from the private sector in purchasing this portfolio because the majority of loans do not meet private sector lending criteria. Falling prices, reduced profitability, declining collateral values and significant challenges facing the industry at this time will also reduce interest in purchasing these assets. In addition, the Department would have only one potential purchaser for the vast majority of loans in the portfolio creating a non-competitive sale. As a result, the Department anticipates receiving a heavily discounted one-time payment (sales price) in FY 03 and a substantial cash flow loss to the fund for many years into the future. FY 03 impact is based on an estimated sales price of the portfolio as follows:

TOTAL SALES PRICE: \$9,448.7

Loans secured by limited entry permits: \$6,467.1

Loans secured by assets other than permits: \$2,981.6

The amount of proceeds received from the sale in FY 03 is difficult to forecast. The number of interested bidders and the results of their due diligence work will affect the purchase price received for that portion of the portfolio not secured by limited entry permits. In addition, the purchase price received for loans secured by permits will be affected by CFAB's willingness and/or ability to purchase that portion of the portfolio.

Operating expenditure reductions in FY 03 and FY 04 reflect a significantly reduced on-going program as a result of this legislation. Thirteen positions would be dropped at the beginning of FY 03 because of a reduction in new loan activity. Eleven additional positions would be dropped at the beginning of FY 04 after the liquidation has been completed because of a reduction in accounting and collections related work.

ALASKA STATE HOUSE OF REPRESENTATIVES

Interim Address:
119 N. Cushman, Suite 211
Fairbanks, AK 99701
(907)-456-5081
Fax# (907)-456-8245



Session Contact:
(907)-465-3719
FAX# (907)-465-3258
State Capitol
Room 102

REPRESENTATIVE JOHN COGHILL

HB 456 Commercial Fishing Loan Program

Sponsor Statement

Government should not be in direct competition with private business and excess revenues from a government operation should be managed through the appropriation authority of the legislature. These two basic principles are the reason I introduced this legislation.

HB 456 limits the scope of loans from the Commercial Fishing Loan Program. It narrows the lending ability of the loan program to commercial fisherman who cannot get a loan in the private sector so that the state is not competing with the private sector. It creates a level playing field for all fishermen by eliminating the ability of the department to defer or waiver interest and payments. HB 456 reduces the prequalify loan fee from \$200 to \$50 and limits to one borrower a maximum of two \$35,000 loans.

The legislation adds language to uncodified law to ensure that the borrower's rights are protected should the Division of Investments decide to sell that individual's loan. HB 456 would allow the transfer of the loan but requires that it be done without a change in the original terms of the loan such as increased interest rates or payments.

HB 456 curtails the current practice of transferring excess funds from the revolving loan program to the Fisheries Enhancement Loan Program, which has a separate statutory purpose than the Commercial Fishing Loan Act. I strongly believe the legislature should preserve its authority to appropriate and this legislation provides that excess funds will be appropriated by the legislature for public purpose.

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

February 28, 2002

SUBJECT: Sectional summary of HB 456, An Act relating to the commercial fishing loan program (Work Order No. 22-LS1324\F)

TO: Representative Gary Stevens
Attn: Katrina Matheny

FROM: George Utermohle 
Legislative Counsel

You have requested a sectional summary of HB 456, An Act relating to the commercial fishing loan program.

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

Section 1 of the bill amends AS 16.10.300 relating to the state policy underlying the commercial fishing loan program under AS 16.10.300 - 16.10.370.

Section 2 of the bill adds a new section (Sec. 16.10.311) that sets out the powers of the Department of Community and Economic Development in regard to commercial fishing loans under AS 16.10.300 - 16.10.370. This new section replaces the current AS 16.10.310 which is repealed by Sec. 15 of this bill.

Most, but not all, of the differences between the proposed Sec. 16.10.311 and the current AS 16.10.310 relate to eligibility for commercial fishing loans and the purposes for which loans may be made. Compare Sec. 16.10.311(a)(1) of the bill with the current provisions of AS 16.10.310(a)(1). The power of the department to appoint agents and to delegate powers to the agents is not included in Sec. 16.10.311.

Section 3 of the bill amends AS 16.10.320(a) to provide that the original term of a commercial fishing loan may not exceed 15 years, the annual interest on a commercial fishing loan is a fixed rate of not less than 6.5 percent or more than 10.5 percent, the amount of a loan may not exceed \$35,000, and that the amount of a loan may not exceed 80 percent of the value of the collateral that is used to secure the loan.

Section 4 of the bill amends AS 16.10.320(e) to make technical conforming changes made necessary by the repeal of AS 16.10.310 and 16.10.320(d) and by the addition of Sec. 16.10.311.

Section 5 of the bill adds new subsections to AS 16.10.320 to provide that a borrower may not hold more than two loans at one time from the commercial fishing loan program and that the department may not accept a payment to reduce the amount of principal on a loan if interest is due and payable on the loan.

Sections 6 - 9 of the bill amends AS 16.10.325, 16.10.333(a), 16.10.335(a), and 16.10.338 to make technical conforming changes made necessary by the repeal of AS 16.10.310 and the addition of Sec. 16.10.311.

Section 10 of the bill amends AS 16.10.340(a) to provide that the commissioner of community and economic development is responsible for the administration of the commercial fishing revolving loan fund.

Section 11 of the bill adds new subsections to AS 16.10.340 to provide that the foreclosure expense account is established within the commercial fishing revolving loan fund, that the department shall submit annual permit to the legislature describing the aspects of the financial status of the commercial fishing loan fund, and that the legislature may appropriate excess money in the commercial fishing revolving loan fund to other purposes.

Section 12 of the bill adds a new section (16.10.345) relating to the liquidation of the loans and assets of the commercial fishing loan program.

Section 13 of the bill amends AS 16.10.353(b) to delete obsolete language.

Section 14 of the bill amends AS 16.10.355 to provide that the Department of Community and Economic Development shall dispose of property acquired through default or foreclosure of a loan made under provisions of the current AS 16.10.300 - 16.10.370 that are repealed or amended by this Act.

Section 15 of the bill repeals several provisions of AS 16.10.300 - 16.10.370 and repeals the provisions of the session law that provides for the repeal of the federal tax obligation loan program under the current AS 16.10.310.

Section 16 of the bill is the Saving Clause which protects and preserves the current rights of persons who currently hold loans under the current provisions of AS 16.10.300 - 16.10.370, in spite of the changes made to those provisions by this bill.

Section 17 of the bill provides that if the bill does not take effect before August 1, 2002, the provision of Sec. 15(b) of the bill that repeals the provisions of the session law that provides for the repeal of the federal tax obligation loan program under the current AS 16.10.310 is retrospective to July 31, 2002.

Section 18 of the bill provides that the bill takes effect July 1, 2002.

Existing Statutory Language	HB 456 Statutory Language
<u>AS 16.10.300</u> Set policy to promote rehabilitation of state's fisheries, development of predominantly resident fishery, and continued maintenance of commercial fishing gear and vessels through long term low interest loans.	Changes policy to providing loans to fishermen whose financing needs are not adequately served by private lending sources.
<u>AS 16.10.310</u> Defines powers of the department and who qualifies for loans. Had to have a crew member or commercial fishing license under AS 16.05.480 or a permit under AS 16.43 for the year immediately preceding the date of application and any other two years past five years, and who actively participated in the fishery during those periods. Must not have other occupational opportunities available because of lack of training or employment opportunities in area of residence or must be economically dependent on commercial fishing for livelihood and for whom commercial fishing has been a traditional way of life. Allows department to designate agents and delegate powers to them. Ability to adopt regulations Establishes amortization plans for repayment of loans which may include extensions for poor fishing seasons or adverse market conditions for Alaska products. Allows department to enter into agreements with private lending agencies, other state agencies or agencies of the federal government. Can enter into agreements with other agencies or organizations to create an outreach program to make loans in rural areas.	Repealed and reacted in AS 16.10.311. Must be a state resident for two continuous years immediately preceding loan application to qualify for a loan or an assumption of a loan. Retains lack of training and traditional lifestyle language. Eliminates designation of agents and powers. Leaves ability to adopt regulations. Retains amortization language. Limits the department to entering agreements with other state agencies or agencies of the federal government. Limits outreach program agreements to state agencies.

Existing Statutory Language

Sets qualification for assumption of loan on two year continuous residence immediately preceding application for assumption of loan and provides that denial of assumption can not be based on lack of training or traditional lifestyle.

Sets prequalify loan fee not to exceed \$200.

Allows department to charge and collect the fees established under subsection,

Allows for a refinancing charge of 1/2 percent of the debt obligation to be paid with the first refinancing payment.

(d) Sets \$300,000 limit on refinance debt obligations.

Provides that the department will consider the individual commercial fisherman's income from all sources in determining his ability to repay the loan.

Provides that department can loan to individual to satisfy past tax obligations only if past and current tax returns have been filed and a payment agreement has been executed with the federal government. This loan is a one time only and is limited to \$30,000.

AS 16.10.315

Directs department to allocate 10 percent of money appropriated for loans for loans of \$35,000 or less.

HB 456 Statutory Language

Retains assumption of loan criteria.

Sets prequalify loan fee not to exceed \$50.

Doesn't change ability to charge and collect fees.

Retains refinancing charge at existing level.

Silent until limited to a maximum of two \$35,000 loans to each borrower.

Retains language as is.

Only change is increase in loan to \$35,000.

Repeals provision.

Existing Statutory Language	HB 456 Statutory Language
<u>AS 16.10.320</u> Sets limitation on loans: Not to exceed 15 years except for extensions. Sets interest not to exceed 10 1/2 percent. Limits loan balance to \$300,000 for those commercial fisherman with lack of opportunity or traditional dependence. Loans for commercial fisherman without special circumstances are limited to \$100,000. Refinancing of loans cannot exceed \$300,000. A loan for an entry permit may be made for 100% of appraised value of collateral is commercial fisherman has three years experience in fisheries to which permit applies. Requires first priority lien and appropriate security agreement. May not exceed 90% of appraised value of collateral. May not be made to someone with past due child support. Eliminates requirement for first priority lien for loans guaranteed by the Federal Ship Financing Act of 1972. All principal and interest collected through liquidation by foreclosure or other process shall be paid into the commercial fishing revolving loan fund.	Sets limitation on loans: The original loan cannot be written for a term of more than 15 years. Modifications are still permitted. Sets interest not to be below 6.5% and not to exceed 10 1/2 percent. Limits each loan to \$35,000. There is a limit of two loans per individual. Repeals language. Repeals language. Repeals language. No change May not exceed 80% of value as determined by department. No change. Deletes language. Repealed through silence on subject.

Existing Statutory Language	HB 456 Statutory Language
Provides for joint loans for two or more fisherman qualified and working jointly as a corporation, partnership, joint venture or otherwise.	Change of reference to new qualification statute under AS 16.10.311(a).
<u>AS 16.10.325</u> Provides for a person to act as a guarantor if borrower has insufficient collateral and provides that the loan agreement "shall" specifically describe the property to be used as collateral.	Provides for guarantor and amends that the loan agreement "must" specifically describe the property to be used as collateral.
<u>AS 16.10.333</u> Permits loans for purchase of Alaska limited entry permits upon certification by the commission that the person is qualified.	Change of reference to new qualification statute under AS 16.10.311.
<u>AS 16.10.335</u> Provides specific requirements for notice of default. Also provides provisions for responsibility of borrower to keep legal address on file and current, allows for a 60 day waiver with cause, and terminates debtors interest in limited entry permit when holder applies for bankruptcy or has permit terminated.	Requirements do not change. There was an elimination of reference to AS 16.10.310(a)(4).
<u>AS 16.10.337</u> Provides that the board has first right of refusal if a permit is subject to a buy-back program at a price equal to the amount outstanding plus any costs incurred in administering the loan. If the commission does not exercise right to buy back in 30 days or if the permit is not subject to buy back, the department must follow certain public notice procedures for the sale of the permit. The debtor may repurchase the permit at anytime up to the sale of the permit.	No change.

Existing Statutory Language	HB 456 Statutory Language
<u>AS 16.10.338</u> If a limited entry permit is used as collateral for a loan for repair, restoration, upgrading, construction or purchase of a boat, and the borrower defaults, the borrower must notify the commissioner and get his acceptance of the sale of the vessel, apply the proceeds to the loan and renegotiate any unpaid balance to avoid immediate loss of permit.	No change other than cite clean up for AS 16.10.311.
<u>AS 16.10.339</u> Provides that department shall adopt regulations.	Section Repealed because authority for adoption of regulations was given in AS 16.10.311(a)(2) of bill under Powers of the Department.
<u>AS 16.10.340</u> Created the commercial revolving loan fund, provides that the legislature may use money in the fund to make appropriations for cost of administering the loan program, and provides that excess funds can be used to carry purpose of the Fisheries Enhancement Loan Program which provides loans for hatchery planning, construction and operation.	Deletes language allowing the commissioner to use excess funds for the Fisheries Enhancement Loan Program. Adds language that the commissioner shall administer the fund. Establishes a special account for the foreclosure expense account, requires an annual report, and provides that the legislature appropriate excess funds for public purpose.

Existing Statutory Language	HB 456 Statutory Language
<u>AS 16.10.345</u> Not in existing Law.	Requires the department to administer all loans made prior to the effective date of the new statutes for the Commercial Fishing Loan Act according to the existing terms of the loan. For example, a loan as of September 1, 2002 has a balance of 60 months of payment, the department will collect it in a duration of not more than sixty months. No modifications can be made to these loans. If the department sells the loan, the sale will be based on the original terms of the loan and there will be no modifications such as increased interest rate or payments. Loans secured by limited entry permit and assets acquired by the department that are limited entry permits can only be sold to the Commercial Fishing and Agriculture Bank or successor institution authorized to make loans secured by a limited entry permit. Provides for a reasonable agency fee to be negotiated for banks, credit unions and CFAB when appointed as an agent for the administration and collection of loans
<u>AS 16.10.353</u> Allows the commissioner to release information about a borrower's loan if the borrower has signed a waiver of confidentiality. Allows borrowers obtaining loans after June 28, 1991 to specify who may receive confidential information.	Only change is elimination of June 28, 1991 date.

Existing Statutory Language	HB 456 Statutory Language
<u>AS 16.10.355</u> Directs department to dispose of property acquired by default or foreclosure and to dispose of it in a manner that serves the states' best interests. Provides for amortization of payment of disposal through sale but prohibits the lease of property.	Clarifies this pertains to loans made under former provisions of AS 16.10.
<u>Uncodified Law</u> Not is existing law.	Clarifies the borrowers right to protection from any modifications being made to the terms of the loan because of the sale of the loan to another financial institution.



Tony Knowles, Governor

Department of Community and Economic Development

Division of Investments

P.O. Box 34159, Juneau, AK 99803-4159

Telephone: Voice: 907-465-2510

Fax: 907-465-2103

Toll Free: 1-800-478-LOAN

Text: 907-465-5437

Email: investments@dcad.state.ak.us • Website: www.dcad.state.ak.us/investments/

November 9, 2001

Amanda Ryder
Legislative Finance Division
PO Box 113200
Juneau, AK 99811-3200

Dear Ms. Ryder:

RE: Commercial Fishing Loans

In regards to your inquiry dated November 6th, I have attached the following information relating to the Commercial Fishing Revolving Loan Fund (CFRLF).

1. The criteria for receiving loans under the CFRL are contained in AS 16.10.300 - .370, 3 AAC 80.010 - 900 and policies and procedures LB1 through LB10 (Attachment A). Although some of these requirements are similar to those used by the Commercial Fishing and Agriculture Bank (CFAB), such as a residency requirement, the two programs operate independently and for the most part serve a different clientele. CFAB, as a private lender, typically assists borrowers that meet traditional lending guidelines. While there is some overlap, the primary purpose of the CFRLF is to provide loans to harvesters that do not have access to financing from private sources because they do not meet standard lending guidelines. As a result the criteria is different.
2. The state does receive a return on its investment in the CFRLF and information relating to our return on loans for the past five fiscal years is enclosed as Attachment B.
3. The Division of Legislative Audit audits the Alaska Division of Investments (ADI) every year. The Department of Administration's Division of Finance also has financial oversight over ADI. In addition, ADI provides financial information to your division, the legislature, and the public upon request. ~~The Division of Banking and Securities does not review our activity and has no authority to do so.~~
4. ~~The division develops, adopts, and maintains official policies and procedures for the CFRLF.~~ They are typically developed by staff, discussed at management meetings and approved by the director of the division.

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5. Since 1988 there have been 2,113 CFRLF loans that have been paid in full. The total dollar amount of these payoffs was \$50,839,900. We are unable to provide specific information on payoffs prior to 1988 without a tremendous amount of additional work by staff because of the record keeping methods utilized at that time. It is safe to assume, however, that a substantial number of additional loans paid off between inception of the program in 1972 and 1988.
6. As of September 30, 2001 there were 1,836 Commercial Fishing loans in our portfolio with outstanding principal balances totaling \$81,391,900. The original balance of these loans at the time they were made was \$123,989,000. The Division does provide loan extensions to borrowers that run into payment difficulties and request assistance. Extension requests are considered on a case-by-case basis and if approved the loan is modified to reflect the new payment arrangement. I have attached a spreadsheet (attachment C) to reflect the number of extension applications we have received during the past five fiscal years.
7. Interest rates are determined in accordance with AS 16.10.320 (a)(2) and 3 AAC 80.055(k). The rate is based on the prime rate and is evaluated quarterly. Once a loan is approved, the interest rate is fixed for that particular loan for the entire term of the loan. The interest rate charged on loans approved this quarter (ending December 31st) is 4.5% for Product Quality Improvement loans and 8.5% for all other CFRLF loans.

I hope that this information is helpful. Please let me know if you have any questions or if can provide you with additional information.

Cordially,



Greg Winegar
Director



Tony Knowles, Governor

Department of Community and Economic Development

Division of Investments

P.O. Box 34159, Juneau, AK 99803-4159

Telephone: Voice: 907-465-2510

Fax: 907-465-2103

Toll Free: 1-800-478-LOAN

Text: 907-465-5437

Email: investments@dc.ed.state.ak.us • Website: www.dced.state.ak.us/investments/

November 20, 2001

Amanda Ryder
Legislative Finance Division
PO Box 113200
Juneau, AK 99811-3200

Dear Ms. Ryder:

RE: Commercial Fishing Loans

In regards to your inquiry dated November 16th, I have attached the following information relating to the Commercial Fishing Revolving Loan Fund (CFRLF).

1. The total assets in the CFRLF as of September 30, 2001 are \$114,140,412.90.
2. The total cash available for loans as of September 30, 2001 is \$18,029,330.43
3. The Division of Investments uses a modified cash basis accounting method. Interest is recorded and recognized as it is received. As a result, we are unable to provide the accrued receivable information you have requested.
4. The total dollar amount of principal balances that have a payment 15 days or more past due, as reflected in our October delinquency report, is \$29,797,300. \$18,390,600 of that total is less than 30 days past due. A total of \$50,008,300 in loans is current or less than 15 days past due.
5. The total dollar amount of the Deferred Interest Receivable Accounts is \$7,372,441.62 as of September 30, 2001. *673 loans, interest-free, varying maturity terms.*
6. The Deferred Interest Receivable Accounts are set up to reflect interest from loan payments that have been deferred as a result of an approved loan extension request as authorized under AS 16.10.310(a)(4). I have attached a report (Attachment 1) that lists the amount, date established and maturity date of each Deferred Interest Receivable Account as of September 28, 2001.
7. Interest rates are determined in accordance with AS 16.10.320 (a)(2) and 3 AAC 80.055(k). 3 AAC 80.055(k) was established to link the rates charged for loans under the CFRLF to rates charged in the private sector. The prime rate was used as the

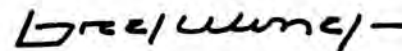
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reference point because it is a common benchmark used in the private sector for determining commercial loan interest rates.

