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discussed at the beginning of your presentation, specifically HB 359 and the initiative which is now certified to the ballot in Alaska (indisc.) initiative, while I personally think that there's some problems with that legislation (indisc.) approaches that were set out in HB (indisc.) last year and HB 720, to be candid about it I would have to say with regards to this position of state lands, I'm usually relatively suspicious of recommendations coming from the federal arena. (Indisc.). On the two different approaches the homestead initiative versus the home site program, I think of the two that the more modern one is probably the better at least at this time. Coming down to HB 211 -- I don't think it's really any accident that that legislation parallels the possible compromise position that might be reached in the Senate. It did go out of consultation between members of the legislature and I think the congressional delegation and state administration last year and also through consultation with members of the Federal/State Land Use Planning Commission but my basic question on that approach, the management program approach as opposed to the classification and lockup of large amounts of federal land in Alaska is how realistic is the approach? How likely is the Congress, at least the Senate, to adopt on a consensus basis, or adopt that approach as a compromise position because that's the information we need to know in the legislature in order make a realistic determination as to what strategy we should pursue on the whole d-2 question. I gather from some of your remarks, that I think a compromise is possible. That Senator Jackson, yourself and others would be able to adopt an approach like this and perhaps sell it to the Senate and that work by the legislature on this question and putting an effort and interest in the concept would be valuable in reaching a compromise position on d-2 lands in the U. S. Congress. Is that correct then? Do you think that there's a real chance of a compromise being developed perhaps along these lines in the Congress?

MR. GRAVEL:

(Indisc.) I think the international environmental community has felt (indisc.) over their success and support both in the White House and the House of Representatives. In order for them to be placed into a compromise mode they have to fear that they will lose something. I've tried to convey as much as possible from my particular office that without this land use planning process, without a mechanism that I would be prepared to filibuster the bill. And the very simple reason is that I just feel that we'll never have an opportunity again to effect a planning process. It's such a complicated issue in the national arena. People are so afraid of it. And we're now pressured into a situation that we're prepared to now accept a planning process. And it's because we're about to be run over and so if that is what saves the day, I think it will turn around and be constructed to not only save the day but making

a significant contribution to human advancement in the process of how we deal with ourselves in society. We have to develop a planning process. I think that when they're faced with a situation that they're not going to get entirely what they want, and realize some of the things that we have (indisc.) compromise may prevail on their side. I have not been criticized in this approach and like I say I've covered it now for over a year or more privately, sometimes publicly, depending on the forum and I've never been criticized by anybody in the community for the idea. The only negative criticism has been well, that kind of people won't be appointed to the commission. To me that's not a valid criticism. That's the only criticism that's been heard. So I think it will be appreciated. And some environmentalists will realize that if this succeeds in Alaska, this is the (indisc.) of the nation. And if it doesn't succeed in Alaska, we'll go back to square 1. So both sides are going to have to give a little bit. Where the acreage will finally wind up, anybody can guess. That's really (indisc.) conference where you're shouting each other down and that process is not going to be all that logical. But the question is (indisc. -- pounding) to the conference. And so if we can do our work in the Senate in the conference, it's every man for himself. I think we'll clear ourselves very well on that. It's tough to argue against this. We're talking about -- it's tough to argue an orderly approach to things, regardless of how you feel, very tough to argue against that. That's the essence of what I'm proposing. The rest is already accepted by and large. So it's land use planning, how much it covers and the size -- how many acres. That's what we're down to in the whole process. How many acres, land use planning process and one sort of can balance out the others because if you have a process, you don't need so much acreage and you don't have to be afraid of locking up or putting away so much acreage into a system. You've got a process to deal with it. So in brief, to answer your question, I think we have a good chance to develop the elements of a compromise. Not to speak of the coalesce thing that will take place within the Alaska community which is lacking now for -- and probably for a very fundamental reason -- not so much I've got a personality and they have their personality -- we are all representatives of some degree of element in our constituency and I think the lack of coalesce is because we weren't at a mature level to coalesce. And I don't mean just the four of us in state-wide office, I mean just the whole (indisc. -- cough). This year has been a very sobering year. And I think we're getting there fast. The question is, we'd better get there real fast if we want to take the positive approach. If we don't get there fast enough then we can take the destructive negative approach.

CHAIRMAN OSTERBACK:

Thank you Senator. Are there any more questions from the committee.

MR. MILLER:

Yes, Senator Gravel, you were talking about the four systems -- (indisc.) but do I understand that what you're proposing still does

have a generous (indisc) of national park, wild scenic rivers, residues of the national forest and that sort of thing? More than 25 million acres.

MR. GRAVEL.

Considerably. The base would be twice that much, as I would say the negotiations would begin somewhere between 50 and 80. So we will tighten up between 50 and 80 and enlarge and be guided by your reaction in that area. I obviously would, with my staff, sit down with Pat and others and yourself when you get back there and go over maps. It truly is somewhat ... You know there is and I know there is, The summer season is nothing. You know areas and I certainly know areas that I would have no difficulty at all in making decisions as to what system we go to.

MR. CHAIRMAN.

Are there any other questions?

I would like to ask a question. Since we have native land claim settlement going on in our communities to determine land to build a home on, how long do you think it would be before title to your land, where they could build?

MR. GRAVEL.