8. Attachment 2 provides a summary of loan principal balances broken down by interest rate as of September 30, 2001.
9. AS 16.10.310(a)(10) allows qualified borrowers to refinance their existing CFRLF loans to take advantage of reduced interest rates when they occur. If a new refinancing request is approved, the interest rate is revised to reflect the rate in affect at the time that the new commitment is issued.
10. The division is very aware of the increasing challenges facing our borrowers and the industry in general. We have added a substantial amount of flexibility to the statutes, regulations and policies over the last several years to give us more tools to help borrowers having payment difficulties. We have developed soft collection, workout and refinancing programs to assist borrowers especially during the early stages of a delinquency. We have done a substantial amount of face-to-face work through our outreach program. We believe that encouraging borrowers to work with us plays an important role in protecting the state's investment in the CFRLF. In addition, loan officers are kept informed of current market conditions and utilize their knowledge in the loan evaluation process. Loan officers and collections officers participate in weekly staff meetings to discuss market trends, and they participate in a yearly loan officers meeting to debate possible regulatory and policy changes. The division evaluates collateral values as a part of the loan extension process, and adds to it's collateral position when appropriate. Finally, we are in the process of reorganizing the division, resulting in a merger of our Lending and Collections Branches. This will improve our ability to adjust workloads as necessary to aid our collection efforts.
11. The Alaska Business Development Center, Inc. (ABDC) performs work for the division per the terms of a contract that went into effect July 1, 2000. The scope of work includes providing business counseling services, educational programs and promotion of a variety of programs available to various sectors of the Alaska fishing industry. ABDC staff has a broader base of expertise in these areas than division loan officers and can leverage other funding sources to more efficiently assist Alaskan harvesters. For example, in 2001, ABDC staff, University of Alaska professors and senior level accounting students visited 33 rural communities under the Volunteer Tax and Loan Program. As a result of these visits, they were able to assist over two hundred commercial fishing harvesters. The majority of the expenses for these trips were received from other funding sources.

I hope that this information is helpful. Please let me know if you have any questions or if I can provide you with additional information.

Cordially,



Greg Winegar
Director

Attachments (2)

Division of Investments
Alaska Department of Community Economic Development

Commercial Fishing Revolving Loan Fund - 21608
Interest Rate Summary as of 09-30-01
Attachment 2

<u>Interest Rate</u>	<u>Principal Balance</u>
4.0	380,139.15
4.5	212,707.08
5.0	168,651.17
5.5	66,765.40
6.5	219,565.02
7.0	9,641,955.33
7.5	189,197.41
8.0	20,320,057.92
8.5	16,706,124.71
9.0	6,545,654.37
9.5	15,284,199.62
10.0	15,713.70
10.5	11,641,113.79
TOTAL	81,391,844.67

* Deferred Interest Receivable is not included



Tony Knowles, Governor

Department of Community and Economic Development

Division of Investments

P.O. Box 34159, Juneau, AK 99803-4159

Telephone: (907) 465-2510 • Fax: (907) 465-2103 • TDD: (907) 465-5437

Toll Free Within Alaska: 1 (800) 478-LOAN (5626)

Email: investments@dced.state.ak.us • Website: www.dced.state.ak.us/investments/

November 26, 2001

Amanda Ryder
Legislative Finance Division
PO Box 113200
Juneau, AK 99811-3200

Dear Ms. Ryder:

RE: Commercial Fishing Loans

Regarding your inquiry dated November 20, 2001, I have attached the following information.

1. To my knowledge CFRLF regulations have never contained a provision requiring a turn down letter from CFAB. The statutes, however, contain a provision under AS 16.10.310(a)(1)(C)(iv) that applicants for quota share loans not be eligible for financing from other "*recognized commercial lending institutions*." Division policies and procedures (LB 3) requires applicants to furnish "*a denial letter from a recognized commercial lending institution that makes loans for the purchase of quota shares, such as the Commercial Fishing and Agriculture Bank (CFAB), the National Marine Fisheries Service (NMFS), Farm Credit Services or commercial banks*". The Division of Investments does not have a legal basis for requiring applicants to pursue private sector financing only through CFAB.
2. CFRLF regulations are adopted in accordance with AS 44.62.180 - .290. The Division does not perform cost/benefit analysis but does discuss new regulations at length and considers input from the public as a part of the process. The Division provides notice of regulation changes in accordance with AS 44.62.190. This includes publishing in newspapers such as the Anchorage Daily News, notifying legislators, legislative committees, legislative information offices and persons/organizations that have indicated an interest in receiving regulation information. I have included attachments that list legislators (Attachment A), legislative committees/agencies (Attachment B), legislative information offices (Attachment C) and interested parties (Attachment D) that received notice of CFRLF regulation changes made last year.

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3. The Division of Investments contracts with Alaska Business Development Center (ABDC) to provide business counseling services to :

- a) harvesters and other participants or potential participants in the Alaska fishing industry;
- b) new and existing fishing industry small businesses; and
- c) Community Development Quota (CDQ) groups in Western Alaska.

In addition, ABDC provides educational programs and does a substantial amount of outreach work informing Alaskan harvesters of various programs available to help them succeed in the fishing industry. These functions are consistent with the mission of the CFRLF, which is to promote a predominantly resident fishery. As I described in my November 20th response, ABDC staff have a more diversified base of expertise than the Division to perform these functions. They can also leverage other funding sources to more efficiently assist Alaskan harvesters.

ABDC does promote the CFRLF but also promotes other programs and sources of assistance available to Alaskan harvesters. They act as an advocate for the harvester and provide information on the most appropriate assistance available whether that be through the CFRLF or other sources such as CFAB, National Marine Fisheries Service, Small Business Administration, Internal Revenue Service, or other private sector banks. Their mission is to help the Alaskan harvester succeed whether that includes using the CFRLF or not. As a result, I do not believe the contract provides a competitive advantage.

I hope that this information is helpful. Please let me know if you have any questions or if I can provide you with additional information.

Cordially,



Greg Winegar
Director

November 28, 2001

Dale,

In the answers that have come from the DOI, I didn't think that the question in Denny's November 6th email on whether "the state is getting any return on the funds that are being loaned," was adequately answered. I have attached the latest spreadsheet from DOI of all appropriations and activities from all of DOI's funds. The appropriations from CFRLF that have gone directly back to the general fund are highlighted in yellow. Any appropriations from the fund that have been used for purposes outside the direct scope of the CFRLF, but have not gone directly into the general fund, are highlighted in orange. I thought this funding could arguably be considered a return to the State. The totals are as follows:

Total Appropriations to CFRLF	\$60,201,000
Total Appropriations from CFRLF to GF	(\$30,811,000)
Total Other Appropriations from CFRLF	(\$13,409,900)
Total Capital Investment remaining in CFRLF	\$16,340,100

As you can see from the above numbers, the total appropriated *from* the CFRLF is \$44,220,900.

On another note, in the November 20th meeting with you and Ed Crane, and the ensuing questions and responses between Ed and the Department, I have been left with some questions.

1. Specifically, what statutes/regulations/policies need to be changed to relieve CFAB from feeling the pressure of competition from DOI? For example:
 - a. Is a statutorily set interest rate desirable? If so, what if the interest rates rise dramatically (as happened in the early 1980's) and the statutorily set interest rate is the lowest around? Would it then become a floating interest rate? Should there be a trigger mechanism in place should this scenario happen? My understanding is that this very thing happened in the early 1980's, which is why they started using a floating interest rate.
 - b. As is required for Section C loans (purchase of quota shares) in AS 16.10.310 (a)(1)(C)(iv), would it be desirable to require *all* of CFRLF's borrowers (Section A&B borrowers) to bring in a denial letter showing that they are not eligible for financing from other recognized commercial lending institutions before they can get a loan?
 - c. Should advertising (i.e. letters to borrowers, contract with ABDC, etc.) of DOI's services be eliminated?

- d. Should some of the CFRLF loan programs be eliminated? If so, which ones?
2. In the conversation, Ed mentioned that, due to DOI's policies, a customer had chosen to pay off his DOI loan instead of paying his CFAB loan. Is this an isolated incident or does he believe that many of his borrowers have also faced this dilemma? Does he believe that this is a burgeoning trend?
3. Why is there a problem with DOI's contract with ABDC? From ABDC's web site I noticed that CFAB also contracts with them. Is there a problem with ABDC steering more business toward DOI than toward CFAB?

Please give me a call if you have any questions.

Amanda



Alaska Division Investments
Department of Community & Economic Development
Loan Program Funding Summary
(In thousands of dollars)

	WW II Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Historical District	Mining	Alt. Tech. Energy	Residential Energy	Fisheries Enhance.	Water Resources	Residential Care	Fisherman's Mtg & Note	Power Develop.	Line Total
Established	SLA 1946 Ch 27	SLA 1971 Ch 109 § 9	SLA 1972 Ch 134 § 1	SLA 1972 Ch 171 § 1	SLA 1980 Ch 83 § 41	SLA 1976 Ch 253 § 9	SLA 1977 Ch 139 § 3	SLA 1980 Ch 106 § 35	SLA 1978 Ch 29 § 1	SLA 1980 Ch 83 § 35	SLA 1976 Ch 190 § 1	SLA 1975 Ch 218 § 1	SLA 1978 Ch 153 § 6	SLA 1980 Ch 106 § 9	SLA 1984 Ch 169 § 1	
Repealed		SLA 1980 Ch 106 § 71		SLA 1980 Ch 106 § 71								SLA 1980 Ch 83 § 44	SLA 1982 Ch 113 § 72	SLA 1982 Ch 113 § 72		
SLA 55 Ch 5	1,000.0															1,000.0
SLA 60 Ch 136	1,200.0															1,200.0
SLA 72 Ch 109			1,000.0													1,000.0
SLA 72 Ch 158				1,000.0												1,000.0
SLA 72 Ch 34		135.4														135.4
SLA 76 Ch 237												2,500.0				2,500.0
SLA 77 Ch 153 Vetoed																0.0
SLA 80 Ch 120 Sec 6		36,500.0	24,000.0	6,500.0		300.0			600.0		6,000.0		400.0	6,500.0		80,800.0
SLA 80 Ch 120 Sec 7								10,000.0								10,000.0
SLA 80 Ch 120 Sec 52					1,500.0					1,600.0						3,100.0
SLA 80 Ch 120 Sec 52 Lapsed 6-30-81					(1,450.0)					(995.0)						(2,445.0)
RP 08-81- 258X (JV 81-2222)		11,000.0	(3,000.0)	(5,000.0)										(3,000.0)		0.0
RP 08-81- 292X (JV 81-2436)									1,000.0					(1,000.0)		0.0
RP 08-81- 486X (JV 81-13626)		(1,700.0)							1,700.0							0.0
SLA 81 Ch 82 Sec 13			4,500.0		1,000.0	180.0	200.0	20,000.0	500.0	500.0	8,000.0		120.0	1,800.0		36,800.0
SLA 81 Ch 72 Sec 1 (FY 82 only)								10,000.0								10,000.0
SLA 81 Ch 90 Sec 36									3,750.0	3,750.0						7,500.0
SLA 81 Ch 90 Sec 37									1,250.0	1,250.0						2,500.0
RP 08-81- 635X (JV 81-14253)				1,739.0										(1,739.0)		0.0
RP 08-81- 664X (JV 82-0062)		886.8		1,079.8		(291.0)			(914.6)		354.1		(354.1)	(761.0)		0.0
SLA 82 Ch 141 Sec 257 Repealed Ch 90 Sec 37 SLA 81									(1,250.0)	(1,250.0)						(2,500.0)
SLA 82 Ch 114 Sec 5			9,400.0		1,000.0	400.0	500.0	15,000.0	4,000.0	4,500.0	17,000.0					51,800.0
SLA 82 Ch 141 Sec 242											6,350.0					6,350.0
RP 08-82- 472X (JV 82-4742)			5,000.0					(5,000.0)								0.0
RP 08-82- 524X (JV 82-4836)						120.0							(120.0)			0.0
RP 08-82- 634X (JV 82-5378)									1,000.0	(1,000.0)						0.0
SLA 83 Ch 107 Sec 22			9,091.0			869.5	500.0		2,400.0	3,123.4	6,500.0					22,483.9
SLA 83 Ch 106 Sec 11 (See Ch 141 Sec 242 SLA 82)											(1,350.0)					(1,350.0)
SLA 83 Ch 107 Sec 17 and 18		(16,800.0)		(2,700.0)												(19,500.0)
SLA 83 Ch 106 Sec 265		(1,000.0)														(1,000.0)

Other appropriations from GFRLE for other uses (Total = \$13,409.9)
Direct appropriations from CFRLE to GF (Total = \$30,811.0)
GRAND TOTAL \$44,220.9

Total funding used to capitalize the
CFRLE = \$60,201.0

Alaska Division of Investments
Department of Community & Economic Development
Loan Program Funding Summary
(In thousands of dollars)

	WW II Veterans	Small Business	Commercial Fish	Tourism	Bulk Fuel	Child Care	Historical District	Mining	Alter. Tech & Energy	Res. Energy	Fisheries Enhance	Water Resource	Res. Care	Fisherman's Mtg & Note	Power Develop	PERS	IRS	Housing Assist	Line Total
SLA 84 Ch 171 Sec 306			3,500.0						1,000.0		5,000.0								9,500.0
SLA 84 Ch 171 Sec 313															210,000.0				210,000.0
SLA 84 Ch 156 Sec 3 and 4		Receipts		Receipts															Receipts
SLA 84 Ch 122 Sec 24																			
FY 85 Operating Budget	(707.5)		(187.7)																(895.2)
SLA 85 Ch 98 Sec 20			3,710.0						845.0		812.0								5,367.0
SLA 85 Ch 105 Sec 118	(8,824.9)						(500.0)	(19,931.1)		(7,312.5)					(14,000.0)				(50,568.5)
SLA 85 Ch 105 Sec 120															(9,036.0)				(9,036.0)
FY86 operating budget																			
SLA85 Ch 98 Sec 28	(457.5)		(218.5)																
SLA85 Ch 98 Sec 27(SB78)			(208.6)																
SLA85 Ch 98 Sec 16	(38.5)		(12.8)																(938.6)
Salary increase-GGU, Supv units																			
SLA85 Ch 98 Sec 27	(2.0)		(0.7)																
Salary increase non-covered																			
SLA 86 Ch 130 Sec 427	(408.6)		(2,000.0)					(13,350.0)	(1,809.0)	(1,800.0)					(18,605.9)				(37,973.5)
SLA 86 Ch 129 Sec 16									(2,000.0)						(4,000.0)				(6,000.0)
SLA 86 Ch 129 Sec 17					64.0				(64.0)										0.0
SLA 86 Ch 129 Sec 18	(400.0)						400.0												0.0
SLA 86 Ch 130 Sec 39	(3,665.5)																		(3,665.5)
SLA 86 Ch 129 Sec 23																			
FY 87 operating budget	(532.2)	(242.2)	(993.8)	(40.1)	(64.0)	(61.0)	(11.4)	(229.8)	(494.5)	(355.1)	(141.4)	N/A	N/A	N/A	(39.2)				(3,204.7)
SLA 87 Ch 95 Sec 15											1,200.0								1,200.0
SLA 87 Ch 95 Sec 17	(838.6)		(7,821.5)			(89.5)	(207.8)	(4,693.5)	(5,504.2)	(1,868.6)					(5,805.6)				(26,829.3)
SLA 87 Ch 95 Sec 26																			
FY 88 Operating Budget	(369.3)	(113.3)	(896.0)	(35.0)	(50.8)	(35.1)	(8.1)	(201.3)	(251.4)	(194.2)	(247.1)				(31.0)				(2,432.6)
FS SLA 87 Ch 3 Sec 151															(2,700.0)				(2,700.0)
FS SLA 87 Ch 3 Sec 157											1,000.0								1,000.0
SLA 88 Ch 154 Sec 15	(388.7)		(8,647.3)			(338.3)	(148.4)	(1,331.8)	(610.8)	(296.7)					(6,933.8)				(18,695.6)
SLA 88 Ch 154 Sec 29																			
FY 89 Operating Budget	(412.3)	(49.4)	(1,052.1)	(38.4)	(74.4)	(52.7)	(8.9)	(220.9)	(340.6)	(263.9)	(274.8)				(35.4)				(2,823.8)
SLA 88 Ch 172 Sec 1											8,000.0								8,000.0
SLA 88 Ch 173 Sec 2																			
Supplemental to FY 88 Operating Budget	(33.0)	(11.4)	(99.2)	(3.4)	(5.6)	(3.4)	(0.8)	(19.6)	(23.5)	(18.3)	(27.7)				(3.1)				(249.0)
SLA 88 Ch 173 Sec 212(a)			(3,048.1)																(3,048.1)
SLA 89 Ch 87 Sec 1 (a)																			
Supplemental to FY 89 Operating Budget	(12.5)	(1.6)	(32.2)	(0.8)	(0.9)	(0.5)	(0.1)	(5.4)	(8.8)	(6.7)	(7.8)	N/A	N/A	N/A	(1.2)				(60.5)
SLA 89 Ch 87 Sec 58(a)											750.0								750.0
SLA 89 Ch 116 Sec 15	(279.6)		(5,313.6)			(8.8)	(82.4)	(3.2)	(727.6)	(343.4)					(2,512.3)				(9,270.9)
SLA 89 Ch 116 Sec 29																			
FY 90 Operating Budget	(434.0)	(52.1)	(1,107.6)	(40.2)		(54.5)	(9.3)	(231.3)	(357.1)	(278.5)	(288.8)	N/A	N/A	N/A		(27.0)	(1.5)	(13.7)	(2,895.6)

Alaska Division of Investments
Department of Community & Economic Development
Loan Program Funding Summary
(In thousands of dollars)

	WW II Veterans	Small Business	Comm Fish	Tourism	Child Care	Historica District	Mining	Altern Tech & Energy	Residentia Energy	Fisheries Enhance.	PERS	TRS	Line Total	
Revised Program, ADN 800124 Supplemental to FY 90 Operating Budget											(40.2)	(134.4)	(174.6)	
SLA 90, Chap. 45, Sec. 3(a), 9(a) & 11(a) Supplemental to FY 90 Operating Budget	(4.3)	(0.7)	(12.5)	(0.5)	(0.5)	(0.1)	(1.8)	(2.6)	(2.3)	(2.7)	(0.7)	(1.2)	(29.9)	see note
SLA 90, Chap. 45, Sec. 3(a), 9(a) & 11(a)	(11.7)	(1.7)	(34.1)	(1.2)	(1.0)	(0.3)	(5.2)	(7.1)	(6.7)	(7.7)	(2.0)	(3.5)	(82.2)	
SLA 90, Chap. 209, Sec. 18	(121.1)		(542.5)			(93.9)	(1,183.4)	(908.1)	(383.8)				(3,232.8)	
SLA 90, Chap. 209, Sec. 24										897.1			897.1	
SLA 90, Chap. 209, Sec. 37 FY 91 Operating Budget	(434.0)	(52.1)	(1,149.2)	(40.2)	(54.5)	(9.3)	(231.3)	(357.1)	(278.5)	(288.8)	(73.7)	(114.4)	(3,083.1)	
SLA 91, Chap. 73, Sec. 19			(408.2)										(408.2)	
SLA 91, Chap. 73, Sec. 23										4,794.0			4,794.0	
SLA 91, Chap. 73, Sec. 40 FY 92 Operating Budget	(428.7)	(39.2)	(1,179.5)	(42.3)	(57.4)	(9.8)	(234.7)	(363.5)	(284.8)	(304.2)	(168.0)	(99.1)	(3,211.1)	
SLA 91, Chap. 96, Sec. 119 FY 91 COLA Supplemental	(7.1)	(1.1)	(22.0)	(0.9)	(0.8)	(0.2)	(3.4)	(4.3)	(4.1)	(5.0)			(48.9)	
SLA 92, Chap. 136, Sec. 19(a)			(1,238.1)										(1,238.1)	
SLA 92, Chap. 136, Sec. 30										6,000.0			6,000.0	
SLA 92, Chap. 136, Sec. 44 FY 93 Operating Budget	(394.0)	(38.7)	(1,360.9)	(0.4)	(13.3)	(2.9)	(231.9)	(430.6)	(201.3)	(297.3)	(172.0)	(142.5)	(3,285.8)	
SLA 93, Chap. 65, Sec. 21			(1,791.7)										(1,791.7)	
SLA 93, Chap. 65, Sec. 30										2,068.2			2,068.2	
SLA 93, Chap. 65, Sec. 40 FY 94 Operating Budget	(307.3)	(78.9)	(1,614.8)	(1.0)	(25.7)	(7.0)	(202.8)	(347.3)	(207.5)	(251.9)	(97.6)	(142.7)	(3,284.5)	
SLA 93, Chap. 65, Sec. 40 ABDC - Financial Counseling			(200.0)										(200.0)	
SLA 93, Chap. 65, Sec. 39 Commercial Fish Refinance			(41.1)										(41.1)	

*Loan Program Funding Summary pages 1& 2 covering period from FY 1955 through Fy 1989 is available from the Division of Investments.
The funding transfer authorized by this appropriation was not implemented.

Alaska Division of Investments
Department of Community & Economic Development
Loan Program Funding Summary
(In thousands of dollars)

	WW II Veterans	Small Business	Commercial Fish	Child Care	Historical District	Mining	Alter Tech & Energy	Resid Envr Conserv.	Fisheries Enhance.	Inter/Ager Receipts	Line Total
SLA 94, FSS Chap. 3, Sec. 18			(9,934.9)						9,934.9		0.0
SLA 94, FSS Chap. 3, Sec. 42 & 44 FY 95 Operating Budget	(282.1)	(26.6)	(1,795.2)	(17.0)	(2.9)	(175.4)	(290.5)	(32.4)	(253.1)	(6.8)	(2,882.0)
SLA 94, FSS Chap. 3, Sec. 44 Fisheries Business Assistance			(200.0)								(200.0)
SLA 94, FSS Chap. 3, Sec. 43 Loans for IFQ's			(74.5)								(74.5)
RSA w/ Dept. of Revenue, ADN 0850044 FY 95 Fees for PERS/TRS loan servicing										(40.0)	(40.0)
SLA 95, Chap. 94, Sec. 47, pg. 28 & 48 FY 96 Operating Budget	(238.0)	(8.0)	(2,431.1)	(6.5)	(3.0)	(9.0)	(276.2)	(11.9)	(271.7)	(6.8)	(3,262.2)
RSA w/ Dept. of Revenue, ADN 0860101 FY 96 Fees for PERS/TRS loan servicing										(30.0)	(30.0)
SLA 96, Chap. 117, Sec. 30 and 32 FY 97 Operating Budget	(215.2)	(8.0)	(2,444.7)	(6.5)	(3.0)	(8.9)	(277.5)	(8.8)	(273.3)	(31.0)	(3,276.9)
SLA 96, FSS Chap. 5, Sec. 4 FY 97 Operating Bdgt. salary adjust.	(1.5)		(13.8)			(0.1)			(0.5)	(0.3)	(16.2)
Unbudgeted RSAs w/Dept of Revenue ADNs 0470310 and										(27.9)	(27.9)
SLA 97, Chap. 98, Sec. 39 FY 98 Operating Budget	(229.1)	(2.5)	(2,522.3)	(5.2)	(3.0)	(4.7)	(147.2)		(284.2)	(55.8)	(3,254.0)
SLA 97, Chap. 100, Sec. 59 FY 98 Operating Budget salary adjust	(1.8)		(18.5)	(0.1)		(0.1)	(2.3)		(1.6)	(0.4)	(24.8)
SLA 98, Chap. 34, Sec. 2 FY 98 to Disaster Relief Fund			(125.0)								(125.0)
SLA 98, Chap. 137, Sec. 33 FY 99 Operating Budget	(183.1)	(3.5)	(2,586.2)	(5.7)	(2.0)	(5.0)	(148.6)		(309.8)	(47.7)	(3,291.6)
SLA 98, Chap. 139, Sec.										(0.3)	(0.3)
SLA 98, Chap. 137, Sec. 21 FY 99 Operating Budget salary adjust	(0.7)		(7.6)	(0.1)			(0.5)		(0.7)		(9.6)
SLA 98, Chap. 137, Sec. 33 FY 99 to DEC/Seafood Inspection			(175.0)								(175.0)
SLA 99, Chap. 84, Sec. 42 FY 00 Operating Budget	(147.8)	(3.3)	(2,608.9)	(5.8)	(2.5)	(5.0)	(148.7)		(325.5)	(48.0)	(3,295.5)
SLA 99, Chap. ____, Sec. ____ FY 00 to DEC/Seafood Inspection			(175.0)								(175.0)

*Loan Program Funding Summary pages 1 & 2 covering period from FY 55 through FY 89 and Loan Program Funding Summary pages 3 & 4 covering FY 90 to FY 01 are available from the Division of Investments.

Alaska Division of Investments
Department of Commerce & Economic Development
Loan Program Funding Summary
(In thousands of dollars)

	WW II Veterans	Small Business	Commercial Fish	Child Care	Historical District	Mining	Alter Tech & Energy	Resid Ene Conserv.	Fisheries Enhance.	Inter/Ager Receipts	Line Total
SLA 00, CSHB 3001, Sec.1 FY 01 Operating Budget salary adjust	(2.9)		(52.1)				(3.0)		(7.5)		(65.5)
SLA 00, Chap. 133, Sec. 3 FY 01 Operating Budget	(147.8)	(3.3)	(2,608.9)	(5.8)	(2.5)	(5.0)	(148.7)	0.0	(325.5)	(48.0)	(3,295.5)
SLA 00, CSHB 312, Sec.3 FY 01 Accting Serv. & Workers Comp.			(0.4)						(0.1)		(0.5)

*Loan Program Funding Summary pages 1 & 2 covering period from FY 55 through Fy 89 and Loan Program Funding Summary pages 3 & 4 covering FY 90 to FY 01 are available from the Division of Investments.

ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P. O. Box 113300
Juneau, AK 99811-3300
(907) 465-3830
FAX (907) 465-2347

January 12, 1996

Members of the Legislative Budget
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the attached report is submitted for your review.

ALASKA COMMERCIAL FISHING AND AGRICULTURE BANK

January 12, 1996

Audit Control Number

08-4525-96

The objectives of this audit were to determine: the financial condition of the Alaska Commercial Fishing and Agriculture Bank (CFAB); the factors affecting the continuance or discontinuance of the financial and statutory relationship between the State and CFAB; the new general/lending powers proposed in House Bill 284; and to determine whether the activities associated with those powers are available through existing programs of other state agencies, quasi-state corporations, or private lending institutions within the State.

The audit was conducted in accordance with generally accepted government auditing standards. Fieldwork procedures utilized in the course of developing the findings and discussion presented in this report are discussed in the Objectives, Scope, and Methodology section of this report. Audit results can be found in the Report Conclusions and the Findings and Recommendations sections.

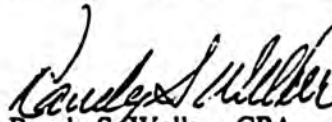

Randy S. Welker, CPA
Legislative Auditor

TABLE OF CONTENTS

	<u>Page</u>
Objectives, Scope, and Methodology	1
Organization and Function	3
Background Information	5
Report Conclusions	9
Findings and Recommendations	25
Appendixes:	
A. Comparison of CFAB and CFRLF Loan Activity for Seafood Harvesters	30
Agency Responses:	
Alaska Commercial Fishing and Agriculture Bank	31
Department of Commerce and Economic Development	33

OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we conducted an audit of the Alaska Commercial Fishing and Agriculture Bank (CFAB).

Objectives

The objectives of the audit were:

1. To determine the financial condition of CFAB.
2. To determine the factors affecting the continuance or discontinuance of the financial and statutory relationship between the State and CFAB.
3. To identify the new proposed general/lending powers included in House Bill 284 and to determine whether the activities associated with those powers are available through existing programs of other state agencies, quasi-state corporations, or lending institutions within the State.

Scope and Methodology

Our scope included a review of CFAB's audited financial statements for FY 91 through FY 95. We also reviewed the 1995 examination report by the Department of Commerce and Economic Development (DCED), Division of Banking, Securities, and Corporations' bank examiners. We interviewed the external auditors, KPMG Peat Marwick, and the DCED bank examiners and reviewed their procedures and workpapers to determine whether to place reliance on the results of their reviews.

We performed trend and ratio analyses of pertinent financial information contained in CFAB's accounting records and audited financial statements, including loan delinquencies.

A review was done of the enabling legislation (AS 44.81) for CFAB, including any subsequent statutory changes or proposed changes affecting its relationship with the State. A copy of the agreement between the Department of Revenue and CFAB regarding the repurchase of the Class C stock held by the State was reviewed to determine the terms of the repurchase. Discussions were held with CFAB's management and legal counsel. In addition, we reviewed management's correspondence files and the board meeting minutes for the calendar years 1993 through September 1995. We attended a meeting of CFAB's board of directors.

We also reviewed the enabling legislation (AS 16.10) for the Commercial Fishing Revolving Loan Fund (CFRLF) and the Alaska Commercial Fisheries Entry Commission (CFEC),

AS 16.43, to determine the effect of their authority and activities on CFAB's operations. In addition, we obtained pertinent loan portfolio information from CFRLF. Interviews with management of CFRLF and CFEC were conducted.

Decisions on legal cases between the Internal Revenue Service and the State regarding the seizure of limited entry permits from fishers for payment of back taxes were reviewed.

We attended certain segments of the Alaska Fish '95 conference and trade show for the fishing industry. Topics included were: individual fishing quotas, pending fish initiative, governor's policy on fisheries, the Board of Fisheries, and fisheries' market.

We reviewed HB 284 and the related legislative committee minutes. Discussions were held with CFAB management regarding the proposed expansion in general/lending powers.

The statutes and regulations of other state agencies and quasi-state corporations were reviewed to determine if they have the authority to provide similar financing/lending services. We interviewed the management of any of those organizations that appeared to provide such services. In addition, we held discussions with the management of the Alaska Fisheries Development Foundation, a private, nonprofit organization.

Our audit procedures also included a review of the Federal Farm Credit Act and agreements between the Cooperative Bank of Spokane (CoBank) and CFAB. Discussions were held with CoBank management as considered necessary.

ORGANIZATION AND FUNCTION

The Alaska Commercial Fishing and Agriculture Bank (CFAB or Bank) was established in 1978 by the enactment of AS 44.81. The Bank was subsequently incorporated under AS 44.81 on May 4, 1979, and began its operations in April 1980. In 1981, CFAB's statutes were revised to clarify the original intent of the legislation. The original intent was for the Bank to exist as a private, cooperative corporation, while filling a crucial need of the State in making capital available to commercial fishers and farmers. Alaska Statute 44.81.010(a) now reads as follows:

There is established the Alaska Commercial Fishing and Agriculture Bank. The exercise by the bank of the powers conferred by this chapter is considered to be for a public purpose. The bank is exempt from the provisions of AS 06.05 (Alaska Banking Code) and AS 10.15 (Alaska Cooperative Corporation Act) in the exercise of powers granted by this chapter.

As discussed in the Background Information section, the initial capitalization of the Bank was provided by the State through the purchase of \$32 million of CFAB's nonvoting, preferred Class C shares of stock. Alaska Statute 44.81.010(b) requires that these shares be repurchased by the Bank within 20 years of their sale to the State. Currently, CFAB is in the process of repurchasing the Class C shares of stock under an agreement with the Department of Revenue. Due to the early retirement of the shares, CFAB is repurchasing the shares at a discount.

CFAB's policies and directions are established, within its statutory authority, by a seven-person board of directors that hires professional management and staff to operate the Bank. Five of the directors must be borrowers/owners of CFAB and are elected by the total membership of the cooperative Bank. The other two directors are appointed by the governor. All directors' terms are for three years. CFAB holds an ownership meeting each year. At this meeting, the borrowers/owners have the opportunity to vote on important matters, to receive reports from CFAB's directors and managers, and to elect new directors.

CFAB makes loans for most fishing or farming related purposes. The most common purposes are the purchase, modification, or refinancing of a vessel; purchase of a limited entry fishing permit; gear, engine, or equipment replacement or upgrade; general operating capital; and fish processing. There are no "standard" repayment terms or programs. In order to be eligible to be a CFAB borrower, an applicant must be engaged in the commercial fishing or farming industries. An individual applicant must be an Alaska resident, and a partnership must have majority ownership by Alaska residents. When the applicant is a corporation, the majority ownership and control must rest with Alaska residents.

Eligibility, however, is only the first step of the lending process. To obtain a CFAB loan, an applicant must be found by CFAB to be capable and creditworthy within the context of the specific loan request. The standards used by CFAB are essentially the same as those of any

responsible lender. However, CFAB's specialized purposes, and their experience, has allowed them to consider a broader range of applicant qualifications than most other lenders.

Borrowers, as members of the cooperative Bank, must purchase one share of Class A stock that has a par value of \$10. In addition, borrowers must purchase shares of Class B stock with a \$100 par value in an amount equal to 5% of the loan amount. The purchase costs of the Class B stock may be included in the loan amount. As of May 31, 1995, CFAB had outstanding \$28.2 million in net loan receivables, \$10,770 in Class A membership stock, and \$4.1 million in Class B preferred stock. Refer to Exhibit 1 in the Report Conclusions section for a summary of CFAB's FY 95 published financial statements.

In the disposition of the FY 95 net proceeds totaling \$1,439,066, CFAB's board of directors authorized a 7% dividend, totaling \$108,122, on the Class B preferred stock holdings of members whose related loans were paid in full at May 31, 1995. This was the sixth such dividend paid in the past seven years. In addition, \$650,000 of the proceeds were allocated to members/borrowers as a patronage refund¹ in accordance with CFAB's bylaws, with 50 % of that allocation being paid in cash. The remaining \$680,944 of net proceeds was transferred to CFAB's unallocated surplus account to be retained as capital.

¹A "patronage refund" is a return of a portion of the interest paid to CFAB by a member/borrower on a timely basis during a particular year. As a cooperative, CFAB may distribute a portion of its net proceeds (profits) back to its members/borrowers. This is an effective reduction in the interest paid by a member/borrower. For example, the patronage refund for FY 95 reduced the average interest rate charged during the year from 9.73% to 8.63%.

BACKGROUND INFORMATION

Improved access to capital by Alaskans with creation of CFAB

In the late 1970's the commercial fishing industry expressed dissatisfaction with the available credit sources to finance operations and the development of the industry. In response, the legislature commissioned a study in the fall of 1977 to evaluate the adequacy of the available financing sources for the commercial fishing industry in Alaska.

The study concluded that there was a need for improved access by the Alaska commercial fishing industry to sources of credit. Several alternatives to improve such access were discussed in the report. One of the options recommended was for the State to form a private, cooperative development bank for the Alaska commercial fishing industry that could leverage its capital with funds from the Federal Farm Credit System.

As a result of the study, in 1978 the legislature passed a bill that created the Alaska Commercial Fishing and Agriculture Bank (CFAB or Bank). It was to provide financing for the commercial fishing and agriculture² industries within the State by leveraging its capital with funds from the Federal Farm Credit System as recommended.

The initial capitalization of CFAB was provided through appropriations from the State totaling \$32 million. For this initial funding the State was issued nonvoting, preferred shares of stock in CFAB that by statute are required to be repurchased within 20 years of their issuance. Upon the full repurchase of the Class C stock, the specific statutes for the creation of CFAB (AS 44.81) will lapse and the cooperative Bank is to continue to operate under the terms of its bylaws and under the Alaska Cooperative Corporation Act (AS 10.15).

Cooperative banks provide CFAB with necessary capital

The concept of CFAB was patterned after the Federal Farm Credit System (System) which provides a source of credit to farmers, ranchers, and producers or harvesters of aquatic products. The Federal Farm Credit Act of 1933 provided for the organization of thirteen Banks for Cooperatives (BCs). BCs were initially capitalized by the federal government and remained largely owned by the government until the Farm Credit Act of 1953 was passed. This act provided for a means of control of the entire System by its users and paved the way for the ultimate retirement of all the federal government capital investment in the System. The Federal Farm Credit Act of 1971 recodified all the prior laws governing the System, modernized its functions, broadened its lending powers (e.g., loans to producers and harvesters of aquatic products), and brought decision making closer to its borrowers.

²Although the study only looked at the need for improved access to credit for the commercial fishing industry in Alaska, the legislature believed an analogous problem existed for farmers.

BCs are cooperatives themselves. They are financial institutions whose business is to provide credit and related services to their agricultural and aquatic cooperative members. BCs obtain a major portion of their loan funds through the sale of securities backed by the notes of borrowers. These securities are sold through a fiscal agent with the aid of a nationwide group of securities dealers. Through the issuance of these securities, BCs provide their cooperative members with direct access to the nation's money markets which helps to ensure an adequate supply of dependable credit.

Any association of farmers, ranchers, or producers or harvesters of aquatic products which is operated on a cooperative basis for the mutual benefit of its members as patrons may be eligible to borrow from BCs.³ The cooperative must also meet the following requirements:

- At least 80 percent of the voting control of the cooperative must be held by farmers, ranchers, or producers or harvesters of aquatic products.
- The cooperative must do at least 50 percent of its business with or for its members.
- No member of the cooperative shall have more than one vote regardless of the amount of stock or membership capital he/she owns.
- The cooperative must restrict dividends on its stock or membership capital to either 10 percent per year or the maximum allowed by state law, whichever is less.

CFAB, as an eligible borrower, has a Line of Credit Agreement with the Cooperative Bank of Spokane (CoBank). The current agreement provides for borrowings up to \$10 million or an amount equal to CFAB's borrowing base,⁴ whichever is less. This agreement is periodically renegotiated.

The agreement has certain requirements to ensure CoBank, as a major creditor, is kept apprised of CFAB's financial condition. Those requirements include: providing copies of the annual audited financial statements, monthly financial statements, and Alaska Division of Banking, Securities, and Corporations annual bank examination reports; maintaining at all times a ratio of total assets to total equity of not greater than 3.5 : 1 and an excess of total assets over total liabilities of not less than \$20,000,000; and utilizing credit policies satisfactory to CoBank. In addition, as discussed in the Report Conclusions section, unless

³The association must be engaged in one or more of the following functions:

- Storing, packing, processing, or marketing farm or aquatic products.
- Purchasing, testing, grading, processing, furnishing, or distributing farm or aquatic supplies.
- Furnishing business services to farmers, producers or harvesters of aquatic products, or other eligible cooperatives.

⁴According to the Line of Credit Agreement, the "borrowing base" means the sum of: (1) 80 percent of the principal balance of loans pledged to CoBank classified as acceptable or other assets especially mentioned, (2) 50 percent of the principal balance of loans pledged to CoBank classified as substandard, and (3) other assets at percentages acceptable to CoBank. All principal balances exclude loans made to finance the purchase of Class B stock and further excludes the portion of the total loans exceeding 10 percent of CFAB's total net worth, if any.

otherwise agreed to in writing by CoBank, CFAB may not merge or consolidate with any other entity, or acquire all or substantially all of the assets of any person or entity, or form or create any new subsidiary or affiliate, or commence operations under any other name, organization, or entity, including any joint venture.

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REPORT CONCLUSIONS

The Alaska Commercial Fishing and Agriculture Bank (CFAB or Bank) was in a satisfactory financial condition as of the end of its 1995 fiscal year and had good quality loans. However, the Bank's shrinking loan portfolio is of concern.

We also conclude that if CFAB repurchased all of its stock from the State as scheduled, the statutory relationship (AS 44.81) between the State and CFAB would lapse and would:

- Delete CFAB's ability to provide limited entry fishing permit loans to fishers.
- Eliminate the statutory requirement that CFAB borrowers be Alaska residents.
- Delete CFAB's exemption from the Alaska Banking Code and the specified applicability of the Alaska Cooperative Corporations Act; thus, CFAB's continued operations would be in question.
- Delete CFAB's charge to serve a public purpose, as currently stated in AS 44.81, to enhance the development of the aquatic and agriculture industries of the State.

On the other hand, the continuance of AS 44.81 would ensure CFAB would remain a source of capital for Alaska resident fishers, a financing mechanism for the purchase of limited entry permits, and an organization whose charge is to serve a public purpose in the development of the aquatic and agriculture industries of the State. In addition, we believe the Bank could be utilized to take over all or part of the functions of Commercial Fishing Revolving Loan Fund (CFRLF) through optimum use of its access to capital from the Federal Farm Credit System.

Further, we conclude that the general/lending powers proposed in HB 284 do not duplicate activities of existing state agencies or quasi-state corporations; rather, they may augment those activities. In addition, the proposed additional powers do not alter CFAB's current competition with private lending institutions within the State. The proposed changes to CFAB's general/lending powers in House Bill 284 are shown in Exhibit 4 of this section. We also determined that there are certain controls in place through CFAB's membership involvement and its credit agreement with the Cooperative Bank of Spokane (CoBank) to monitor these new activities.

The following is a more detailed discussion of our conclusions.