The title problem in this proposal we are talking about here again I think we are (indisc.) at this point when we settle d-2 we are going to settle the land transfer question right then and there. We are tired of being dragged and delayed and working with an uncooperative bureaucracy, so it's (indisc) for this process here.

MR. MALONE.

Could I bring up one ...

MR. GRAVEL.

I have had, not from you, Hugh, but a couple of members of the legislature called me for my views on a trip back in Washington and characterized by some that they all want to get together and go back to Washington. I think that would be a terrible mistake for everybody to get on a plane and go back to Washington for several reasons. One: You would gobble up all the offices of Senator Stevens, myself and Don Young, and we would be doing nothing but handling your presence which would not permit us to be working effectively. Two: It would be viewed very much

by the Congress and by the national media as conspicuous consumption, and three, that many people visiting Washington the members of Congress would be a little oppressed. What I would suggest would be to appropriate monies for every member of the Alaska legislature to come to Washington and that they be staggered out, come in pairs, two and three, not too much more than that and they would start right after your session has been terminated and I think it would be very beneficial as to what could be accomplished and I think you could do effective lobbying and come in and talk about areas of your expertise and interest to various members of the committee, the staff and Congress. Too, I think when you come back there you are going to get a feeling of what's going on in Washington, perceptions and I think that base of knowledge (indisc) regardless of the d-2 issue and as you pursue your political careers it will help you very much. There is one detriment to that and that is obviously some of you will come back and covet the offices of those of us that are already there. That is a gamble that we will have to take and if we treat you nice in the future we might not have to be harassed so extensively, in forms of a challenge I might say. I have never seen harassment in any other form. You have always been gracious. So in responding to those phone calls privately I have outlined this and I don't think I went into this much detail because I hadn't given that much thought to it but I would hope that you would look at it in those terms and that it would be a good investment for the public officials to come back, but to come back in very small numbers and to come back stretched out over a period of time and you will be surprised because this issue is not going to be solved either beneficially or negatively prior to the probably the first of October of next year. We have all summer.

CHAIRMAN OSTERBACK.

Representative Malone.

MR. MALONE.

Thank you, Mr. Chairman. First of all (indisc - cough) follow up statement on your last questions, in this question of transfer of title and the disposition of the different land settlements, it occurs to me that in addition to the resolution and legal entanglements there may be, and I haven't (indisc.) there may be a problem with the ability of bureaucracy to deal with the sheer volume that they are facing. Recently I think we have come to the conclusion in the State of Alaska that a similar situation exists with respect to the disposition of some of the state lands they are owning and quite often the answer is money so I would think that in addition to the legal resolution that if the Congress is serious about expediting settlements that they would respond to your urgency to appropriate money to make the process take place within a reasonable period of time. A certain question with regard to trips by members of the legislature to go to Washington on the d-2 crisis, an additional suggestion was made by Senator Stevens during his visit with the legislature

that it might be his thought to appropriate funds for allowing members of the Congress to visit the State and meet with people and perhaps view some of the areas that are proposed for the classification. What is your reaction to that?

MR. GRAVEL.

Last year I felt very strongly about that and suggested that in our deliberations when the four of us were meeting. I felt strongly then because we had the whole month of August of last year and I had about ten members of the Senate that had agreed to come up here and that was just the beginning and it expanded that we had thirty or forty members of the Senate. We were unsuccessful in getting federal money at the time and the subject did not have the (indisc.) of state legislature coming up with the money to do this. Now you have only got two opportunities. You have the 4th of July recess and you've got the Labor Day recess. There is no August recess because it's election year and they are going to try and get out early to campaign. The time frame is so short and it is a very difficult time to bring people up in that regard. The other is, you know it becomes a little sobering, it's not an easy task to do that and it cost a lot, a lot of money. I'm told (indisc. cough) that it was over a million dollars (indisc. cough) to bring us up here so you are talking about a considerable commitment of money and a million dollars would only be for four, five or six members to come up here and handle it properly. Whenever members come up, I am sure Senator Stevens devotes a lot of time, and I know that two years ago when I had five members of the Senate coming to Alaska, it took literally over forty days of the time of my Administrative Assistant and then a lot of time within staff and during the trip I spent all my time with each member making sure that each detail functioned during that whole ten day period, so these are all the things you would have to provide for and if they came here and didn't have a good trip you would have spent your money and done as much damage as you could have possibly have done. The other thing is that we have had -- Udall and Seiberling spent a lot of time in Alaska and didn't do us that much good on the particular views that we hold, but it cuts several different ways and I think that as we get closer to the frame here I would hope that we would not panic and you know throw things every different way and I remember that old cliché that when the going gets tough - the tough get going. That is where we are at. That is where we are going to take the measure of ourselves. We aren't going to run around like a little white mouse holding our hands (indisc) so just throwing money isn't going to be the answer. It could be very damaging. Alaska does have the perception in the eyes of the American people of being very wealthy. We confirm that perception every time we do something out of the ordinary. Sending the Alaska Legislature to Washington is (indisc.). I don't know if it ever has been done in American history. Inviting the entire United States Senate and the House of Representatives on us to Alaska and prepare to

pay their way is a little out of the ordinary. You know there would be a greater exodus then they had at the Battle of Bull Run if the time were right, so we have to be careful. I think there is some merit in it but I think it should be done (indisc.)

CHAIRMAN OSTERBACK.

Thank You. Mr. Parker.

MR. PARKER.

\$31,500 is not a great deal of money. We spent over \$800,000 on the Steering Committee to go back and convince certain people in Congress that we would like to have a little bit more of input on the d-2 lands, so if we are talking about \$31,500 (indisc) I don't know for each member.

That's for each member.

MR. PARKER.

That's the total. (Indisc. simultaneous speech). We get per diem. We get per diem while we are here. \$31,500. You could spend the rest of the year saying it didn't cost very much money but it looks like a hell of a lot. (indisc.)

I think this is the time Alaska should make full determinations and something like this might catch your imagination.

MR. GRAVEL.

You know the old days of rah-rah type of activities, you know like statehood, that's not what we are asking for. We are asking for the Congress to be generous in its adjudication of federal land - not state land - federal land. This land belongs to everybody so the guy, remember Seiberling's statement, remember the cliché that was used by an Alaska, boy this is a big federal land grab and the environmentalists are grabbing all this land in Alaska and Seiberling came along and said yah there is a land grab going on. The people of Alaska are trying to grab our land. Our means federal government. We live here, we get confused with the language as to whether its federal or state, but remind you the state it is 430,000 and with the federal it is 220 million. A big difference. If you were to send back the whole Alaska legislature all at once -- you know the only place I think we differ is that I think it is very important for you to go back. I would only differ in the way you go back. I would like to see you go back quietly without fanfare and do things in a nice

(indisc) fashion rather than swamp us back there and that is literally -- literally swamp us, and we wouldn't be able to handle it, the appointments -- you might plan the trip and then all of a sudden we might have four or five key votes in the Senate on the Panama Canal Treaty in the House and you might have four or five key votes on some (indisc) legislation and you would all be sitting there with your bare faces hanging out. You can't plan, things change very quickly. So the worst that could happen if you string it out you might have a couple bad visits by two, three or four people, not by the whole (indisc.) I don't think -- there is a page out of the book of the Wealthy Philadelphian, it was during the depression, and it was one of the few places in the world that they did this, was that when the depression is (indisc) you don't drive Cadillacs. (indisc. cough). Just keep a low profile. And that is why Texas has had such difficulty it is because they have been too spectacularized, and what we in Alaska have to do is give a low profile and just go get the goods. That's what the natives have done, they handle the federal bureaucracy very well. Just come in slowly, two or three at a time, the only time we ever had the whole native (indisc) was on Alaska Day. But up until that it was a steady stream and we still have a steady stream. There is probably no crowd of people on this earth that better handled the federal government than these Alaska Indians and I think we should take a page out of their book and keep a fairly low profile, and they got in trouble when they had high profile, you know when you heard statements well we are going to do this and we are going to vote, and that always hurt their cause. When they kept a low profile and did their homework they did well. I didn't mean to (indisc.)

No, No, it's getting back to a initiative, you know, it might be far out, but nevertheless it's a serious initiative and 22,000 people (indisc.). People are frustrated with the fact that they are surrounded by land can't (indisc.) \$20,000 for a lot to build on undeveloped land and we have nothing but land so I can understand (indisc).

MR. GRAVEL.

The worst thing we could do is pass a law telling people we are doing something for them when you are not. When you talk in terms of giving somebody land you have got to give them access, you have got to give them air, you have got to give them water, you have got to give them all those things, otherwise if it just a little piece of paper that they own land and they can't experience that ownership you thought they were frustrated before they'll go beserk, because you cheated them.

MR. PARKER.

I'm not speaking in favor of it, I am just speaking the way it is.

MR. GRAVEL.

Oh, no, I agree with you. That is exactly the way it is.

MR. PARKER.

Of course we have a problem here is that we have endorsed more or less a compromise, it might not be much, (indisc.) but what would happen if it was approved by the voters of Alaska how would that affect d-2 specifically. Would they lock everything else up?

MR. GRAVEL.

Like I said I don't (indisc.) the last month. I am supposed to be generally informed. I know that the Congress is not knowledgeable about this referendum and I'll bet you that when it does become known, and this public meeting here is going to carry it to the Congress. I mean, the environmentalists would absolutely be fools from their practical point of view if they didn't jamb this down our throat one little piece of paper at a time, and I would have no response. If I were testifying (indisc. cough) and somebody said well, Senator, you say that you people can handle the management process up there, the referendum has 22,000 Alaskans that want to carve up the land the way they used to do it in the land frauds of Arizona and Florida, do you really think that you can make the people in Alaska mature enough to handle the problem. Don't you think we should lock up a major part of Alaska. How do you think I would be able to answer that? How would you answer it?

MR. PARKER.

That's after the fact. (indisc). Wouldn't it be just as bad to give them, say through this piece of legislation, 20 million acres as a sort of a compromise, wouldn't that be (indisc).

MR. GRAVEL.