CFAB's financial condition satisfactory, with some future concerns

As of May 31, 1995, CFAB held \$31,813,164 in assets which included net loan and other receivables totaling \$28,204,726. Total liabilities included \$4,478,930 in notes payable to

CoBank which are secured by substantially all of CFAB's loan receivables. CFAB had a leverage ratio (Total Assets:Total Capital) of 1.2:1 while the CoBank line of credit agreement allows a ratio as high as 3.5:1. In other words, CFAB could have theoretically borrowed and loaned out an additional \$57 million with its capital structure as of May 31, 1995.

Net proceeds for FY 95 totaled \$1,439,000, which included income of \$1.1 million in recoveries of previously charged-off loans. Therefore, without those recoveries CFAB's net proceeds would have been only about \$339,000. Summary amounts from the published Balance Sheet and Statement of Proceeds are shown in Exhibit 1.

On July 1, 1991, the Alaska Department of Revenue and CFAB entered into an agreement for the repurchase of the Class C stock held by the State. As of June 30, 1995, CFAB had repurchased \$22 million of the \$32 million of stock. Those repurchases were discounted by \$9 million dollars, thus the actual cash outlay for CFAB totaled about \$13 million. The repurchases at a discount are in accordance with an agreement between the Department of Revenue and CFAB. The discount is being given due to the repurchases occurring before the statutory deadline.

Exhibit 1	
Summary of CFAB's FY 1995 Financial Statements	
Balance Sheet	
Total Assets	<u>\$31,813,164</u>
Total Liabilities	5,211,654
State Capital	10,000,000
Members' Equity/Capital	<u>16,601,510</u>
Total Liabilities and Capital	<u>\$31,813,164</u>
Statement of Net Proceeds	
Loan Revenues	\$ 3,973,958
Interest Expense	(344,628)
Operating Expenses	(1,617,358)
Income Tax Expense	<u>(572,906)</u>
Net Proceeds	<u>\$ 1,439,066</u>

The amount of the discount was credited to the Bank members' unallocated surplus capital account. Therefore, the \$9 million in discounts was a significant portion of the total net increase in members' equity of \$11 million between July 1991 and June 30, 1995.

CFAB is to continue repurchasing the Class C stock in \$250,000 increments on a monthly basis until fully repurchased. We estimate the remaining \$10 million in Class C stock will be repurchased at an additional discount of about \$2 million. This will bring the total cash discount received by CFAB to approximately \$11 million for the full repurchase of the \$32 million in Class C stock originally purchased by the State.

We reviewed the audit and examination procedures of CFAB's independent auditors and the bank examiners with the Department of Commerce and Economic Development (DCED), Division of Banking, Securities, and Corporations. The following summarizes the results of their reviews.

External auditors express concern over CFAB's shrinking loan portfolio

KPMG Peat Marwick (KPMG) issued an unqualified opinion on CFAB's financial statements, meaning the statements were fairly stated. In its management letter to CFAB's board of directors, KPMG reported that no matters involving material weaknesses in CFAB's

internal control structure were noted. Other issues brought to our attention either through a review of KPMG's workpapers and/or the auditors' presentation to the board of directors were as follows:

- CFAB's loan portfolio is shrinking and, according to KPMG, if the trend continues CFAB will be at a break-even point (i.e., revenues equaling expenses) in approximately two years. This may impact CFAB's ability to repay the \$10 million to the State under the current pay-back plan.
- CFAB's loan portfolio is concentrated in the extremely volatile industry of fishing and is considered a high level of risk. Over the past several years, prices paid for fish have been declining. Further, the value for limited entry fishing permits has also declined. This affects the ability of borrowers to pay back loans, as well as the value of the collateral securing the loans.
- In FY 95, CFAB made a significant recovery of one major loan loss in the amount of \$2,031,703, \$1.1 million of which was credited to income.

Bank examiners conclude CFAB's overall condition is fundamentally sound

The DCED bank examiner's report concluded that "[t]he bank's condition appears to be fundamentally sound, but general areas of importance are called to your [CFAB board of directors'] attention. . . ." The report further states the following:

Recommendations made at this examination are generally minor in nature and focus on the need to:

1. *Continue decreasing the level of nonaccrual and classified⁵ loans.*
2. *Improve director [CFAB board members] attendance and loan maintenance.*
3. *Promote quality loan growth to increase earnings.*
4. *Continue monitoring stress level on bank earnings from repurchase of Class C stock.*

The bank examiners conducted a full-scope examination using a financial presentation date of May 31, 1995, and an asset review date of July 31, 1995. The examination focused on an evaluation of the following five areas: capital adequacy, asset quality, quality of management, and earnings and liquidity. The examiners concluded the following regarding these areas:

⁵Nonaccrual loans are loans 90 days or more past due that no longer are accruing interest for financial reporting purposes. Classified loans are problem loans identified by the DCED bank examiners, when performing a quality review, that they believe should be adversely classified as either substandard, doubtful, or a loss. Classified loans may also be included in CFAB's nonaccrual loan amounts.

The bank is considered well capitalized. [CFAB has 49.86% ratio of leverage capital over average total assets, while commercial banks generally have only about a 5.5% ratio.]

The asset quality has continued to show improvement over the last two examinations. . . . Management has also devoted a considerable amount of effort toward addressing problem credits. . . . In conjunction with the decrease of problem credits, the bank has been unable to attract quality loans to replace these credits . . . and benefit [increase] earnings. . . . Competition for quality loans with other financial institutions and the State of Alaska, Division of Investments, continues to remain strong.

The management of the bank has remained stable and are [sic] considered capable. Bank policies are kept in a current condition, expenses are well controlled, the loan loss reserve is considered adequate, and loan loss recoveries are aggressively pursued.

Earnings continue to remain good but have been enhanced considerably by some sizable recoveries from prior loan charge offs. . . . The Net Income (After Tax) for fiscal year-end May 31, 1995 was \$1,439M and represented 4.32% of Average Assets. Removing the loan loss recoveries from earnings would have decreased Net Income to \$339M or 1.02 % of Average Assets, which is considered acceptable but marginal.

The principal source of CFAB's funds is CoBank Funds are made available to CFAB on a term basis through a master borrowing agreement that gives CoBank a first security interest in all of CFAB's assets which includes cash, certificates of deposit, securities, bonds, loans to members, accounts receivable, and chattel paper. . . . To meet any additional loan demand, CFAB has a seasonal line of credit with CoBank. The maximum available amount is determined annually prior to the beginning of CFAB's fiscal year. CoBank sets the maximum amount based upon certain criteria which include its evaluation of loan portfolio quality and capital ratio

Our review of CFAB's annual reports, audited financial statements, and bank examiners' report indicated that CFAB's interest income has been declining. Gross revenue declined by 8%, from \$3,124,000 in FY 94 to \$2,874,000 in FY 95. Additionally, CFAB's loan portfolio declined by \$5.1 million or 16.8% between FY 94 and FY 95. According to the executive message to members in the 1995 annual report,

. . . CFAB seems still to be not widely recognized by Alaska fishers. . . . CFAB is positioned to accommodate significantly more loans -- and loan volume -- with very little, if any, increase in operating expenses. This would effectively translate into reduced costs for all borrowing members.

Problem loans in decline since FY 92

We performed trend analyses of pertinent financial information contained in CFAB's accounting records and audited financial statements, including loan delinquencies. The nonaccrual loan balances (loans 90 days or more past due) for the past five years were as follows:

Exhibit 2						
Schedule of CFAB's Nonaccrual Loans for FY 91 through August 1995						
	<u>5/31/91</u>	<u>5/31/92</u>	<u>5/31/93</u>	<u>5/31/94</u>	<u>5/31/95</u>	<u>8/31/95*</u>
Seafood Harvesters	\$ 1,626,012	\$ 4,537,728	\$ 2,927,282	\$ 4,651,964	\$ 2,644,757	\$ 2,060,334
Fish Processors	8,007,250	8,599,440	5,692,651	3,220,523	1,515,624	1,485,091
Agriculture and Timber	<u>4,856,522</u>	<u>3,173,045</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$14,489,784</u>	<u>\$16,310,213</u>	<u>\$8,619,933</u>	<u>\$7,872,487</u>	<u>\$4,160,381</u>	<u>\$3,545,425</u>

Exhibit 3 shows the loan modification information for the past four fiscal years. We conclude that the trends for nonaccrual loans and loan modifications appear to be moving in the right direction (i.e., decreasing), in spite of the volatility and risk associated with the fishing industry. This observation was also made by KPMG and the DCED bank examiners.

CFAB one of two sources of credit for limited entry fishing permit program

Not only is CFAB the State's only mechanism to access capital from the Federal Farm Credit System, it is also one of only two sources of capital for Alaska residents to finance the purchase of a limited entry permit. Financing from CFRLF⁸ is the only alternative.

In 1972, Article VIII, Section 15 of the Alaska Constitution was amended to allow a limited entry program to be created by the State for fisheries resource conservation

Exhibit 3				
Schedule of CFAB's Loan Modifications for FY 92 through FY 95				
<u>Modification Type</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
1	\$4,330,689	\$1,254,484	\$3,081,992	\$261,792
2	684,452	495,488	45,585	564,116
3	<u>1,629,053</u>	<u>395,415</u>	<u>300,760</u>	<u>33,704</u>
Total	<u>\$6,644,194</u>	<u>\$2,145,387</u>	<u>\$3,428,337</u>	<u>\$859,612</u>

*The \$3,545,525 excludes nonaccrual Class B preferred stock notes receivable, which reduces the overall amount of the nonaccrual loans. For instance, the \$4,160,381 at 5/31/95 could be reduced by \$900 if nonaccrual Class B notes were excluded. Due to immateriality, the totals for FY 91 through FY 95 were not adjusted to exclude the nonaccrual Class B notes receivable amounts.

⁷The following are the types of modifications that took place in the given years:

1. Modified loans with the payment of interest in full by the borrowers and the principal reamortized within the original loan terms.
2. Modified loans with the payment of interest in full and the reamortization of principal resulted in new and later final payment dates.
3. Modified loans with no payment or partial payment only of the interest due.

⁸CFRLF is administered by the Division of Investments, Department of Commerce and Economic Development.

and development purposes. Then, in 1973 the legislature enacted the Commercial Fisheries Limited Entry Act (AS 16.43).

This Act contained limitations and restrictions on permits that were designed to keep control of the permit in the hands of the holder and to not allow direct or indirect control by third parties, i.e., canneries, financial institutions, or speculative investors. Specifically, AS 16.43.150(g) stated:

An entry permit may not be:

- (1) pledged, mortgaged, or encumbered in any way;*
- (2) transferred with any retained right of repossession or foreclosure;*
- or*
- (3) attached, distrained, or sold on execution of judgment or under any other process or order of any court.*

In 1978, this statutory section was amended to allow the fishers to take advantage of the value of their permits to fund their operations or if they no longer wanted to participate in the fishery. With the passage of Chapter 83, SLA 1978, CFRLF was authorized to make and foreclose on limited entry permit purchase loans to Alaska residents. The aim of the State was to place more limited entry permits in the hands of Alaskans. CFRLF loans would still be consistent with the original intent of the Limited Entry Act as the State would be the holder of the foreclosed permit in the case of default on the loan by the fisher. This would ensure the permit would be sold to a qualified person under the Limited Entry Act requirements, allowing the State to maintain control over its fisheries resource management. In addition, if the sale of the foreclosed permit was financed by CFRLF, the purchaser would have to meet the residency requirements of the loan program.

The next year, the legislature passed an amendment to CFAB's statutes that gave the Bank the same authority to make limited entry permit loans as was given to CFRLF. The sectional analysis of the bill stated in part:

. . . This language parallels the existing law that allows the state division of loans to make limited entry permit loans. . . . The purpose of this section is to expand the bank's power to provide for limited entry permit loans to Alaskans. Since the Bank provides for loans only to resident Alaskans this additional capital source will be an advantage to Alaskans who want to get into the fishery in the future. At least one-third of Alaska's salmon fishermen are still nonresidents This expansion of loan authority to the Commercial Fishing and Agriculture Bank will provide another source of capital to Alaskans who want to move into the salmon fisheries in the state.

Again, the limited entry permit loans made by CFAB were considered consistent with the intent of the Limited Entry Act. As CFAB was a creature of Alaska law, the procedures for foreclosure could be set by statute, thus protecting the State's right to control the transfer of

any foreclosed limited entry permit. Also, any purchaser of a foreclosed limited entry permit that obtained financing for the purchase from CFAB would have to meet its statutory residency requirement.

In 1995 there were 13,364 limited entry fishing permits held by fishers. Of those, 1,363 had liens against them by CFRLF and 383 by CFAB.

As previously mentioned, CFAB's statutes will lapse upon the full repurchase of its Class C stock from the State. This could create problems for Alaskan fishers and the State.

Problems in the elimination of CFAB's statutes

If payments for the repurchase of CFAB's Class C stock are made in accordance with the agreement with the Department of Revenue, CFAB's statutes will lapse in about May 1998. The Bank is to continue operations under its bylaws and the Alaska Cooperative Corporations Act (ACCA). Nonetheless, this elimination of CFAB's enabling statutes will give rise to several significant issues.

First, since CFAB's authority to make limited entry fishing permit loans is contained in AS 44.81, the elimination of that chapter will also delete such authority. Thus CFRLF would be the only capital source for financing the limited entry fishing permits for Alaska resident fishers.

This raises additional questions as to the legal status of CFAB's outstanding liens against permits at the time the statute is eliminated. These questions include concerns regarding any potential seizures of those permits by the federal Internal Revenue Service (IRS). Currently the State and the IRS are in a legal dispute over the applicability of AS 16.43 regarding tax liens and ultimate seizure and sale of permits by the IRS.

Secondly, the current statutory requirement for CFAB to make loans only to Alaska residents would be deleted with the elimination of AS 44.81. Under AS 44.81.210(a)(1) and (20), CFAB is authorized to make loans to Alaska residents and to companies owned by Alaska residents. Alaska Statute 44.81.210(a)(23) and AS 44.81.210(c) provide narrow exceptions for protection-of-collateral loans and shore-based Alaskan processors, respectively.

Thirdly, there are concerns as to whether CFAB could conduct its operations under AS 10.15: "ACCA specifically excludes cooperatives organized for banking purposes."⁹ However, ACCA does not define "banking." One possible definition can be found under the Alaska Banking Act (AS 06.05) which states:

(3) "banking" means performing activities that

⁹See AS 10.15.005.

(A) include, at a minimum, soliciting, receiving, or accepting money or its equivalent on deposit, whether the deposit is made subject to a check or is evidenced by a certificate of deposit, passbook, note, receipt, or other writing; in this subparagraph, "deposit" does not include a deposit made by an agent for a principal; an.'

(B) may also include the negotiation for and discounting of promissory notes or other evidences of indebtedness, selling and buying money or its equivalent, lending money on personal or real property or other security, or performing other similar financial operations. [Emphasis added.]

Although CFAB meets the criteria of section (B), it does not accept deposits, thus it may not be a "bank" under this definition. Regardless, the Alaska Banking Act is not controlling over the Alaska Cooperative Corporations Act. Thus, it is uncertain whether CFAB would qualify under ACCA.

In 1981 AS 44.81.010(a) was amended to make

... it clear that CFAB is not engaged in "banking" as contemplated by the Alaska Banking Code, as it seems clear that the Legislature intended that CFAB serve a different function than that of the commercial banks in the state. Regulation under the Alaska Banking Code would be inappropriate.¹⁰

This amendment to AS 44.81.010(a) also added the sentence, "[t]he bank is exempt from the provisions of the Alaska Banking Code (AS 06.05) in the exercise of powers granted by this chapter." However, the legislature believed the exclusion of cooperatives organized for banking purposes under ACCA still needed to be addressed. The legislative summary of HB 413 stated the following:

The last paragraph of CFAB's originating legislation states that upon repurchase of the original Class C stock, the legislation lapses and CFAB is to operate totally under the cooperative statutes of the State. However, the first section of the cooperative statute prohibits a cooperative from engaging in banking or insurance. Therefore, once the current legislation ceases, CFAB could be construed as being an illegal operation under the strictest definition of banking.

In order to address this problem with ACCA, the legislature amended AS 44.81.220 with the passage of FCCSHB 413 as follows:

¹⁰A 1981 legislative document concerning House Bill 413, *Summary of a Bill Concerning the Alaska Commercial Fishing and Agriculture Bank and Relating to the Relationship of the Bank with the State.*

Notwithstanding the provisions AS 10.15.005,¹¹ upon the repurchase of all the nonvoting, preferred shares initially issued by the bank and purchased by agencies of the state, the provisions of this chapter lapse and the bank may proceed to operate solely as a private cooperative corporation under the terms of its bylaws and the provisions of AS 10.15.010 - 10.15.600 [ACCA provisions].

The concern regarding the elimination of AS 44.81 upon repurchase of CFAB's Class C stock is that these exemptions for CFAB from the Alaska Banking Code and ACCA will be deleted. Of course, the problem can be addressed by amending AS 44.81, as proposed in HB 284, by repealing AS 44.81.220. This would retain AS 44.81 upon repurchase of the CFAB's Class C stock from the State and not require CFAB to operate under ACCA. Another possible alternative would be for the legislature to allow AS 44.81 to lapse but amend the Alaska Banking Act to specifically exclude CFAB and to amend AS 10.15 to specifically include CFAB as a cooperative to be governed by ACCA. If this alternative is pursued by the legislature, any legal ramifications for CFAB should be considered in constructing the specific legislation due to the fact that it was originally incorporated under AS 44.81.

Finally, with the elimination of AS 44.81, CFAB would no longer be required to serve a specific public purpose that the legislature found appropriate to enhance the development of the aquatic and agriculture industries of the State.

In 1981, through FCCSHB 413, the legislature made it clear that CFAB was established to serve a public purpose by amending AS 44.81.010(a) to state that "[t]he exercise by the bank of the powers conferred by this chapter is considered to be for a public purpose." The summary of HB 413¹² included the following:

The Bill now before the Legislature as HB 413 is designed to make clear what many believe to be the intent of the original drafters of the legislation which created the Alaska Commercial Fishing and Agriculture Bank ("CFAB") i.e., that CFAB was intended to exist as a private, cooperative corporation while filling a crucial need of the State in making capital available to commercial fishermen and farmers, thereby assisting with the development of fishing and agriculture in the state.

In an effort to retain this public service charge, HB 284 was introduced last session to amend CFAB's statutes to have the State retain for perpetuity a \$1 million investment in its Class C stock. However, based upon a request by CFAB's management and legal counsel the \$1 million investment has been deleted and replaced with a more direct conveyance of public purpose. The proposed change to AS 44.81.010(a) reads as follows:

¹¹Alaska Statute 10.15.005 states that "[A] cooperative may be organized under this chapter for any lawful purpose, except for the purpose of banking or insurance or the furnishing of electric or telephone services."

¹²See previous footnote 10.

In the exercise of its powers under AS 44.81.215(7) the bank is acting under the express authority and reservations of the state as the issuer of limited entry permits under AS 16.43.

The referenced section, AS 44.81.215(7), allows the Bank to ". . . accept the pledge of a limited entry permit as security for a loan made under this chapter . . ."

As discussed earlier, CFAB was patterned after components of the Federal Farm Credit System, which were initially financed by the federal government. This initial financing was subsequently repaid and the components became fully owned and financed by their members/borrowers. However, with that repayment the Federal Farm Credit Act did not lapse; instead, it has remained to provide some congressional control over the public purpose of that system. This is similar to what is contemplated with CFAB in HB 284.

Retention of AS 44.81 may result in monetary benefits to the State

Retention of AS 44.81 would ensure CFAB would remain a source of capital for Alaska resident fishers, a financing mechanism for the purchase of limited entry permits, and an organization whose charge is to serve a public purpose in the development of the aquatic and agriculture industries of the State. In addition, we believe the Bank could be utilized to take over all or part of the functions of CFRLF through optimum use of its access to capital from the Federal Farm Credit System. See Recommendation No. 1 in the Findings and Recommendations section.

Appropriate changes proposed for CFAB statutes

One of the objectives of the audit was to identify the new proposed general/lending powers included in HB 284 and to determine whether those type of activities are already available through other State or private organizations. Exhibit 4 identifies the proposed additional powers. As discussed below, we do not consider these new powers to constitute new or additional competition.

Exhibit 4

HB 284 Proposed Additions to CFAB's General/Lending Authority

AS 44.81.210 General Powers of the Bank

The bank may . . .

(6) engage in programs to support the efforts of resident fishers or farmers in order to enhance the further development, efficiency, stability, or profitability of commercial fishing or agriculture in the State. . . .

(14) establish wholly-owned or majority-owned subsidiary corporations or limited liability companies to:

- acquire, hold, operate, maintain, or liquidate property received by the bank in a foreclosure action or other loan collection process, or*
- provide services to resident fishers or farmers, or other persons, if the services are consistent with the corporate purposes and powers expressed in this chapter.*

(15) acquire equity or other ownership interest in a domestic corporation or limited liability company if the purpose of the acquisition is to enhance the further development, efficiency, stability, or profitability of commercial fishing or agriculture in the State.

AS 44.81.215 Lending Powers of the Bank

The bank may . . .

(8) make loans in participation with other lenders as provided in (1), (2), or (4) of this section, whether or not an obligor is a member of the bank.

(9) purchase or acquire participations in loans from other lenders if the participations conform to the provisions of (1), (2), or (4) of this section, whether or not an obligor is a member of the bank.

AS 44.81.236 Limitations on the Pledge of Permits

A loan may not be secured by the pledge of a limited entry permit unless the proceeds of the loan are used for . . .

(2) the purchase or lease of quota shares, individual fishing quotas, or another license, permit, or other grant of commercial fisheries harvesting entitlement that is issued and regulated under state or federal law. . . .

(5) the payment of obligations incurred in the support of a borrower and the persons who are dependent upon that borrower if the majority of the borrower's earned income is derived through commercial fishing under the borrower's permit.

(6) the enhancement of the productivity of diversification of the commercial fishing activities of a borrower, including education and technical training.

(7) the payment of taxes or other obligations whose status places the permit of a borrower in jeopardy of attachment, distraint, or sale on execution of judgment or under a process or order of a court.

(8) the purchase of the bank's stock or other equity instruments and loan costs.

CFAB is a potential participant in AIDEA or ASTF projects, not a competitor

Neither the management of the Alaska Industrial Development Export Authority (AIDEA) nor the Alaska Science and Technology Foundation (ASTF) believe there is a duplication of services between the statutory authority of their organizations and CFAB. Both organizations' management view CFAB as a potential participant in their projects relating to the development of the agriculture and commercial fishing industries in the State.

With respect to the additional general powers proposed under AS 44.81.210(6), both AIDEA and ASTF have similar authority to engage in programs that support fishers and farmers in their efforts to enhance the commercial fishing and agriculture industries in the State. However, AIDEA's authority is restricted to "participation" with government or private

industry in programs for technical assistance, loans, technology, transfer, or other programs related to the exportation of Alaska goods, services, or raw materials, while ASTF administers a grant program (rather than a loan program) for research projects that may be in the fisheries or agriculture industries. ASTF cannot not fund a project beyond the research stage; that is, it cannot fund operations or the development of markets.

The addition of AS 44.81.210(14) conveys authority similar to AS 44.88.080(14) that gives AIDEA the power to acquire, manage, and operate projects it considers necessary or appropriate to serve a public purpose. This would include projects that AIDEA acquires through foreclosure or other loan collection processes. CFAB's proposed statutory power would allow it to establish a wholly-owned or majority-owned subsidiary corporation or limited liability company to own and/or operate such acquired property. Unlike AIDEA, CFAB has member/owner interests to protect as well as the interests of CoBank as a capital lender. The use of subsidiary corporate or limited liability structures may provide some protection of these interests in CFAB's assets.

Neither AIDEA nor ASTF have the power to establish service corporations as proposed under AS 44.81.210(14). Nevertheless, revenue from a service corporation would provide some diversification of CFAB's revenue sources, which is desirable due to its lending activity being primarily concentrated in a single-resource based industry. The statutory change requires that the services provided be consistent with CFAB's statutory purposes and powers expressed in AS 44.81.

Alaska Statute 44.81.210(15) would provide CFAB with the power to acquire equity or other ownership interest in a domestic corporation or limited liability company. AIDEA has made a similar investment in a limited partnership referred to as the Polaris Fund. The purpose of the fund is to provide equity capital to young companies. The companies sought by the fund for investment are those with the potential to achieve profitable sales of \$5 to \$50 million within three to five years, in a distinctive product line. AIDEA's power to invest in the limited partnership is derived from its authority to invest the amounts held in its revolving fund.¹³ The goal of both the proposed CFAB statutory change and AIDEA's investment in the Polaris Fund is to provide a source of venture capital to Alaskan enterprises. CFAB's authority would be limited to enterprises in the commercial fishing or agriculture industries in the State and limited to significantly lower dollar amounts.

There are in place certain controls over the type of activities that would result from the additional general powers proposed in HB 284. CFAB would have to obtain written approval

¹³Alaska Statutes 44.88.060 states ". . . the authority has the powers and responsibilities established in AS 37.10.071 [Investment Powers and Duties] with respect to the investment of amounts held in the revolving fund." According to an attorney general memorandum dated July 26, 1989, the discretion to concentrate or diversify investments under AS 37.10.071(b)(3) is ". . . the factor that makes the joint venture investment project feasible under existing law."

from CoBank¹⁴ to support or to acquire equity or other ownership interest in a domestic corporation or limited liability company and to engage in any new programs or activities. In addition, the agreement with CoBank would effectively limit the amount of capital available to invest¹⁵ in such programs or entities. In addition, on an annual basis CoBank representatives perform a quality review of all or part of CFAB's loan portfolio, much like that performed by the DCED bank examiners. These controls would assist in ensuring that CFAB does not perform activities that may jeopardize its financial stability.

Proposed loan participation authority is standard industry practice

Under AS 44.88.155(c), AIDEA has the authority to purchase loans or purchase participations in loans for projects. The Farm Credit Act allows banks for cooperatives (BCs) to either purchase or acquire loan participations from other lenders, or make loans in participation with other lenders. These loans must be to entities engaged in similar activity as the BC's members but the loan obligors need not be members of the BC. The principle behind participations in loans with other entities is one of managing the risk of the transaction. This is a common practice in the financing industry.

The addition of sections (8) and (9) to AS 44.81.215 is consistent with AIDEA's statutes and the changes to the Farm Credit Act. It is somewhat more restrictive than the Farm Credit Act in that the loans associated with the participations must conform to the lending powers of CFAB's statutes.

Limitations on the Pledge of Permits

In accordance with AS 16.43.150(g), only CFAB and CFRLF may use limited entry permits as security for loans to commercial fishers. No other entities may make these loans.

The proposed additions to AS 44.81.236 relate to the use of the proceeds from a loan secured by a limited entry permit. The statutes governing CFRLF were recently amended to allow loan proceeds to be used for the purchase of quota shares for halibut and sablefish fisheries¹⁶

¹⁴Per the National Bank for Cooperatives Line of Credit Agreement, dated April, 19, 1993, Section 15, "[u]nless otherwise agreed to in writing by CoBank, while this agreement is in effect, whether or not any indebtedness is outstanding hereunder the Borrower [CFAB] will not: . . . (C) . . . acquire all or substantially all of the assets of any person or entity, or form or create any new subsidiary or affiliate, or commence operations under any other name, organization, or entity, including any joint venture. . . . (G) . . . Engage in any business activities or operations substantially different from or unrelated to the Borrower's [CFAB's] present business activities or operations."

¹⁵Per the National Bank for Cooperatives Line of Credit Agreement, Section 13, "[u]nless otherwise agreed to in writing by CoBank, while this agreement is in effect, whether or not any indebtedness is outstanding hereunder, the Borrower [CFAB] agrees to: . . . (I) . . . Maintain at all times a ratio of total assets to total equity . . . of not greater than 3.50 to 1.00. . . . (J) . . . Maintain at all times an excess of total assets over total liabilities . . . of not less than \$20,000,000."

¹⁶The federal government implemented a rights-based fisheries' management program for the halibut and sablefish fisheries. The 1995 fishing season was the first season in which the program was operational. The program is administered by the National Marine Fisheries Services.

and to satisfy past due federal tax obligations that may result in the execution upon and involuntary transfer of the individual commercial fisher's entry permits. Only one such CFRLF loan may be obtained during the individual's lifetime and is limited to \$30,000.

We have concluded that duplication of lending services, including the additional authority provided in AS 44.81.236(2) and (7) above, exists between CFAB and the CFRLF. See Recommendation No. 1 in the Findings and Recommendations section.

Proposed changes do not alter CFAB's current competition with private financial institutions

The proposed changes to CFAB's lending powers do not constitute new or additional competition with the private financial institutions within the State. The factors in our determination are as follows:

- The legislature commissioned a study in the Fall of 1977 to study the problems and alternative solutions of financing the commercial fisheries industry in the State. The report entitled *Financing Alaska Commercial-Fisheries Businesses: Problems and Alternative Solutions*, dated October 14, 1977, confirmed that there was a need for improved access by the industry to sources of credit. It identified a number of options to address the need. One was to form a private cooperative development bank which would obtain its initial capitalization from the State and would leverage that capital base with funds provided through the Federal Farm Credit System. This would allow the State access to a source of capital generally available to the agriculture and commercial fishing industries in other states. This recommended option resulted in the legislature establishing CFAB.

CFAB was a device to access the capital provided through the Federal Farm Credit System and that capital source is available to farmers, ranchers, and fishers in other states through cooperative banks or production credit associations. These cooperative banks or production credit associations do not appear to be considered undue competition with the private lending institutions in those states.

- In enacting the limited entry system, the legislature recognized that, for the purpose of conservation, the State needed to retain control of its fishery resources. In view of this, the legislative intent of the limited entry permit program was that an entry permit would not be the property of its holder but rather a use privilege which can be modified or revoked by the legislature without compensation.

The legislature further recognized that the absence of a property right in a limited entry permit would not allow the holder the ability to obtain financing for its purchase or to use it as collateral to obtain financing for his/her commercial fishing operations. In order to provide a source of capital to the fishers, the legislature amended the Alaska Commercial Fisheries Entry Commission in 1978 (Ch. 83, SLA 1978) to allow the Commercial Fishing Revolving Loan Fund to take limited entry permits as

security for its loans to fishers. Then in 1981(Ch. 51, SLA 1981), similar legislation was passed which provided for CFAB to take limited entry permits as security for loans.

- Therefore, the proposed additions to AS 44.81.236 that relate to the use of proceeds from loans secured with limited entry permits do not constitute any new or additional competition with the private financial institutions. Private institutions can only make loans to commercial fishers or processors that are secured by assets other than limited entry permits.

CFAB was established because there was a need for improved access by the Alaska commercial fishing industry to sources of credit. Through the creation of CFAB the State had a mechanism to access the low cost funds of the Federal Farm Credit System. The proposed changes to HB 284 do not create any additional competition beyond that of the original intent of AS 44.81.

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FINDINGS AND RECOMMENDATIONS

Recommendation No. 1

The management of CFAB and the Division of Investments, in conjunction with the Cooperative Bank of Spokane, should perform an analysis to determine whether CFAB should assume the Alaska Commercial Fishing Revolving Loan Fund functions and/or purchase, in whole or part, that fund's loan portfolio.

As discussed in the Report Conclusions section, retention of the Commercial Fishing and Agriculture Bank's (CFAB's or Bank's) enabling statutes, AS 44.81, would ensure CFAB would remain a source of capital for Alaska resident fishers, a financing mechanism for the purchase of limited entry permits, and an organization whose charge is to serve a public purpose in the development of the aquatic and agriculture industries of the State. In addition, we believe the Bank could be utilized to take over all or part of the functions of the Commercial Fishing Revolving Loan Fund (CFRLF) through optimum use of its access to capital from the Federal Farm Credit System. This would decrease the demand on CFRLF and allow excess funds to be deposited into the General Fund.

CFRLF makes loans under AS 16.10.310(a)(1) sections (A), (B), and (C) as follows:

- Section A Loans. These loans are to individual resident commercial fishers for the purpose of purchasing a limited entry permit, upgrading of existing vessels and gear, or satisfying past due federal tax obligations that may result in the execution upon and involuntary transfer of the fisher's limited entry permits.

To qualify, the applicant must have held a limited entry permit or commercial fishing or crew member license for the year preceding the application and two other years out of the last five years. He/she must have fished in Alaskan waters during those qualifying years. The applicant does not have to demonstrate that he/she cannot obtain financing from a private lending institution or CFAB. The lending limit is \$300,000 less any loan balances outstanding with CFRLF, excluding Section C loans. If an applicant receives a loan under this section, he/she does not qualify to borrow under Section B. In addition, tax obligations are limited to \$30,000 and are a one time only loan.

- Section B Loans. These loans are to individual resident commercial fishers for purposes similar to Section A loans. However, to qualify, the applicant must not have occupational opportunities available other than commercial fishing due to either a lack of training or a lack of employment opportunities in the area of residence or must be economically dependent on commercial fishing for a livelihood and for whom

commercial fishing has been a traditional way of life in Alaska. There is a regulatory requirement¹⁷ that the fisher must be determined not to be eligible for an alternative source of financing. The lending limit is \$100,000 less any other Section B outstanding loan balances with CFRLF. The lending limit for tax obligation loans under this section is the same as for Section A loans.

- **Section C Loans.** These loans are for the purpose of purchasing quota shares for fisheries in or off the State by individual resident commercial fishers who for any two of the past five years possessed a crewmember or commercial fishing license or permit and who actively participated in the fisheries for which the license or permit was issued. In addition, the fisher must qualify as a transferee for quota shares under the applicable law. As with the Section B loans, the fisher must be determined not to be eligible for an alternative source of financing, which for these loans is required by statute¹⁸ in addition to the regulatory requirement.

In addition to the above loans, in FY 95 CFRLF implemented a refinance program for vessel or gear loans made by other lenders (including CFAB). The fishers must meet the eligibility requirements of Section A, B, or C loans. The lending limit is \$300,000 less any other outstanding loan balances with CFRLF.

According to legislative committee minutes, the refinance program was necessary to allow CFRLF borrowers to take advantage of the new lower interest rate of 8% in effect at the time of the discussions. In addition, the refinance program allows the fishers to combine debt service on permit loans held by CFRLF and vessel loans held by private lending institutions. This restructuring provides a more reasonable repayment schedule and in some cases a lower overall interest rate, as the private lending institution vessel loan interest was higher than CFRLF's interest rate. Refer to Appendix A for the interest rates charged by CFRLF between FY 91 and November 1995.

There appears to be duplicative lending services provided by CFRLF and CFAB for the Section A loans. Both lending organizations can make loans to creditworthy individual fishers for the purpose of purchasing a limited entry permit. As of November 22, 1995, CFRLF had outstanding Section A loans secured with limited entry permits totaling \$40.8 million, while as of October 31, 1995, CFAB held \$18.7 million in loans secured with limited entry permits. The \$40.8 million represented approximately 57% of CFRLF's total outstanding loan portfolio.

Prior to FY 95, CFRLF was authorized to make Section A loans only for the purchase of limited entry permits. In the 1994 legislative session, a bill was adopted authorizing Section A loans for the purposes of upgrading existing vessels and gear and to satisfy past due federal tax obligations. These loans can be secured by limited entry permits, vessels, gear, other assets or any combination thereof. CFAB was already making loans to upgrade vessels and gear that could be secured by any of the aforementioned assets. The current version of HB 284 would

¹⁷See 3 AAC 80.055(b).

¹⁸See AS 16.10.310(a)(1)(C)(iv).

give CFAB the authority to make loans for past due tax obligations secured by limited entry permits.

In FY 95, CFRLF's new authority for Section A loans resulted in about \$269,000 in new loan originations. The total loan originations for the fiscal year were \$18.7 million with \$6.4 million or (34%) of that being Section A loans. CFRLF originated \$4.9 million in refinancing loans from other lenders during FY 95. Of that amount, approximately \$1.7 million were loans held previously by CFAB.

As noted previously, CFAB's loan portfolio is shrinking and if that trend continues the Bank will be at a break even point in approximately two years. The state bank examiners reported that "[c]ompetition for quality loans with other financial institutions and the State of Alaska, Division of Investments, continues to remain strong."

We compared CFAB's loan portfolio for seafood harvesters¹⁹ from 1991 through October 1995 with the loan portfolio of CFRLF. See Appendix A for a schedule of that comparison. From FY 91 through FY 95, CFAB's loan portfolio for seafood harvesters declined from \$37 million to \$25.1 million, a 32% decrease. While CFRLF's loan portfolio remained steady at an average of \$66 million between FY 91 and FY 94, its FY 95 loan portfolio increased by approximately \$7 million over that average.

We are uncertain why CFRLF has continued to hold a larger market share of loans than CFAB. It does not appear to be due to interest rates. In fact, as shown in Appendix A, the interest rates for CFRLF limited entry permit loans have generally been greater than on similar CFAB loans. In four of the past six years, CFRLF interest rates were 1% higher, while in the remaining two years CFAB rates were 1.5% higher. Further, CFAB's rates may be reduced for borrowers/owners who are current on their loan payments through patronage refunds. As discussed in the Organization and Function section, the FY 95 patronage refund effectively reduced the average interest rate paid by 1.1%. CFAB declared and distributed patronage refunds in four of the five last fiscal years.

The market share differential could be due to a perceived difference in credit policies. Delinquency rates have been comparable (within about 2%) for FY 91 through FY 93. Then, for FY 94 and FY 95 CFAB's delinquency rate has been about 5% higher than CFRLF's rate. Further analysis is difficult without reviewing CFRLF's loans, as one reason for a lower delinquency rate could be the practice of modifying loans without collecting the interest due. Thus, through a mere paper transaction a loan can be removed from the delinquency status. CFAB does modify some loans without collecting the interest. The extent of that practice for FY 92 through FY 95 can be seen in Exhibit 3 in the Report Conclusions section of this report. CFRLF does not track the dollar amount of this type of loan modification.

¹⁹CFAB makes loans to commercial fishing processors and agriculture harvesters, processors, suppliers, and marketers, including those in the timber industry. CFRLF only makes loans to individual seafood harvesters.

These and other issues must be reviewed and analyzed by management of CFAB and the Division of Investments, in conjunction with the Cooperative Bank of Spokane (CoBank) representatives. Among the options to be considered, we recommend inclusion of the following:

A. Delete CFRLF's authority to make new Section A loans

The legislature could delete CFRLF's authority to make Section A loans from AS 16.10. The existing loan portfolio of Section A loans would continue to be serviced by CFRLF. CFAB's annual loan originations potentially could increase by approximately \$7 million. As estimated by CFAB, this amount of increased loan volume would not significantly increase its operating expenses as shown below.

Exhibit 5					
CFAB's Estimates of Effect of Increased Loan Volume²⁰					
Number of Loans	100	200	300	400	500
New Loan Volume	\$10,000,000	\$20,000,000	\$30,000,000	\$40,000,000	\$50,000,000
New Borrowings by CFAB	\$ 9,500,000	\$19,000,000	\$28,500,000	\$38,000,000	\$47,500,000
New Operating Expenses	\$3,750	\$42,500	\$111,250	\$195,000	\$243,750
New Net Proceeds	\$165,000	\$295,000	\$395,000	\$480,000	\$600,000
New Personnel	None	1 support	1 loan officer and 1 support	2 loan officers and 1 support	2 loan officers and 2 support

As CFRLF's existing portfolio of Section A loans pays down, any funds in excess of the lower loan demand and the annual statutory transfer²¹ for the needs of the Fisheries Enhancement Revolving Loan Fund could be transferred to the General Fund of the State through legislative action.

B. Delete CFRLF's Section A loan authority and sell these loans to CFAB

This alternative would be the same as alternative No. 1, except CFAB would purchase the existing Section A loan portfolio from CFRLF using borrowed funds from CoBank. A due diligence review of the CFRLF loans would have to be conducted by CFAB and CoBank representatives to determine the quality of the loan portfolio. Those loans meeting CFAB's credit policies and approved by CoBank could be purchased at a negotiated price. As of November 22, 1995, CFRLF's Section A loan portfolio totaled \$44.2 million.

²⁰This schedule was prepared by CFAB staff and presented by CFAB president, Ed Crane, at the board of directors' December 7, 1995, meeting. We did not review any of the underlying assumptions for the amounts presented, nor did we perform any audit procedures in regard to the calculations of those amounts.