The process here would be to give them the land and the other process is to give them a piece of paper, which has evidence of land. The paper could be fraudulent. See, that's the difference between, you know I could buy land in Florida and go down there and plot it and see that it's got a road to it, see that there is electricity to it, see that there is a municipality, proper plan, and that it is zoned properly, or I could have sent in my \$100 down payment, my \$5.00 a month for the next twenty years and then I go down there later when I am ready to retire and I find out that it is under water. It's a valid piece of land, you know, but it floods four or five times a week. I have been cheated. There is no road to it. I have been cheated. That's why we pass federal laws so we can't - we can't sell these mail order properties, so

what we did, we designed a referendum capitalizing on the frustration and the lack of knowledge of the people, and we are going to give them a bunch of pieces of paper that's going to be useless, absolutely useless. (Indisc.) supposing I send in and say I want a piece of land right here. It is not in any native entitlement. I want that piece of land, I want 200 acres. So somebody sends, the Department of Natural Resources or whoever sends me a deed. I've got my deed. I wait around and then I finally take a plane up there and maybe hire somebody to drive me out to my property and it's nothing but a sheer cliff. You know, it's about a 45 degree angle (indisc.) What do I do, I've got my deed in my hand, I've spent a lot of money to get it. I would be so hopping mad at whoever was elected to office, whoever thought of this concocted scheme I would shoot them on sight.

MR. PARKER.

Let me finish this, I guess my question is, what do we do about it now? (indisc. simultaneous speech and laughter).

I think Hugh said it, I am here to legislate (indisc.) I don't pay (indisc.) answers. I think we have one heck of a problem.

MR. GRAVEL.

I thought of one, are all of these things valid that people just thought out (indisc. simultaneous speech - laughter). I am starting to do things in my life that I haven't thought out. It is a real tragedy, it really is. The fact that 20 some odd thousand signatures you know the only thing I can say is that that is not a majority of Alaska.

MR. CHAIRMAN.

Mr. Malone.

MR. MALONE.

Thank you, Mr. Chairman. On that subject, of course, I think that the referendum to a large extent does capitalize on people's frustrations and I think those frustrations are unlikely to be relieved if the referendum should be adopted. There will be problems of access, there will be problems of services, there will be problems of getting clear titles and there are only really two courses of action that the legislature can take at this time. One is to adopt an alternative program that would preclude the ballot measures, I don't know if there is a responsible program that would really preclude the ballot measures under the laws of the Constitution, of the State of Alaska and make an attempt

in that direction. The other thing is responsible measures at least to point out the shortcomings of the proposed initiative. I think the ideas behind it are probably valid at least at the root but I think it something that is not going to work once adopted and I expect it to be adopted because on the ballot at least it would be today. It might be time to change the (indisc.) between now and the election, not right now, I admit, but I think there are going to be some problems in even gaining the piece of paper that Senator Gravel is talking about there will be worse problems when it comes to access and should people manage to settle on the land they will need some kind of access and get their title. They are not going to get any form of governmental services whatsoever or most likely an economic basis to generate anything for a long, long time. In addition to the problems that might create in terms of perceptions in the Congress of the United States, I think the problems are of internal program that should be raised on the question on the ballot and I don't see any other course or anything other than those two courses of action (indisc.) I don't think that the question should be ignored. I don't think that is responsibility either even if the ballot measure should fail it is going to come back again.

MR. GRAVEL.

I was hoping to sit this year out, but if that's the situation that the legislature does not have the power to correct, change the setbacks we have, I am sure I will be out there campaigning against this and the only way that would be possible if a lot of others like you would join me and be out there campaigning (indisc.) I'll volunteer to lead the charge and reap whatever I reap figures in.

MR. PARKER.

Senator, getting back to HR39. I mentioned earlier that if all else fails you and Senator Stevens would engage in a filibuster wouldn't that also preclude any hope at all for next years (indisc.) of state land transference and land (indisc.).

MR. GRAVEL.

The question is that everything is delayed. We are held in suspension, it might even trigger a freeze by the executives in retaliation, but that could be in my mind a better situation then having a permanent bad situation forced upon us. So, you know, it's not much but again it's better (indisc.). I think the environmentalist and the leadership in the House certainly recognize that this is serious business. I've seen many times where you march up the hill and all of a sudden you pull the power and you don't have the ability to get back up the hill again and they are marching up the hill, they are doing quite well, you know maybe it is the time to compromise. It's only a fool in a moral contest that doesn't compromise.

MR. CHAIRMAN.

(Indisc.) any other questions?

(Indisc.)

No thank you, Mr. Chairman, I am going to be testifying on this other committee.

CHAIRMAN OSTERBACK:

Any other questions. Representative

Just one point, Mike, you were talking about low profile. This is in view of the Capital move and even worse financing the gap of the pipeline.

MR. GRAVEL.