²¹Alaska Statute 16.10.340(c) states that if the commissioner determines that CFRLF contains money that is excess to that needed to carry out its purpose, then the commissioner may use the excess money to carry out the purpose of the Fisheries Enhancement Revolving Loan Fund.

As stated in the Background Information section, the Line of Credit Agreement that CFAB has with CoBank requires that CFAB maintain an equity balance (total assets over total liabilities) of not less than \$20,000,000 with a leverage ratio (total assets to total equity) of no greater than 3.5 : 1. Given CFAB's total capital balance of \$26.6 million and that CFAB had an outstanding payable balance to CoBank of \$4.5 million as of May 31, 1995, CFAB could have borrowed approximately another \$57 million from CoBank.

This alternative would provide the General Fund of the State with a lump-sum payment for the Section A loan portfolio. However, a sufficient amount would have to be retained in CFRLF to ensure that the fund could meet its annual loan demand for new Sections B and C loans.

C. Abolish CFRLF and sell all Section A, B, and C loans to CFAB

Under this alternative, the legislature would repeal the Alaska Commercial Fishing Loan Act (AS 16.10). CFAB would receive the authority to make all the loans currently made by CFRLF. A due diligence review of the CFRLF loans would have to be conducted by CFAB and CoBank representatives to determine the quality of the total loan portfolio held by CFRLF. The loans made under Section B and C are considered higher risk as they are made to fishers who do not qualify under normal lending credit policies. For the existing and new loans made by CFAB under these sections, the State may have to agree to continue a share in the risks of these loans. Both the terms of the purchase agreement and the value of the purchase would have to be negotiated.

As of November 22, 1995, CFRLF's total loan portfolio balance was \$71.4 million. Depending on the terms of the purchase, the State might need to use a portion of the proceeds to purchase additional Class C stock in CFAB in order to comply with CoBank's required leverage ratio. A financial analysis would need to be prepared to determine the benefits to the State of increasing CFAB's equity in order to leverage more CoBank funds.

The vice president of CoBank stated that the alternatives merited consideration and CoBank would assist in reviewing them. CFAB and CFRLF have not yet taken a position regarding these alternatives.

In an early version of the bill adopted in 1978 to establish CFAB, there was a clause to repeal the Commercial Fishing Loan Act upon the creation of CFAB. However, this verbiage was deleted from the bill that was ultimately adopted by the legislature. Perhaps the deletion was due to the uncertainty of the success of CFAB as a viable lending institution for the commercial fishing and agriculture industries of the State. CFAB has proven to be a successful lending organization and we believe it is time to reappraise the need for both CFRLF and CFAB.

APPENDIX A

Commercial Fishing and Agriculture Bank

Comparison of CFAB and CFRLF Loan Activity for Seafood Harvesters (millions)

		1991		1992		1993		1994		1995		10/31/95	11/22/95	
		CFAB	CFRLF	CFAB	CFRLF	CFAB	CFRLF	CFAB	CFRLF	CFAB	CFRLF	CFAB	CFRLF	
Loan Balances		\$37.0	\$67.0	\$35.4	\$67.0	\$33.3	\$65.5	\$29.1	\$64.9	\$25.1	\$73.4	\$23.5	\$71.4	
CFRLF Section A Loan Balances		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$44.2	N/A	\$40.8	
Delinquent		4.3%	2.8%	12.7%	14.9%	8.7%	6.4%	16.2%	11.1%	10.4%	5.9%	12.8%	3.9%	
Loan Originations		\$15.0	\$13.8	\$4.0	\$6.7	\$4.2	\$10.2	\$1.8	\$7.3	\$3.6	\$18.7	N/A	N/A	
Section A Loan Originations		N/A	\$10.5	N/A	\$5.8	N/A	\$7.7	N/A	\$4.5	N/A	\$6.4	N/A	N/A	
Interest/Fee Income Note		\$5.1	\$7.3	\$3.9	\$5.8	\$3.7	\$8.3	\$3.1	\$5.5	\$2.9	\$6.7	N/A	N/A	
Interest Rate Range		Low	10.50%	10.50%	10.00%	10.50%	9.50%	8.00%	9.50%	8.00%	9.50%	10.50%	9.50%	10.50%
		High	12.00%	10.50%	11.50%	10.50%	11.00%	8.00%	11.00%	8.00%	11.00%	10.50%	11.00%	10.50%
Interest Rate for Limited Entry Permit Loans		9.50%	10.50%	9.50%	10.50%	9.50%	8.00%	9.50%	8.00%	9.50%	10.50%	9.50%	10.50%	

Notes:

- Only loans to seafood harvesters are included in this comparison schedule. As CFRLF only makes loans to seafood harvesters, CFAB's loans to other categories of borrowers have been excluded for comparison purposes.
- CFAB amounts are gross loan receivables as of May 31 of each year and as of October 31, 1995. CFRLF amounts are presented net of estimated uncollectable amounts as of June 30 of each year and as of November 22, 1995.
- CFAB's delinquency rate represents loans 90 days or more past due, while CFRLF uses a 60 day or more past due standard.
- CFAB's interest rate is based on the blended interest rates of its borrowings from CoBank plus 1.5% to 3% depending on the type of collateral obtained. Per AS 16.10.320(a)(2), CFRLF loans "may not bear interest exceeding 10.5 percent." From January 1, 1990 to November 28, 1992, the maximum statutory interest rate was charge¹. Subsequently, based on a departmental policy change, the rate of interest was set at 2 percent over the prime rate, with a maximum of 10.5 percent.

N/A - Not applicable or not available.

Sources:

- CFAB's annual reports, internal documents, and accounting records.
- State of Alaska's comprehensive annual financial reports.
- Department of Commerce and Economic Development, Division of Investments' reports, internal documents, and accounting records.



2550 Denali Street, Suite 1201
Anchorage, Alaska 99503-2737
(907) 276-2007 Fax (907) 279-7913

February 16, 1996

Edward E. Crane
President

RECEIVED
FEB 20 1996

LEGISLATIVE AUDIT

Randy S. Welker, Legislative Auditor
Legislative Audit Division
Post Office Box 113300
Juneau, Alaska 99811-3300

Dear Mr. Welker,

Mr. Alan Otness, Chairman of CFAB's Board of Directors, and I have discussed the substance of the preliminary audit report transmitted to him by your letter of February 8. He has directed that I provide this written response. The audit report, presumably in its final version, will be discussed by the entire Board of Directors at its next meeting.

Response to Recommendation

We concur with the logic of the recommendation. Perhaps it is more accurate to say that we agree with the recommendation in total but would urge that it be received and analyzed with extreme care and thoroughness by potential decisionmakers and other third parties.

1. We believe that certain CFRLF activities -- particularly, but not exclusively, Section B loans as referenced in the audit report -- serve a very real and extremely important socio-economic need in Alaska, to an extent which may not be fully appreciated by urban Alaskans. It is perhaps misleading to unqualifiedly refer to those activities as "lending," but their maintenance is critical to the economic fabric of many rural communities. We believe that rational credit standards would not permit CFAB to replicate those CFRLF activities; but we also believe those activities should not be curtailed.

2. While the concept embodied in the recommendation is not totally new and has been the subject of casual discussion over several years, there has not been any analysis of the factors which might be legally relevant to the transfer (on any basis) of loan assets between two non-traditional lenders such as CFRLF and CFAB. The world of commercial law for lenders and lienors is more complex and peril-ridden than a casual observer might suspect. This is not to presume or to suggest any particular difficulty; rather, it is to warn against any premature assumption that a transfer would be "simple."

Randy S. Welker, Legislative Auditor
February 16, 1996
Page 2

3. We have little clear knowledge of the Division of Investment's circumstances and activities. We do have the impression that the CFRLF is a major piece of those activities and that the gross revenue generated by the CFRLF covers a good deal of the Division's "overhead" and, effectively, permits the administration of many other and smaller loan programs and activities. If that impression is correct, any abruptly-imposed or -effected transfer of assets might adversely impact the State's overall interests even though there were "benefit" to CFAB.

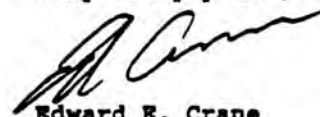
Other Matters

There are two other matters mentioned in the report on which we would like to comment.

First -- As reported, HB 284 as introduced included provision for a "permanent" State of Alaska investment of \$1.0 million. As of this writing, that provision remains in Section 9 of HB 284. We do anticipate that, at the earliest and/or most logical procedural opportunity, HB 284 will be amended to make the changes discussed on pages 17-18 of the report. We mention this only because the report language may inadvertently suggest that HB 284 has already been amended.

We would also like to comment on the several references to CFAB's declining loan volume. That decline is a fact and is indeed of concern to CFAB's Board and management. We would caution, however, that loan volume (i.e., the measurement in dollars only) is but one aspect of CFAB's overall health, and we do not consider the recent trends in total to suggest a critical situation. As a matter of fact, there are strong arguments that -- at least from the sole standpoint of financial effectiveness -- a loan portfolio of \$25 to \$30 million represents CFAB's "optimum" size. Nevertheless, we do want to build CFAB's loan volume and are frustrated that a lender can only obtain new volume by finding/developing new markets or by holding a "sale" (i.e., lowering standards). The aggregate histories of financial institutions demonstrate the folly of the latter approach, while the former is denied to CFAB. It would certainly be nice if your office's report in total, and the discussion of CFAB's development and evolution in particular, could lead today's legislature to recognize that its predecessor iterations have created a "good thing" whose values and services might logically be extended to inadequately-served participants of other Alaska resource-based industries!

Very truly yours,



Edward E. Crane
President

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

DEPARTMENT OF COMMERCE AND ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

P.O. BOX 110800
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500
FAX: (907) 465-5442
TDD: (907) 465-5437

February 23, 1996

Mr. Randy S. Welker, CPA
Legislative Auditor
Division of Legislative Audit
P.O. Box 113300
Juneau, AK 99811-3300

RECEIVED
FEB 23 1996

LEGISLATIVE AUDIT

Dear Mr. Welker:

Re: Alaska Commercial Fishing and Agriculture Bank preliminary audit report dated January 12, 1996.

This letter is in response to the above-referenced preliminary audit report.

Recommendation No. 1

The report recommends that "The management of CFAB and the Division of Investments, in conjunction with the Cooperative Bank of Spokane, should perform an analysis to determine whether CFAB should assume the Alaska Commercial Fishing Revolving Loan Fund functions and/or purchase, in whole or part, that fund's loan portfolio."

We have significant concerns with the concept of transferring the functions and/or selling the assets of the CFRLF to CFAB, but are certainly willing to participate in an analysis as recommended in the report. An independent third party, however, may be able to provide a more objective analysis. It would also be important that this analysis not only consider the financial ramifications, but also look at the long-term effect on several important public policy issues.

Our primary concern with this concept is that it attempts to solve a short-term problem at the expense of an extremely successful program. The CFRLF has been helping Alaskan's participate in the fishing industry since the early 1970's. It has received approximately \$60 million in total appropriations during that time, but has not requested any appropriations since 1985. In fact, over \$58 million has been appropriated from the CFRLF (most of it back to the General Fund) in the last ten years. The Fund is completely revolving and has committed nearly \$294 million in 4,600 loans since its inception. A House Research Agency report from October of 1989 described the CFRLF program as "one of the healthiest loan programs ever

created by the State." Admittedly, we have had to modify a number of these loans over the years and use creative financing techniques to help applicants through difficult times. This, however, is one of the real advantages of maintaining this program in the public sector. The primary public purpose of helping Alaskans compete in the commercial fishing business continues to be the main focus. While we have accomplished this without sacrificing the financial integrity of the Fund, the fact remains that a private lender would not have the same degree of flexibility enjoyed by the CFRLF.

This short term fix is not likely to solve CFAB's declining portfolio problem. Permit purchases in general have been declining over the past six years. Loan applications for the CFRLF this fiscal year are running considerably behind last year and unless there are drastic changes in salmon prices, this trend will probably continue. In addition, the increased risk associated with the fishing industry because of current market conditions makes it more difficult for fishers to obtain loans from private sector lenders. A large number of borrowers receiving loans under the CFRLF would not be able to obtain financing through CFAB. This would adversely impact the public purpose of maintaining a predominately resident fishery. Although some of the loans made under Section A would qualify for CFAB financing, there does not appear to be enough of an overlap to justify eliminating the CFRLF. In addition, these stronger borrowers help balance the overall makeup of the CFRLF portfolio and continue a positive cash flow to the Fund.

CLARIFICATIONS

There are several items in the report that need further clarification. Page 25 contains a description of the loan purposes authorized under Sections A and B of AS 16.10.310(a)(1). Under Section A, loans to upgrade existing vessels and gear may only be made to improve the quality of Alaska seafood products (such as refrigeration). The vast majority of loans made under Section A continue to be for the purchase of limited entry permits. Under Section B, the report indicates that loans may be made for similar purposes. While it is true that loans to purchase limited entry permits, satisfy past due federal tax obligations, or upgrade vessels and gear to improve seafood quality may be made under either Section A or B, loans to purchase new or existing vessels and loans to purchase gear or upgrade vessels that are not specifically for the improvement of seafood quality may only be made under Section B.

On page 26 of the report, there is an explanation of the purpose of the vessel refinance program that was passed by the 1994 legislature (SB 251). The report indicates that the primary purpose of the refinancing section was to allow fishers an opportunity to take advantage of lower interest rates and more favorable loan terms which resulted in lower payments. This certainly was one of the primary considerations, however there was another factor worth mentioning. Following the 1993 season, the Division traveled to communities to work with fishers experiencing financial difficulties because of a disastrous season. While many of the fishers were extremely grateful for the assistance in restructuring loans, several indicated that in spite of our help they were in danger of losing their fishing operation because their private lender was unable or unwilling to restructure their vessel and gear debt. Refinancing is the last lending priority (3 AAC 80.055(a)) and as a result of increased demand in other areas, this portion of the program was closed down in March of 1995 and is projected to remain closed for the balance of FY 96.

On page 27, the report theorizes that the market share differential between the CFRLF and CFAB could be due to "a perceived difference in credit policies." Based on input from applicants and past experience with applications that have been forwarded to CFAB for consideration, the credit policy differences are more than just perceived. This is understandable as private sector lenders are more conservative by nature. Likewise, we utilize extension policies that are more creative than usually found in the private sector. Deferring interest to maturity, extending and reamortizing loans, utilizing oil spill assignments, and refinancing existing loans to a lower interest rate are all tools commonly used to help borrowers through difficult years. Generally, private lenders do not have the same degree of flexibility because of various financial requirements such as those mentioned in the last paragraph on page 6 of the report.

OPTIONS

Pages 28 and 29 deal with three options that are recommended for consideration by the report. They are as follows:

A. Delete CFRLF's authority to make new Section A loans

Many of the loans currently being made under Section A would not be made by CFAB. There are a number of applicants who qualify for both Section A and B and choose to apply under Section A because of the larger loan limit (\$300,000 vs. \$100,000). These are individuals that would not meet private sector lending criteria. In addition, there are other Section A borrowers who simply do not meet CFAB's more conservative lending criteria. Because CFAB and the CFRLF are the only two entities that can secure a loan with a limited entry permit, these individuals would be unable to obtain financing elsewhere. This would frustrate the primary public purpose of the CFRLF, which is to maintain and promote a predominately resident fishery.

Over the past 16 years, both the CFRLF and CFAB programs have provided financing to Alaskan fishers to accomplish this goal. These efforts have been successful, but it has taken both programs (one public, one private) to meet this goal. According to statistics provided by the Commercial Fisheries Entry Commission (CFEC Report Number 95-12N), Alaskan residents received 81.6% of permits issued between 1975 and 1994. By the end of 1994 Alaskans still held 77.6%. Less than half of this decrease was due to transfers. Revocation and migration were two other factors included in the decrease. According to CFEC, the CFRLF has provided financing for 27.6% and CFAB 3.5% of all permits purchased by Alaskans. Eliminating Section A loans from the CFRLF will eliminate a permit financing source for a large number of Alaskan fishers.

B. Delete CFRLF's Section A loan authority and sell these loans to CFAB

The problems associated with eliminating Section A loans from the CFRLF has been discussed under option A above. In addition, this option contemplates selling the existing Section A

portfolio to CFAB. It is unlikely that CFAB and its lender, CoBank, would be willing to purchase this portfolio without a substantial discount. As the report suggests, falling fish prices, declining permit values, and competition from foreign countries has substantially increased the risk of lending in an already volatile industry. As a result, we have had to modify a substantial number of these loans and utilize creative restructuring techniques to help fishers survive difficult seasons. In addition, a number of borrowers under this section would not have qualified financially for CFAB in the first place. Thus while the State may enjoy a one time lump-sum payment to the General Fund from the sale of this portfolio, it is likely that this payment will be a fraction of what could be reaped over the long-term if this portfolio was left intact.

Several other questions come to mind concerning the sale of existing CFRLF loans. Will CFAB's (CoBank's) policies provide the same kind of flexibility and creativeness utilized by the CFRLF to deal with some very difficult times forecasted in the immediate future? Will the borrowers become members of CFAB? Will they be required to purchase class A and class B stock? Where will the funds for those purchases come from? The impact on existing borrowers should also be considered.

C. Abolish CFRLF and sell all Section A, B and C loans to CFAB

The concerns relating to the elimination of Section A loans are mentioned above and many of those comments would also apply to elimination of the other portions of the CFRLF. Section B and C loans are only made to individuals that do not qualify for other financing and, for the most part, these loans would be considered high risk. Section B was actually created to fill a financing void in rural Alaska that was not adequately being met by the private sector. While CFAB was created to help serve a public purpose, it is by definition a private lender with fiduciary responsibilities to its members and its lender (CoBank). It is unlikely that they would be anxious to make loans to many of the fishers currently receiving loans under Sections B and C of the CFRLF. It is also unlikely that they would be interested in purchasing many of the loans contained in this portfolio without a substantial discount.

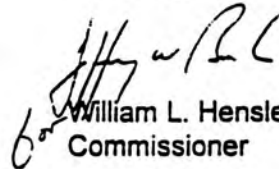
One further comment relating to the last paragraph on page 29 which contemplates the reason for not deleting the CFRLF at the time that CFAB was created. The report theorizes that the legislature was unsure as to whether CFAB would become a viable lending institution for the commercial fishing and agricultural industries in the State. There is an overall policy consideration of keeping limited entry permits in the hands of Alaskans and having two programs available (one public and one private) significantly increases the likelihood of successfully accomplishing this goal. As it turned out, this decision appears to have been a good one, as over 1,800 permits have been purchased with loans through the CFRLF. In addition, over 2,600 vessel and gear loans have been made, as well as 159 tax obligation loans which prevented the IRS from seizing the permits owned by these individuals. Many of these borrowers were located in rural areas of the State. They would be considered high risk and would not have been able to obtain financing through a private source.

SUMMARY

In conclusion, both the CFRLF and CFAB programs serve a valuable purpose. They both help Alaskan's compete in the fishing industry. As a private lender, CFAB has been able to help fishers that meet more traditional lending criteria. The CFRLF has been able to help fishers that fall outside normal private sector lending guidelines. It has taken both programs working toward a mutual goal to help stem the flow of limited entry permits from the hands of Alaskans. In addition, the CFRLF has been especially active in rural Alaska through various outreach programs. We are concerned that if the CFRLF program is severely restricted or eliminated, these public purposes will not be accomplished as effectively.

Thank you for the opportunity to comment on this report.

Sincerely,


William L. Hensley
Commissioner

**Alaska Division of Investments
Commercial Fishing Revolving Loan Fund
Actual Repayments**

Fiscal Year	Repayments
FY92	\$12,456.3
FY93	\$18,693.4
FY94	\$13,337.5
FY95	\$15,095.0
FY96	\$16,391.2
FY97	\$14,311.6
FY98	\$12,833.8
FY99	\$15,574.5
FY00	\$16,716.1
FY01	\$14,106.9
10 Year Average	\$14,951.6
FY02 as of 2/1/02	\$10,710.2

ALASKA DIVISION OF INVESTMENTS
DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT

Commercial Fishing Revolving Loan Fund
Historical Summary

(Dollars in Thousands)

AS 16.10.300 -.370; enacted in 1972

3 AAC 80.010 -.900

PURPOSE	ELIGIBILITY
---------	-------------

Alaska resident for the past two years and:

SECTION A: \$300,000 Maximum

Purchase limited entry permits; upgrade existing vessels to improve the quality of Alaska seafood; or refinance vessel or gear loans made by another lender.