On the gas pipeline you have just been given a presentation. I'll have some real specific requirements in that area. I need some time myself to study that. I'll be going to New York I think on the second to speak to a group on Wall Street, a group of Bankers, which is what I did several times during the Alyeska deal (indisc.) to talk to them about Alaska's future and so I will have a little better feel on that situation. (indisc. simultaneous speech, laughter). It used to be back in Washington and travelling around the country, it used to be I would be asked about wolves, in fact I can recall once in my hotel on my pillow there was a little note stating save the wolves. Probably the (indisc.) historically has been about wolves. Our mail has not run heavily nationally but wherever I go it used to be how cold is it in Alaska, now it is oh, you are moving your Capital, huh? How is that going? For some reason it has captured the imagination of the American people. I think I stated earlier that I felt it had some (indisc.) because anybody who could afford to move the Capital has got to have a little wealth, and, now I must confess, I don't feel all those decrements (ph) taking place in the quarry but they could be there subconsciously and you just don't know. Of course you can't psychoanalyze every body that you meet, but you do know that every so often when you propose a piece of legislation where you are going for an appropriation all of a sudden everybody in the room votes against you, you smell your breath to see if you have had breath, you can't understand why out of no where everybody is against you. When that phenomena occurs and its occurred to me several times, I know it's occurred to Senator Stevens, I know it has occurred to Don Young. You ask yourself, is there something wrong with me or is there something going on that I can't perceive in the subconscious of the bodies I am dealing with. I went to a hearing once on a housing issue unbelievably meritorious and my colleagues in the Senate they were having to hear it (indisc) and they started making statements, well you Alaskans got it all, (indisc.) this (indisc.) is a very very serious thing. It is almost impossible to handle, so you know we can talk about the Capital move contributing to that, I don't know. I suspect that that is about the extent of it. So far it is just an oddity.

(indisc. simultaneous speech - laughter)

It occurred to me when you said it might not be too smart for us to be out of the ordinary does the figure 4.4 billion dollars (indisc.). Is that a little out of the ordinary? Is that the figure you are talking about?

MR. GRAVEL.

Let me respond by saying this. When the Congress focuses on whatever the cost is and they focus on the fact that maybe it is a conspicuous consumption you can bet your bottom dollar that somebody is going to say if you want to do it you do it on your money. You are not going to use my money. I think that will eventually happen. Roberto Campos (ph), I don't know if you know the name, is the Brazilian Ambassador to the Court of St. James. He is the architect of the economics of Brazil, (indisc.) Brazil. Brazil is one of the five super powers of the world. It is unbelievable what is going on and Roberto is one of the great renaissance of our society in his area, he is every bit as important of a person as Henry Kissinger. He resigned from his position over the Brazilian question, and when I saw him in London when I was coming out of the North Sea, boy he just assaulted me on (indisc.) so if anyone wants to get a speaker up here that wants to take that side invite him and three good speakers on the other side. I didn't mean to dodge your question. (indisc. simultaneous speech - laughter).

(indisc.) you had a question?

CHAIRMAN OSTERBACK.

Just one before we let you go. (indisc.) I have been there twice and they have a different system than we have. If they have a big buzzer in a committee room. (indisc.) a couple times we went in to see a couple Senators, and the buzzer rang and they said we have to go, there is an issue on the floor and we have to go to vote, and then they leave, so if the buzzer rings you are left standing by yourself. And their committee rooms are real small. Sometimes two chairs and I don't know what 60 people would do. They don't have room to stand. Like you said get the money and travel two or three at a time.

MR. GRAVEL.

I think this may be the beginning of doing it every two or three years. Maybe during your two year tenure that one trip should be authorized for each member so they could get acquainted with their interrelationship with federal government.

Not only d-2 and looking into the future, but do you anticipate anything more important in Washington, D.C. then d-2 in Alaska?

MR. GRAVEL.

Not at this time.

Down the road?

MR. GRAVEL.

Yes. In economic terms, yes, but nothing of permanent nature. D-2 is on the order of native claims, on the order of statehood, on the order of purchase of Alaska. Once we are by that we are by the issue, the rest will warrant attention and will obviously be important as was the pipeline. But nothing of a permanent nature, d-2 is the biggest thing we have got going. No question about that. But I am persuaded that you do your jobs much better here when you interface more directly with your Congress rather than through our office. Thank you very much. It has been a pleasure being here.

CHAIRMAN OSTERBACK. Thank you very much, Senator.

MR. COWPER:

It is going to be a great help to the Congressional Delegation and instead of going into all the reasons why we should have this and why it is such a good thing, I think that has been pretty well covered, I would like to bring up one thing and I have a specific suggestion for an amendment on the Bill. The AFN has suggested that we place in any such legislation as this an authorization for the commission or whatever it is called, to enter into cooperative agreements with private land owners and the incentive for submitting our private to the jurisdiction of the commission would be that there would be no real estate taxes on any lands put in under the jurisdiction of the commission for a period of not less than five years. This is endorsed by AFN and I think it is a good idea and I think we should have a joint management agency or joint management system as to what land is being managed, particularly contiguous land (indisc.) I would like to suggest the following amendments and then I will yield to Mr. Parker. On Page 3, line 12, omit all the language after the word "land owner". Because we would like to, I think it might be well not to restrict those agreements just to contiguous land. Then add the following section in the appropriate place. SEction 41.45.085 seems like a good place to add it. If a private land owner, including any entity established under the Alaska Native Claims Settlement Act, enters into an agreement by which the commission manages undeveloped land, cross out undeveloped, I think, by which the commission manages land owned or selected under an Act of Congress by such private land owners, for a minimum of five years such land shall be exempt from any property tax on the land for the time it is managed by the commission. If the land is withdrawn from the commission's management before the minimum five year period then all property taxes on such land which would otherwise have been payable shall be due at the time the land is withdrawn. Now as you know we don't have a tax on unorganized borough right now but we might at some future time and I believe that this concept has been endorsed not only by the AFN but also at least by certain members of the congressional delegation. I think it is a good idea and it provides (indisc.) that consistent management plan spread not only the public land but the private land. Mr. Chairman that's all I have and I have this Amendment which I'll be glad to pass to the staff. Unfortunately it is not typed and it is sorta scratched out.

CHAIRMAN OSTERBACK.

Representative Malone.

MR. MALONE.

I just have one quick question, Mr. Chairman. Steve, you have been working on this stuff and all, what's your ideas in respect to the reality of adopting common management approach as an alternative, I won't say compromise, because it is not a compromise.

MR. COWPER.

Well, I think that the possibility is very real. I think what we have to do is take care of the fear that people have and I am speaking very frankly of the environmental community that the State will have effective control over the management of all federal lands in Alaska, or a substantial portion of it, without any (indisc.) I think if we come in and we establish a management system by which a joint commission manages not only federal but also state and native lands or private land, and we also provide a (indisc) by the land owners so that if the land owner doesn't like the decision being made it goes back to the drawing board and I think it should be acceptable, as Senator Gravel said, the main problem is not in the concept really but everybody says this isn't acceptable because they'll appoint somebody who is unacceptable to run it. They are afraid the system won't work just because they are not sure who is going to be administering the system. That's the problem everywhere. No system works if it isn't administered by good people. But I think there is a real chance of doing it. There is not any chance of doing it in the House. But I think it is a concept that has been advanced so many times at that level that when it comes back to them from the Senate they do not even look at it twice. That's my interpretation of what I have seen of it.

CHAIRMAN OSTERBACK.

Are there any other questions? (indisc.)

Why did you leave out the undeveloped (indisc.)

MR. COWPER.

Ah, Rick (ph) this is just to be consistent with AFN's position. I don't think that a real estate tax as such is all that way of getting into that sort of thing anyway. But, it is consistent with AFN's position. I rather suspect that land which is developed in the sense of having a village on it or something like that isn't going to be turned over to the land (indisc) commission to manage. It is not precluded for instance personal property tax is the (indisc.) on pipeline property or production property on the slope. It would not preclude that and also it wouldn't preclude the severance taxes. I would think that the way you would get income being generated into land that is under the commission's jurisdiction would be through income taxes.

CHAIRMAN OSTERBACK.

Any other questions?

MR. COWPER.

Thank you, Mr. Chairman. I will have this proposed amendment

typed out and sent down to Committee (indisc.)

CHAIRMAN OSTERBACK.

Thank you. Mr.

Thank you, Mr. Chairman and Committee members. I would like to note that Commissioner Holdsworth(ph) is here also and he tells me he testified before you yesterday. This is the second time I have testified on House Bill 211. I testified last year. I didn't have much to offer except my personal opinions because the commission had not taken a (indisc.) position on the future land use planning commission. They finalized their position at a meeting in September of 1977 and that is contained in a Position paper which I will submit for the record for your concurrence as part of this testimony. I have some brief record testimony also which I would like to submit for the record and just highlight that, if that's alright. The need for a continuing commission as well said by Senator Gravel and Representative Cowper, I think that the main point that needs to be made what does a continuing commission offer for the state that the existing federal - state relationship does not offer. I think for me the important thing it offers is a thermo entry for the state through the commission into the federal planning process in the early stage. It also offers a form for mitigating and coordinating effects of single agency management. Whatever comes out of the d-2 legislation we are going to see a substantially stronger position for all federal land management and resource management agencies in Alaska. I think it's to the advantage of the people of Alaska that they have some form in which they don't have to be (indisc.) in which all the agencies are brought together and force to bounce from one position to another. It would be (indisc.) under its new organic act the thing that has extremely strong powers and if Alaskans are going to have any real say in future management of federal lands in the state I think that some form of commission structure is vitally important and therefore I strongly support the concepts expressed in HB 211. The points that Representative Cowper made on the native lands I strongly support also because as both the commission's inventory reveals and the state inventory, the native selected lands are prime lands for wildlife habitat and resource development (indisc.). They are also key strategic lands of transportation and are in effect the strategic lands of the state because of their relationship to the coast line and the rivers, primarily. So it is imperative that they be encouraged to cooperate to the maximum extent in the future system. (indisc.) has not taken a real position on state lands in this and the reason for that is that in dealing with the d-2 situation it did restrict itself to dealing with the federal lands and in dealing with the state land, of course was recently made a good many recommendations

to this committee and I think if you want a position from the commission on whether it feels all state lands should come under a future commission or a portion of the state lands we could certainly attempt to give you that but we have not had one as yet. In any case, to get to the specifics of HB 211 as our recommendations relate to it, the commission has recommended to continue the membership of 10 members with 2 co-chairmans rather than 7 members recommended in HB 211 and also recommends the continuation of the presidential appointment on the federal side and the governor's designation on the state side to continue to provide strong leadership with such a commission. The difference between the assembly chairman and the co-chairman is an important one. As a single chairman I think would be extremely powerful individual. He would probably be appointed by the President with the concurrence of the Governor and Legislature and the advice and consent of the U.S. Senate, and if he was able to get through all those steps then there is no doubt about it he would have a predominant role in the state. Whereas, if you have the two co-chairman, they tend between them to adjust a good many federal state conflicts before they get to the full commission or to the congress or to the legislature, so it depends between a single chairman and co-chairman how strong you would want the future commission to be in its relationship to both governments. The commission agrees with HB 211 in that the commission members do not be institutional or ex-officio. We found that having state commissioners sit on the commission is not in the best interest of the state commission or the commission because he has to represent the administrations point of view in his particular area and very strongly rather than reasonably independent point of view. And we also recommend the appointants not be representatives of special interests because the sub-committee that worked on this felt that special interest representation tended to institutionalize conflict rather than to contribute to problems solution. What the commission is supposed to do is to resolve problems before they become problems that require either legislative action or extreme action by the President or the Governor. They also felt that the commissioner should continue to be part time except for the co-chairman. The general feeling was that full time commissioners would tend to institutionalize its own perspective while part time commissioners were subject to other pressures and open to other viewpoints from the various sectors in which they operate when they are not being commission members. Also part time was felt to be more open to public input than full time. And, the present commission also felt that the commission should serve at the pleasure of the appointed official rather than (indisc.) this position differs from HB 211. The primary reason for this was that it was felt that the commission should relate strongly to whatever political views of either federal administration and state administration was. Of course, if you are appointed for a term then the commission once again has much more independence in itself so once again it depends on how strong you want that commission to be.