Active in fishery for 3 of the past 5 years, including the year prior to the date of application.

SECTION B: \$100,000 Maximum

Purchase limited entry permits, vessels or gear; repair, restore or upgrade existing vessels or gear, or refinance vessel or gear loans made by another lender.

No other occupational opportunities available in area of residence, or

economically dependent on commercial fishing for a living.

SECTION C: \$300,000 Maximum

Purchase quota shares for the halibut or sablefish fisheries.

Possesses a permit or crew license.

Active participant in fishery for 2 of the 5 years.

Qualifies as a transferee for quota shares.

Not eligible for financing from other commercial lenders.

Terms: Interest rate: Fixed rate at Prime +2%, not to exceed 10.5% (Product quality improvement is Prime -2%).
Maximum loan term: 15 years

Statistics as of June 30, 2001

Total appropriations to RLF:	60,201.0	Last appropriation RLF: FY85	3,710.0
Total appropriations from RLF:	<u>71,920.2</u>		
Net of appropriations:	(11,719.2)		
Total number of loans committed:	5,621	Number of accounts outstanding:	2,580
Total dollars committed:	351,616.5	Principal amount outstanding:	91,696.6



Alaska State Legislature

Please enter into the record my testimony to the House FISHERIES
committee name
committee on HB 456, dated 4-15-02
bill/subject

Dear Members of the Fisheries Committee:

I oppose HB 456. The proposed changes are far-reaching and complex. Given the current economic crisis in the fishing industry, I cannot support changes of this magnitude that may jeopardize the ability of fishermen to stay afloat while revitalization efforts are undertaken. This Bill is almost like someone is trying to put a larger hole in my boat, while it is trying to sink! Thank you.

ROBERT A. MARTINSON
900 IROQUOIS DRIVE
WASILLA, AK 99654
PHONE: 907-373-2627
E-MAIL: danse@mtaonline.net
WEBSITE: <http://www.AWESOMEALASKAPHOTOS.COM>
<<http://www.awesomealaskaphotos.com/>>

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From: Please PRINT the information below. This form must be signed by the sender.

Mr / Ms / Mrs.	First name	M.	Last name	St / Rd
	JOHN	K	RENNER	
Group affiliation (if applicable)				Day / Night / Mobile Number
				424-7563
Mailing address				Zip code
BX 756				
Residence (street) address if different from mailing address				Zip code
mile 6 Copper River Hy				99574
Email address				Date
John.Davis.21@hotmail.com John K Renner				4/15/02

To: Put a ✓ in the appropriate box(es).

Committees

H or S	
☐	Community & Regional Affairs (cra)
☐	Finance (fin)
☐	Health, Ed., & Social Services (hes)
☐	Judiciary (jud)
☐	Labor & Commerce (l&c)
☐	Resources (res)
☐	Rules (ris)
☐	State Affairs (sta)
☐	Transportation (tra)
☒	Other: FISHERIES
☐	Other:

Caucuses

☐	Anchorage (age)
☐	Bush (bus)
☐	Fairbanks/Interior (int)
☐	Matsu (mat)
☐	Majority (mjr)
☐	Minority (mnr)

House members

☐	Berkowitz (ber)
☐	Burce (bun)
☐	Chenault (che)
☐	Cissna (cis)
☐	Coghill (cog)
☐	Crawford (crl)
☐	Croft (cro)
☐	Davies (dav)
☐	Dyson (dys)
☐	Fate (fht)
☐	Foster (fos)
☐	Green (grn)
☐	Guess (gue)
☐	Halero (hac)
☐	Harris (har)
☐	Heyes (hay)
☐	Hudson (hud)
☐	James (jam)
☐	Joule (jou)
☐	Kapsner (kap)

Senate members

☐	Austerman (aus)
☐	Cowdery (coy)
☐	Davis (cab)
☐	Doney (don)
☐	Ellis (eli)
☐	Ellen (eti)
☐	Green (gre)
☐	Halvors (hal)
☐	Hoffman (hof)
☐	Kelly (kep)
☐	Leman (lem)
☐	Lincoln (lin)
☐	Olsen (ois)
☐	Phillips (phi)
☐	Stevens (ste)
☐	Taylor (tay)
☐	Therault (thr)
☐	Torgerson (tor)
☐	Ware (war)
☐	Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	☐ Support	OR enter a general Subject (LIO staff may modify):
HB	456	☒ Oppose	☐ Amend	

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reading
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	afloat	while	revitalization
efforts	are	undertaken		

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From: Please PRINT the information below. This form must be signed by the sender.

(Mr) / Ms / Mrs.	First name	M.I.	Last name	City
	William	F	Webber	
Group affiliation (if applicable)				Daytime telephone number
Mailing address				Zip code
Box 850				99574
Residence (street) address if different from mailing address				Zip code
2000 Power Creek Road				
E-mail address			Signature	Date
Webbers@CTCAK.NET				4/15/02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members			
H or S			Berkowitz (ber)		Kertula (ker)		Austerman (aus)
	Community & Regional Affairs (cra)		Bunde (bun)		Kohring (koh)		Cowdery (coy)
	Finance (fin)		Chenault (che)		Kookesh (kos)		Davis (deb)
	Health, Ed., & Social Services (hes)		Cissna (cis)		Kolt (kot)		Donley (don)
	Judiciary (jud)		Coghill (cog)		Lancaster (lnc)		Ellis (ell)
	Labor & Commerce (l&c)		Crawford (crf)		Masek (mas)		Elton (elt)
	Resources (res)		Croft (cro)		McGuire (mog)		Green (gre)
	Rules (ris)		Davies (dav)		Meyer (mey)		Haltord (hal)
	State Affairs (sta)		Dyson (dys)		Morgan (mor)		Hoffman (hof)
	Transportation (tra)		Fate (fht)		Moses (mos)		Kelly (kep)
✓	Other: FISHERIES		Foster (fos)		Mulder (mul)		Leman (lem)
	Other:		Green (gm)		Murkowski (mur)		Lincoln (lin)
			Guess (gue)		Ogan (oga)		Olson (ols)
			Halcro (hac)		Porter (por)		Phillip (phi)
			Harris (har)		Rokeberg (rok)		Stevens (ste)
			Hayes (hay)		Scalzi (sci)		Taylor (tay)
			Hudson (hud)		Stevens (stv)		Theriault (thr)
			James (jam)		Whitaker (whi)		Torgerson (tor)
			Joule (jou)		Williams (wil)		Ward (war)
			Kapsner (kap)		Wilson (wis)		Wilken (wik)

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HB or SB	Bill number	and check one:	Support	OR enter a general Subject (LIO staff may modify):
HB	456	☒ Oppose	☐ Amend	

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

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From: Please PRINT the information below. This form must be signed by the sender.

Mr./Ms./Mx	First name	Initial	Last name	City/State/Zip
	John	P	Hopkins	
Group affiliation (if applicable)				Cell phone number
				(907) 424-4632
Mailing address				Zip code
PO. Box 343				
Residence (street) address if different from mailing address				Zip code
6 1/2 mile Copper River Highway				99674
Email address			Signature	Date
			John Hopkins	4-14-02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)		Berkowitz (ber)		Austerman (aus)
	Finance (fin)		Bunde (bun)		Cowdery (coy)
	Health, Ed., & Social Services (hes)		Chenault (che)		Davis (davis)
	Judiciary (jud)		Cissna (cis)		Conley (con)
	Labor & Commerce (l&c)		Coghill (cog)		Ellis (ell)
	Resources (res)		Crawford (crf)		Ellis (ell)
	Rules (ris)		Croft (cro)		Green (gre)
	State Affairs (sta)		Davies (dav)		Hall (hal)
	Transportation (tra)		Dyson (dys)		Hoffman (hof)
✓	Other: FISHERIES		Fate (fate)		Kelly (kelly)
	Other:		Foster (fos)		Laman (lam)
			Green (grn)		Lincoln (lin)
			Guess (gue)		Olsen (ols)
			Inzicko (hac)		Phillips (phi)
			Harris (har)		Stevens (ste)
			Hayes (hay)		Taylor (tay)
			Hudson (hud)		Thomson (thr)
			James (jam)		Torgerson (tor)
			Joule (jou)		Ward (war)
			Kapsner (kap)		Wilson (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒	Oppose		(LIO staff may modify):
		☐	Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
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jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

3516

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Mr. / Ms. / Mrs.	First name	M.I.	Last name	Dr. / Sr. / III
	DEAN	A	BUSER	
Group affiliation (if applicable)				Daytime telephone number
CDFU				907 424 5749
Mailing address				Zip code
PO Box 2634 CORDOVA, AK				99574
Residence (street) address if different from mailing address				Zip code
Email address				Date
Signature: Dean A. Buser				

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)		Berkowitz (ber)		Austerman (aus)
	Finance (fin)		Bunde (bun)		Cowdery (coy)
	Health, Ed., & Social Services (hes)		Chenault (che)		Davis (dab)
	Judiciary (jud)		Cissna (cis)		Donley (don)
	Labor & Commerce (l&c)		Cognill (cog)		Ellis (eil)
	Resources (res)		Crawford (cra)		Eaton (eit)
	Rules (ris)		Croft (cro)		Green (gre)
	State Affairs (sta)		Davies (dav)		Hallford (hal)
	Transportation (tra)		Dyson (dys)		Hoffman (hof)
✓	Other: FISHERIES		Fate (fht)		Kelly (kep)
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			Green (gm)		Lincoln (lin)
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			Halero (hac)		Phillip (phi)
			Harris (har)		Stevens (ste)
			Hayes (hay)		Taylor (tay)
			Hudson (hud)		Therault (thr)
			James (jam)		Torgerson (tor)
			Joule (jou)		Ward (war)
			Kapsner (kap)		Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒	Oppose		(LIO staff may modify):
		☐	Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	M.I.	Last name	City / St. / HI
Mr	William	R	Reid	Jr
Group affiliation (if applicable)				Daytime phone number
				707-424-7448
Mailing address				Zip code
Box 1234				99574
Residence (street) address if different from mailing address				Zip code
611 Lake				
Email address		Signature		Date
AKMANOO@hotmail.com		Wm R Reid		4-15-02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)	☐ Barkowitz (ber)	☐ Kertula (ker)	☐ Austerman (aus)	
	Finance (fin)	☐ Bunde (bun)	☐ Kohring (koh)	☐ Cowcary (coy)	
	Health, Ed., & Social Services (hes)	☐ Chenault (che)	☐ Kookesh (kos)	☐ Davis (dab)	
	Judiciary (jud)	☐ Cissna (cis)	☐ Kott (kot)	☐ Donley (don)	
	Labor & Commerce (l&c)	☐ Coghill (cog)	☐ Lancaster (lnc)	☐ Ellis (eli)	
	Resources (res)	☐ Crawford (crl)	☐ Masek (mas)	☐ Eton (eit)	
	Rules (ris)	☐ Croft (cro)	☐ McGuire (mcg)	☐ Green (gre)	
	State Affairs (sta)	☐ Davies (dav)	☐ Meyer (mey)	☐ Halford (hal)	
	Transportation (tra)	☐ Dyson (dys)	☐ Morgan (mor)	☐ Holman (hol)	
✓	Other: FISHERIES	☐ Fate (fht)	☐ Moses (mos)	☐ Kelly (kep)	
	Other:	☐ Foster (fos)	☐ Mulder (mul)	☐ Leman (lem)	
		☐ Green (gm)	☐ Murkowski (mur)	☐ Lincoln (lin)	
		☐ Guess (gue)	☐ Ogan (oga)	☐ Olson (ois)	
		☐ Halcro (hac)	☐ Porter (por)	☐ Phillip (phi)	
		☐ Harris (har)	☐ Rokeberg (rok)	☐ Stevens (ste)	
		☐ Hayes (hay)	☐ Scalzi (scl)	☐ Taylor (tay)	
		☐ Hudson (hud)	☐ Stevens (stv)	☐ Theriault (thr)	
		☐ James (jam)	☐ Whitaker (whi)	☐ Torgerson (tor)	
		☐ Joule (jou)	☐ Williams (wil)	☐ Ward (war)	
		☐ Kapener (kap)	☐ Wilson (wis)	☐ Wilken (wik)	

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒ Oppose	Amend		(LIO staff may modify):

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex.	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	MI	Last name	Zip / City
	John	D	Johnson	
Group affiliation (if applicable)				Daytime telephone number
				(907) 424-7243
Mailing address				Zip code
Box 1179 Cordova AK				99574
Residence (street) address if different from mailing address				Zip code
1023 Whitshed Road				
Email address			Signature	Date
			[Signature]	

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S	Community & Regional Affairs (cra)	☐	Berkowitz (ber)	☐	Austerman (aus)
☐	Finance (fin)	☐	Bunde (bun)	☐	Cowdery (coy)
☐	Health, Ed., & Social Services (hes)	☐	Chenault (che)	☐	Davis (dab)
☐	Judiciary (jud)	☐	Cissna (cis)	☐	Donley (don)
☐	Labor & Commerce (l&c)	☐	Coghill (cog)	☐	Ellis (ell)
☐	Resources (res)	☐	Crawford (crf)	☐	Elton (elt)
☐	Rules (ris)	☐	Croft (cro)	☐	Green (gre)
☐	State Affairs (sta)	☐	Davies (dav)	☐	Halford (hal)
☐	Transportation (tra)	☐	Dyson (dys)	☐	Hoffman (hof)
☒	Other: FISHERIES	☐	Fate (fht)	☐	Kelly (kep)
☐	Other:	☐	Foster (fos)	☐	Leman (lem)
		☐	Green (grn)	☐	Lincoln (lin)
		☐	Guess (gue)	☐	Olson (ols)
		☐	Halcro (hac)	☐	Phillip (phi)
		☐	Harris (har)	☐	Stevens (ste)
		☐	Hayes (hay)	☐	Taylor (tay)
		☐	Hudson (hud)	☐	Therriault (thr)
		☐	James (jam)	☐	Torgerson (tor)
		☐	Joule (jou)	☐	Ward (war)
		☐	Kapsner (kap)	☐	Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒	Oppose		(LIO staff may modify):
		☐	Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far-	reaching
and	complex.	given	the	current
economic	crisis	in	the	fishing
industry,	I	cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	M	Last name	Day phone area / number
	John	L	Platt	424 7648
Group affiliation (if applicable)				Zip
Mailing address				99574
Residence (street) address if different from mailing address				99574
Email address				Date
platt@ctcak.net				4/15/02
Signature				

To: Put a ✓ in the appropriate box(es).

Committees

H or S	
☐	Community & Regional Affairs (cra)
☐	Finance (fin)
☐	Health, Ed., & Social Services (hes)
☐	Judiciary (jud)
☐	Labor & Commerce (l&c)
☐	Resources (res)
☐	Rules (ris)
☐	State Affairs (sta)
☐	Transportation (tra)
☒	Other: FISHERIES
☐	Other:

Caucuses

☐	Anchorage (age)
☐	Bush (bus)
☐	Fairbanks/Interior (int)
☐	Matsu (mat)
☐	Majority (mjr)
☐	Minority (mnr)

House members

☐	Berkowitz (ber)
☐	Bunde (bun)
☐	Chenault (che)
☐	Cissna (cis)
☐	Coghill (cog)
☐	Crawford (crt)
☐	Croft (cro)
☐	Davies (dav)
☐	Dyson (dys)
☐	Fate (fht)
☐	Foster (fos)
☐	Green (gm)
☐	Guess (gue)
☐	Halcro (hac)
☐	Harris (har)
☐	Hayes (hay)
☐	Hudson (hud)
☐	James (jam)
☐	Joule (jou)
☐	Kapsner (kap)

Senate members

☐	Austerman (aus)
☐	Cowdery (cay)
☐	Davis (das)
☐	Donley (don)
☐	Ellis (ell)
☐	Etton (etn)
☐	Green (gre)
☐	Haford (hal)
☐	Hoffman (hof)
☐	Kelly (kep)
☐	Laman (lam)
☐	Lincoln (lin)
☐	Olsen (ois)
☐	Phillips (phi)
☐	Stevens (ste)
☐	Taylor (tay)
☐	Therault (thr)
☐	Torgerson (tor)
☐	Ward (war)
☐	Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	☐ Support	OR enter a general Subject (LIO staff may modify):
HB	456	☒ Oppose	☐ Amend	
		☐ Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	M.I.	Last name	Daytime telephone number
	KENNETH		ADAMS	424-5456
Group affiliation (if applicable)				Zip code
Mailing address				Zip code
BOX 1855 CORDOVA AK				99574
Residence (if not) address if different from mailing address				Zip code
103 FISHERMAN AVE				
Email address		Signature		Date
KADAMS@ETC.AK.NET		Kenneth Adams		4-15-02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S		✓	Berkowitz (ber)	✓	Kertula (ker)
	Community & Regional Affairs (cra)	✓	Bunde (bun)	✓	Kohring (koh)
	Finance (fin)	✓	Chenault (che)	✓	Kookesh (kos)
	Health, Ed., & Social Services (hes)	✓	Cisna (cis)	✓	Kott (kot)
	Judiciary (jud)	✓	Coghill (cog)	✓	Lancaster (lnc)
	Labor & Commerce (l&c)	✓	Crawford (crl)	✓	Masek (mas)
	Resources (res)	✓	Croft (cro)	✓	McGuire (mcg)
	Rules (ris)	✓	Davies (dav)	✓	Meyer (mey)
	State Affairs (sta)	✓	Dyson (dys)	✓	Morgan (mor)
	Transportation (tra)	✓	Fate (fht)	✓	Moses (mos)
✓	Other: FISHERIES	✓	Foster (fos)	✓	Mulder (mul)
	Other:	✓	Green (gm)	✓	Murkowski (mur)
		✓	Guess (gue)	✓	Ogan (oga)
		✓	Halcro (hac)	✓	Porter (por)
		✓	Harris (har)	✓	Rokeberg (rok)
		✓	Hayes (hay)	✓	Scalzi (sci)
		✓	Hudson (hud)	✓	Stevens (stv)
		✓	James (jam)	✓	Whitaker (whi)
		✓	Joule (jou)	✓	Williams (wil)
		✓	Kapner (kap)	✓	Wilson (wls)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	<u>OR</u> enter a general Subject (LIO staff may modify):
HB	456	✓	Oppose	
			Amend	

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far-	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	MI.	Last name	Day phone number
Mrs	R Charlene		Saunders	907-424-7337
Group affiliation (if applicable)				Zip code
				99574
Mailing address				Zip code
PO Box 451 Cordova, AK				995-74
Residence (street) address if different from mailing address				Zip code
Mi 2.5 ~~Power~~ Creek Rd, Cordova, AK				995-74
Email address				Date
rcharlsaunders@hotmail.com R Charlene Saunders				4-15-02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)		Berkowitz (ber)		Austerman (aus)
	Finance (fin)		Burce (bur)		Cowdery (coy)
	Health, Ed., & Social Services (hes)		Chenault (che)		Davis (dab)
	Judiciary (jud)		Cissna (cis)		Doney (don)
	Labor & Commerce (l&c)		Coghill (cog)		Ellis (ell)
	Resources (res)		Crawford (cra)		Ellen (ell)
	Rules (ris)		Croft (cro)		Green (gre)
	State Affairs (sta)		Davis (dav)		Helford (hel)
	Transportation (tra)		Dyson (dys)		Hoffman (hof)
✓	Other: FISHERIES		Fate (fat)		Kelly (kel)
	Other:		Foster (fos)		Laman (lam)
			Green (gm)		Lincoln (lin)
			Guess (gue)		Olsen (ols)
			Haloro (hac)		Phillips (phi)
		✓	Harris (har)		Stevens (ste)
			Hayes (hay)		Taylor (tay)
			Hudson (hud)		Theriot (thr)
			James (jam)		Torgerson (tor)
			Joule (jou)		Ward (war)
			Kapsner (kap)		Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	✓	Oppose		(LIO staff may modify):
			Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	afloat	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

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From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	Mt.	Last name	Daytime telephone number
	Danny		Carpenter	
Group affiliation (if applicable)				Zip code
Area 2 Fishermen				99574
Mailing address				Zip code
P.O. Box 1430 Cordova, Alaska				99574
Residence (street) address if different from mailing address				Date
900 1/2 Cliff Trail				4-15-02
Email address		Signature		

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)		Berkowitz (ber)		Austerman (aus)
	Finance (fin)		Bunde (bun)		Cowdery (coy)
	Health, Ed., & Social Services (hes)		Chenault (che)		Davis (dab)
	Judiciary (jud)		Cissna (cis)		Donley (don)
	Labor & Commerce (l&c)		Coghil (cog)		Ellis (ell)
	Resources (res)		Crawford (cra)		Elton (elt)
	Rules (rs)		Croft (cro)		Green (gre)
	State Affairs (sta)		Davies (dav)		Hallford (hal)
	Transportation (tra)		Dyson (dys)		Hickman (hof)
✓	Other: FISHERIES		Fate (fht)		Kelly (kep)
	Other:		Foster (fos)		Leman (lem)
			Green (grn)		Lincoln (lin)
			Guess (gue)		Olson (ols)
			Halcro (hac)		Phillip (phi)
			Harris (har)		Stevens (ste)
			Hayes (hay)		Taylor (tay)
			Hudson (hud)		Therriault (thr)
			James (jam)		Torgerson (tor)
			Joule (jou)		Ward (war)
			Kapsner (kap)		Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	✓	Oppose		(LIO staff may modify):
			Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

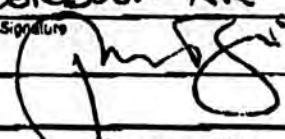
1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street - Cordova, Alaska 99574 Phone: 424-5461 Fax: 424-5462

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From: Please PRINT the information below. This form must be signed by the sender.