Regarding the duties of the commission our recommendations differ only in degree to those contained in HB 211. The major difference Commissioner Holdsworth(ph) went into with you yesterday. We see the commission's role on (indisc.) plans as classified. Whereas management would be continued by the land agencies for any of the federal and state side. That is an important distinction. You don't want to create another bureaucracy in this position to give the management powers well then you have to give him the man power to manage. The idea is to keep the commission very small in policy making and research groups, and certainly no larger than the federal commission. If it does expand why then it would inevitably tend to become another government agency and (indisc.) One of the things that we have felt to be a real power in the present commission in which future commissions should continue, the commission should be (indisc. cough) the Governor and the Legislature and to the President and the Congress, and being an advisory role only you certainly have (indisc.) committee programs (indisc.) if you have program responsibility. We think that needs to be continued and the only exception would be the classification of common management plans. Also in some spelled out roles in cooperative planning insuring both governments that Fish and Game managements would lean towards acceptable manner, the transportation planning would lean toward acceptable manner, research coordination and day assistance coordination are the four areas where we felt we really need a lot of mileage if you can coordinate them strongly and keep the agencies on either side from dealing in the territorial (indisc.) too heavily. The other area strongly stressed is the system of joint classification. As we have seen the future thus far the difference between the commission classifying common management land and the joint classification would be the commission would bring the two governments together to establish joint classification standards and (indisc. cough) the state and then BLM on one side or the other federal agency and the Division of Lands would use those classification standards and work them between the two of them with some commission over sight would arrive at joint classification for those particular areas. So in those areas rather than doing it yourself well the commission would encourage the cooperation existing to the maximum extent possible. In time we would approach what we would call total (indisc) HR 39. We would do it with cooperation between the two governments rather than proposed by HR 39 by standard refuge of park boundaries. (Indisc. cough) Because no matter how much those refuge or park boundaries they are going to protect those refuge and park boundaries you are not going to protect the entire critical areas that are entire watersheds. Eventually you have to get to this strong cooperating system anyway. One thing that is missing from HB 211 is the veto power on the state and federal side. We think it is important that you protect the sovereignty of both governments by incorporating that veto power. One thing that this present commission has that no other federal-state entity we studied has is the veto power of the state and that is very important to retain. It certainly made the present commission operate totally different from any other state organization that I have been associated with, and we did some research on some other organizations

and I will offer that for the record, Commission Memo dated March 15th, 1977, which has a rather comprehensive research on other federal-state entities. When we made our position was examined HB 211 of course, from last year, and we Secretary Andres (ph) amendments to HR39 (indisc. cough) operating management and we also had Senator Steven's Bill on cooperating management and so we considered all of those in reaching our decision. We then had the Seiberling which was contained in committee print 3 of HR39 before us but as I understand it that's changed little from committee print 2, so the comments which we enclosed in our letter to Congressman Seiberling on January 17th of this year would still be germane as to how we feel about that particular language and also that's for the record with this testimony. I am getting a big mound of paper here dealing with cooperative management and hopefully it will shed a little more light in particular areas. One other important area that we feel very strongly about is the executive coordination committees being established by both the state and federal government, to review the commission's work. This is especially important at the federal level because you can coordinate all you want to in Alaska and get all the agencies meeting in unison and take it back to Washington you will have to go in and deal with each department separately. It wasn't always that way, the old Federal Appeal Committee for Development Planning Alaska we did have an executive review agency which was chaired by the Secretary of Commerce but which also reported to the White House but we were able to get good use out of that executive review committee during the earthquake relief and during the early stages of the land claim settlement. I think we just erred in not re-establishing that to relate to the present commission. We should have made sure Congress put it in the legislation report and it's not as critical at the state level to have that kind of executive review since the commission works on a continuing basis review level committees where the commission is concerned to review the commissioner's work on a state level also.

We do feel also that you need a more direct relationship between the commission and the land and resource management agencies on both sides. The way we do that is simply forming them together into a technical advisory committee to the commission which would have to come together composed of the land and resource managers on both state and federal sides that would have to come together and either relate to commission for the propositions that were put before them or they could develop propositions which they wish to put before the commission. Right now we don't have that kind of institutionalized dialogue between management agencies and the commissions and we try to institute it constantly but it's not spelled out in the legislation so the agencies can either come together or not if they feel whether they can get away with it or not, and usually they are pretty good about coming together on the issues we've developed but having it in the language would give the commission much stronger coordinating powers and that briefly are the major concepts that we would like to see incorporated in HB 211. We would certainly be willing to either

draft suggested amendments or work with you in any way we can.