Mr. / Ms. / Mrs.	First name	M.I.	Last name	Jr. / Sr. / III
MR	John	U	Bucci	
Group affiliation (if applicable)				Daytime telephone number
FISHERMAN				907 424 5182
Mailing address				Zip code
Box 1312 Cordova AK				99574
Residence (street) address if different from mailing address				Zip code
1005 Chase Ave Cordova AK				99574
Email address				Date
bucci@ctak.net				4/15/02
Signature				
				

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
☐	Community & Regional Affairs (cra)	☐	Berkowitz (ber)	☐	Austerman (aus)
☐	Finance (fin)	☐	Bunde (bun)	☐	Cowdery (coy)
☐	Health, Ed., & Socia' Services (hes)	☐	Chenault (che)	☐	Davis (dab)
☐	Judiciary (jud)	☐	Cissna (cis)	☐	Donley (don)
☐	Labor & Commerce (l&c)	☐	Coghill (cog)	☐	Ellis (eil)
☐	Resources (res)	☐	Crawford (crr)	☐	Elton (eit)
☐	Rules (ris)	☐	Croft (cro)	☐	Green (gre)
☐	State Affairs (sta)	☐	Davies (dav)	☐	Hailford (hal)
☐	Transportation (tra)	☐	Dyson (dys)	☐	Hoffman (hof)
☒	Other: FISHERIES	☐	Fate (fht)	☐	Kelly (kep)
☐	Other:	☐	Foster (fos)	☐	Laman (lem)
		☐	Green (grn)	☐	L'Innocin (lin)
		☐	Guess (gue)	☐	Olsen (ols)
		☐	Halcro (hac)	☐	Phillip (phi)
		☐	Harris (har)	☐	Stevens (ste)
		☐	Hayes (hay)	☐	Taylor (tay)
		☐	Hudson (hud)	☐	Therriault (thr)
		☐	James (jam)	☐	Torgerson (tor)
		☐	Joule (jou)	☐	Ward (war)
		☐	Kapsner (kap)	☐	Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒	Oppose		(LIO staff may modify):
		☐	Amend		

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

I	oppose	HB	456	The
proposed	changes	are	far -	reading
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,	I	cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

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From: Please PRINT the information below. This form must be signed by the sender.

Mr./Ms./Mrs.	First name	MI	Last name	Jr./Sr./III
2	JAMES		KALLANDER	
Group affiliation (if applicable)				Daytime telephone number
Commercial fisherman				907 424 7603
Mailing address				Zip code
PO Box 2272 Cordova AK				99574
Residence (street) address if different from mailing address				Zip code
302 ORCA INLET RD				99574
Email address				Date
J.KALL@CTC AK, Inc				

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S	Community & Regional Affairs (cra)	☐	Berkowitz (ber)	☐	Austerman (aus)
☐	Finance (fin)	☐	Bunde (bun)	☐	Cowdery (coy)
☐	Health, Ed., & Social Services (hes)	☐	Chenault (che)	☐	Davis (dab)
☐	Judiciary (jud)	☐	Cissna (cis)	☐	Donley (don)
☐	Labor & Commerce (l&c)	☐	Coghill (cog)	☐	Ellis (eli)
☐	Resources (res)	☐	Crawford (crl)	☐	Etton (eit)
☐	Rules (ris)	☐	Croft (cro)	☐	Green (gre)
☐	State Affairs (sta)	☐	Davies (dav)	☐	Halford (hal)
☐	Transportation (tra)	☐	Dyson (dys)	☐	Hoffman (hof)
☒	Other: FISHERIES	☐	Fate (fht)	☐	Kaily (kep)
☐	Other:	☐	Foster (fos)	☐	Laman (lem)
		☐	Green (gm)	☐	Lincoln (lin)
		☐	Guess (gue)	☐	Cison (ois)
		☐	Haloro (hac)	☐	Phillip (phi)
		☐	Harris (har)	☐	Stevens (ste)
		☐	Hayes (hay)	☐	Taylor (tay)
		☐	Hudson (hud)	☐	Therriault (thr)
		☐	James (jam)	☐	Torgerson (tor)
		☐	Joule (jou)	☐	Ward (war)
		☐	Kapsner (kap)	☐	Wilken (wik)

Subject: Fill out the boxes below OR enter a Subject.

HB or SB	Bill number	and check one:	Support	OR	enter a general Subject
HB	456	☒ Oppose	☐ Amend		(LIO staff may modify):

Message: Your PRINTED message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The
proposed	changes	are	far -	reaching
and	complex	given	the	current
economic	crisis	in	the	fishing
industry,		cannot	support	changes
of	this	magnitude	that	may
jeopardize	the	ability	of	fishermen
to	stay	a float	while	revitalization
efforts	are	undertaken.		

Public Opinion Message

Cordova Legislative Information Office (LIO)
702 Second Street · Cordova, Alaska 99574 · Phone: 424-5461 Fax: 424-5462

This form must be completely filled out. You may phone, fax, or deliver your POM to any LIO.

From: Please **PRINT** the information below. This form must be signed by the sender.

Mr. Ms. / Mrs	First name	M	Last name	City / State
	Thea		Thomas	
Group affiliation (if applicable)	Copper River Salmon Producers			Daytime phone number
Mailing address	PO Box 1566 Cordova AK			99574
Residence (street) address if different from mailing address	112 S. 2nd St Cordova AK			99574
Email address	Thea@qci.net			Date 4/15/02

To: Put a ✓ in the appropriate box(es).

Committees		House members		Senate members	
H or S					
	Community & Regional Affairs (cra)	Berkowitz (ber)	Kerttula (ker)		Austerman (aus)
	Finance (fin)	Bunce (bun)	Kohring (koh)		Cowdery (coy)
	Health, Ed., & Social Services (hes)	Chenault (che)	Kookash (kos)		Davis (dab)
	Judiciary (jud)	Cisna (cis)	Kott (kot)		Dorsey (don)
	Labor & Commerce (l&c)	Coghill (cog)	Lancaster (lnc)		Ellis (ell)
	Resources (res)	Crawford (crf)	Masak (mas)		Etter (ett)
	Rules (ris)	Croft (cro)	McGuire (mcg)		Green (gre)
	State Affairs (sta)	Davies (dav)	Meyer (may)		Hallford (hal)
	Transportation (tra)	Dyson (dys)	Morgan (mor)		Hoffman (hof)
✓	Other: FISHERIES	Fate (fht)	Moses (mos)		Kelly (kcl)
	Other:	Foster (fos)	Mulder (mul)		Leman (lem)
		Green (grn)	Murkowski (mur)		Lincoln (lin)
		Guess (gue)	Ogan (oga)		Olsen (ois)
		Halcro (hac)	Porter (por)		Phillips (phi)
		Harris (har)	Rokeberg (rok)		Stevens (ste)
		Hayes (hay)	Scalzi (sci)		Taylor (tay)
		Hudson (hud)	Stevens (stv)		Therrell (thr)
		James (jam)	Whitaker (whi)		Torgerson (tor)
		Joule (jou)	Williams (wil)		Ware (war)
		Kapsner (kap)	Wilson (wis)		Wilken (wik)

Subject: Fill out the boxes below **OR** enter a Subject.

HB or SB	Bill number	and check one:	Support	OR enter a general Subject (LIO staff may modify):
HB	456	☒ Oppose		
		☐ Amend		

Message: Your **PRINTED** message cannot exceed 50 words or contain any vulgar language.

1	oppose	HB	456	The	5
proposed	changes	are	far -	reaching	10
and	complex	given	the	current	15
economic	crisis	in	the	fishing	20
industry,	I	cannot	support	changes	25
of	this	magnitude	that	may	30
jeopardize	the	ability	of	fishermen	35
to	stay	afloat	while	revitalization	40
efforts	are	undertaken.			45
					50

Alaska State Legislature

Representative Gary Stevens - Co-Chair
Alaska State Capitol, Room 428
Juneau, Alaska 99801-1182
Phone 907-465-4925
Fax 907-465-3517



Representative Peggy Wilson - Co-Chair
Alaska State Capitol, Room 409
Juneau, Alaska 99801-1182
Phone 907-465-3824
Fax 907-465-3175

House Special Committee on Fisheries

AGENDA

Monday, April 15th, 2002

- **Call Meeting to Order**
- **Roll Call**
- **Bills to be Heard**
HB 456 Commercial Fishing Loan Program
- **Other Business**
- **Adjourn**

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: HB 456
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
Title Commercial Fishing Loan Program BRU Investments (122)
Component Investments
Sponsor Representative Coghill
Requester House Fish Component No. 383

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services	(576.9)	(998.3)	0.0	0.0	0.0	0.0
Travel	(2.3)	(2.3)	0.0	0.0	0.0	0.0
Contractual	(303.7)	(340.2)	0.0	0.0	0.0	0.0
Supplies	(8.9)	(15.3)	0.0	0.0	0.0	0.0
Equipment	(2.7)	(2.1)	0.0	0.0	0.0	0.0
Land & Structures	0.0	0.0	0.0	0.0	0.0	0.0
Grants & Claims	(8.1)	(8.1)	0.0	0.0	0.0	0.0
Miscellaneous	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OPERATING	(902.6)	(1,366.3)	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	10,351.3	(11,821.9)	(12,570.1)	(13,223.7)	(13,717.2)	(14,040.6)
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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						
1036 Commercial Fishing Loan Fund	(902.6)	(1,366.3)				
TOTAL	(902.6)	(1,366.3)	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal: ☒ X

POSITIONS

Full-time	-13	-11				
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Please see analysis continuation on the second page.

Prepared by: Greg Winegar, Director
Division: Investments
Approved by: Deborah B. Sedwick, Commissioner
Agency: Department of Community & Economic Development

Phone 907-465-2510
Date/Time 4/12/02 5:17 PM
Date 4/12/2002

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

BILL NO. HB 456

DCED ANALYSIS CONTINUATION

The fiscal impact to the Commercial Fishing Revolving Loan Fund in FY 03 is based on the assumption that loans secured by Limited Entry Permits (87% of the portfolio) are being sold to the Commercial Fishing and Agriculture Bank (CFAB) and the balance of the portfolio is being sold to CFAB or other private lenders. The Department anticipates very limited interest from the private sector in purchasing this portfolio because the majority of loans do not meet private sector lending criteria. Falling prices, reduced profitability, declining collateral values and significant challenges facing the industry at this time will also reduce interest in purchasing these assets. In addition, the Department would have only one potential purchaser for the vast majority of loans in the portfolio creating a non-competitive sale. As a result, the Department anticipates receiving a heavily discounted one-time payment (sales price) in FY 03 and a substantial cash flow loss to the fund for many years into the future. FY 03 impact is based on an estimated sales price of the portfolio as follows:

TOTAL SALES PRICE: \$9,448.7

Loans secured by limited entry permits: \$6,467.1

Loans secured by assets other than permits: \$2,981.6

The amount of proceeds received from the sale in FY 03 is difficult to forecast. The number of interested bidders and the results of their due diligence work will affect the purchase price received for that portion of the portfolio not secured by limited entry permits. In addition, the purchase price received for loans secured by permits will be affected by CFAB's willingness and/or ability to purchase that portion of the portfolio.

Operating expenditure reductions in FY 03 and FY 04 reflect a significantly reduced on-going program as a result of this legislation. Thirteen positions would be dropped at the beginning of FY 03 because of a reduction in new loan activity. Eleven additional positions would be dropped at the beginning of FY 04 after the liquidation has been completed because of a reduction in accounting and collections related work.

Cordova District Fishermen United

Celebrating 65 Years of Service to Commercial Fishermen in Cordova, Alaska
P.O. Box 939 Cordova, Alaska 99574 / phone (907) 424-3447 / fax (907) 424-3430 /
e-mail cdfu@ptialaska.net

March 22, 2002

House Special Committee on Fisheries
Alaska State Legislature
State Capitol (MS 3101)
Juneau, AK 99801-1182

SENT VIA FACSIMILE TO 907.465.3517

RE: HB 456 - An Act relating to the commercial fishing loan program

Dear Members,

Cordova District Fishermen United, representing the fishing fleets of Area E, would like to express its emphatic opposition to HB 456. This is legislation that would unfairly impact a large number of people who have utilized the existing Commercial Fisheries loan program. It is patently unreasonable to change the rules in the middle of a very expensive game, especially when for many of the folks impacted, the resource base upon which their loans are based has changed through no fault of their own. Good examples of that are the salmon run failures in Bristol Bay and on the AYK, and Prince William Sound herring. It is also inappropriate to provide the Legislature with the ability to "raid" the fund; this fund is being capitalized by the interest paid by the fishermen participating in the program and should remain available to them.

We don't believe that this bill is deserving of debate at this time given the other pressing issue facing our fisheries and the State as a whole.

Sincerely,



Sue Aspelund
Executive Director

Subject: FW: HB 456 hearing

Date: Wed, 10 Apr 2002 12:23:55 -0800

From: "Lacey Berns" <lberns@ptialaska.net>

To: Rick Ellingson <snugcove@alaska.com>, Wallace Fields <wfields@gci.net>, Don Fox <thefoxes@ptialaska.net>, Brook Kourmetis <btshot@hotmail.com>, Pete Danelski <pjdanski@ptialaska.net>, Virginia Adams <vadams@gci.net>, Eva Holm <chicken@gci.net>, Harvey Goodell <hegoodell@hotmail.com>, Trista Abston <littlestar71@hotmail.com>, Virginia Abston <abstonv@ptialaska.net>, Chris Myrick <cmyrick@ptialaska.net>, Suzanne Abraham <s.b.abraham@worldnet.att.net>, Duncan Fields <dfields@ptialaska.net>, Bob and Linda Munsey and Wilcox <chiefpoint@hotmail.com>, Fred.Coyle@ptialaska.net, Leo and Beth Kourmetis <macbeth@ptialaska.net>, Pete.and.Margaret.Hannah@ptialaska.net, Wade and Sherry Ball <olgacreek@gci.net>, rogerbenney <rogerbenney@yahoo.com>, bob <bob@merequipment.com>, "Brad & Kay Underwood" <bradkay@kula.net>, Kevin Fisher <kffisher@att.net>, kraa07 <kraa07@ptialaska.net>, Toby Sullivan <tsullivan@gci.net>, kvrg@ptialaska.net, Senator_Alan_Austerman@legis.state.ak.us, Representative_Gary_Stevens@legis.state.ak.us

CC: usalmon@ptialaska.net

Dear fellow fishermen, and our Legislative delegation,

This is a very bad bill for fishermen, particularly now as the salmon industry is faced with catastrophic failure.

I'd like to make sure that all of us understand what this is about--it would limit any fishermen's ability to use the Division of Investment's loan program in excess of two loans, at \$35,000 each. First of all, just to buy a Kodiak setnet permit (only CFAB and the State can loan on these and USE them as collateral) at a value of \$100,000 right now, that would put any of us at an extreme disadvantage in terms of selling and buying setnet sites. Sites are valued at anywhere from \$150,000 to \$300,000. You cannot get loans on the "site", only the permit, gear, and boats. This bill will make our setnet permits and sites less valuable--harder to sell, harder to obtain or trade sites etc.

I have experience with CFAB. We've had two loans with them, both of which I paid off as soon as I could because they typically charge a much higher interest rate than the State of Alaska's loan program.

Please email your Representative/Senator, and let them know that this is an untimely, unwarranted piece of legislation. It will not help us at all.

This bill was probably proposed by CFAB anyway, because they would stand to gain more business in loans.

Lacey Berns

From: Kodiak LIO <Kodiak_LIO@legis.state.ak.us>

To: fish <liockod+fish@legis.state.ak.us>

Subject: HB 456 hearing

Date: Wed, Apr 10, 2002, 11:48 AM

The House Special Committee on Fisheries will hold a public hearing on Monday, April 15, beginning at 3:30 pm to hear HB 456, related to the commercial fishing loan program, introduced by Representative Coghill from North Pole.

Government agencies should not be in direct competition with private business and

excess revenues from a government operation should be managed through the appropriation authority of the legislature. These two basic principles are the reason I introduced this legislation. HB 456 limits the scope of loans from the Commercial Fishing Loan Program. It narrows the lending ability of the loan program to commercial fisherman who cannot get a loan in the private sector so that the state is not competing with the private sector. It creates a level playing field for all fishermen by eliminating the ability of the department to defer or waiver interest and payments. HB 456 reduces the prequalify loan fee from \$200 to \$50 and limits to one borrower a maximum of two \$35,000 loans.

If you are interested in attending, stop by the LIO located at 112 Mill Bay Rd. The LIO phone number is 486-8116

Kodiak LIO <Kodiak_LIO@legis.state.ak.us>
Lorna & Heather
907-486-8116

From

Date Monday, February 25, 2002 3:35 pm

To

Subject HB 456

Dear Mr. Crane/CFAB:

I am a CFAB member and also a current borrower under the State of Alaska's CFRL fund.

I am very concerned with CFAB's submission and support of House Bill 456, which calls for statutory changes to the State program and, beginning on Sept. 1, 2002, the liquidation of all previous loans made by the Department. I, as a CFAB member, have read the CFAB annual report, and am aware that CFAB has "gone to war" so to speak with the State Div. of Investments in the legislature the past two years. CFAB has submitted this bill in it's own self interest, but I don't see how individual resident fishermen are benefited by it. Quite to the contrary, I almost see this bill as a hostile action taken by CFAB against the folks who happen to hold State loans.

Perhaps you can inform me why this bill was submitted and exactly why CFAB feels it necessary to seek action, which, quite possibly, will be detrimental to hundreds of Alaska fishing families. Thank you.

Homer, AK 99603

From "Mary Edminster"

Date Tuesday, February 26, 2002 9:44 pm

To

Subject HOUSE BILL 456

Dear Mr. Crane / Distinguished Representatives:

As a concerned commercial fisherman and resident of the State of Alaska, I feel I must write to you on a most distressing matter. I commercially fish the Alaska Peninsula (Area M) and do owe the CFRL loan fund a very large sum of money.

Recently, I was notified of House Bill 456 in which there is a proposal to change the way in which the State of Alaska structures her CFRL loans and then to liquidate currently held CFRL fund loans(to be liquidated only to CFAB) starting by Sept. 2002. Is this a joke?? At present and for the next 15 years, I will be indebted to this loan program. I didn't contract to CFAB for my loan because at the time word was if you had seasonal problems, poor runs, mechanical difficulties, the whole myriad of glitches that can ruin a fishing season, that the State was more creative and understanding when asked for financial assistance. So where is the State now? Your not really thinking of bailing out on us when we need you most! Given the State's apparent desire to "wash their hands" of us, let me interject a small request! Instead of offering CFAB my paper at pennies on the dollar, offer it to me because if per chance we do end up with a hostile creditor then there will be no way we can survive. One more good push and I'm gone....

Mark S. Edminster
62275 Fireweed Ave.
Homer, AK.
99603
(907) 235-2972