CHAIRMAN OSTERBACK.

Representative Malone.

Mr. Malone.

Thank you, Chairman. Well, I would like to start out by asking my basic question on this thing. In your understanding and knowledge of activities that take place in the Congress and also the attitudes that may exist in the different federal bureaucracies, how realistic is this approach if it could work if it were adopted?

MR.

Of course it has been a while since I came on the commission and I can't -- don't know what the relationship was with the previous federal chairman or the previous state chairman of the federal agency, but the commission was able to make some steps forward when the federal administration changed and the d-2 perceptions in the interior and the conveyance of native lands in several other areas. I was the only chairman at that time in the interim between Mr. Sokof (ph) leaving and Mrs. Warnecke (ph) appointment but even though I wasn't the federal chairman, even though I was a state chairman why the door was open and we were able to get initiatives launched last spring that probably would have been delayed until late summer or fall, the spring of '77 I am talking about now, which if it had to have gone through the conventional route through the agencies and the difference, of course, that I was saying that I was going in and saying to the secretary was on native conveyances you've got a problem. The natives are not getting their land fast enough, BLM isn't working fast enough and obviously BLM isn't going to go say that to him, or the Assistant Secretary for Lands and Waters. On the d-2 issue HR 39 had just come out and of course that was Secretary Andres (ph) (indisc) and was able to immediately put before him critical areas on Fish and Game Management and Wilderness and the other points of disagreement with HR 39 so he could start relating to those. It's unfortunate that in the House of Representatives the sub-committee who handled that took its original draft from the Alaska Coalition and represented only that perspective and since the commission didn't agree with the original HR 39 they really hand's used it to the extent that they could. In April they practically threw us out of the hearing and by July they said well, this is good stuff and they started to use it but on the Senate side we have always had an excellent relationship directly and you know, we don't go through administration, we go directly to Congress.

CHAIRMAN OSTERBACK.

Representative Malone.

Mr. MALONE.

Yes I have a number of questions, but I have a follow-up question on that one. Considering that the commission is basically is a (indisc.) of Congress in the first place how come the House at least in the early stages decided to bypass. (Indisc.)

MR.

The sequence of events is simply that the committee chairman and the sub-committee chairman knew that the commission's position wasn't the position they wanted so they (indisc. blank tape)

MR. MALONE.

How is it they work again at present, how is it they work?

On the Washington level there is no institutionalized coordination on Alaska matters. Right now they've got a group which was set up to coordinate gas lines for the gas pipe line. There is no d-2 coordinating group that brings all departments together to coordinate d-2 matters so the way d-2 is coordinated in the federal government is that in the last days of August and the last week of August and the first week of September the Interior sent out its information for comments and comments came back and they all put it together at a meeting and it was kind of a rushed process. If there had been a continuing executive review committee of the commission's actions why all these things that the commission had developed over the last five years would have been considered by these departments in Washington on a continuing basis, as it was every department just reacted to the Department of Interiors initiative. The only reason things went (indisc.) was that we took it upon ourselves in the spring of '76 to coordinate d-2 with all of the federal agencies concerned, transportation, energy, defense, and so forth, but it would be a lot easier to have them all in the same room rather than to have to go to each one individually but that's what we were up against.

MR. MALONE.

One final question. What would be possible in addition to us getting an advanced copies of proposed amendments of HB 211. Would it be possible for the commission to provide somebody to sit in on a mark up session of the bill?

CHAIRMAN OSTERBACK.

Yes, we could do that.

MR. MALONE.

Thank you.

CHAIRMAN OSTERBACK.

What we discussed, we had a meeting with Senator Mike Gravel and(indisc.) and he will send one of his staff members to work up a mark up session and we have a holiday coming up now. But the thing is you said you wanted to get something in from the legislators what we are all going to back and bring it in and he will take it up before the Senate or down there, correct me if I am wrong, and with the legislators behind he thinks it will carry a lot of weight instead of someone coming in with a different amendment all the time, come up with a package saying this is what the state is backing. Diann?

MS. NELSON.

One thing that we discussed is that we would assign Mr. George (indisc.) and Bill Berrier(ph) and Jack (indisc.) and would work with one member of the Steering Council staff and your office, Walt, and possibly come up with a committee substitute within a week or so. Something that we could bring before this committee as a mark-up copy and bring it back.

CHAIRMAN OSTERBACK.

Representative Malone.

MR. MALONE.

Mr. Chairman, I wonder if that schedule isn't a little optomistic. I don't object to the speed except (indisc. noisy tape)

MS. NELSON.

Can we schedule a meeting for next week in the evening?

(WHEREUPON due to bad noise on the tape I was only able to pick up selected portions of the discussions)

CHAIRMAN OSTERBACK.

What I was going to suggest is that we get everything together for a mark up (Indisc.)

C E R T I F I C A T E

STATE OF ALASKA

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: SS.

FIRST JUDICIAL DISTRICT

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I do hereby certify that I am a Notary Public in and for the State of Alaska and that the foregoing transcript numbered 1 through 31 was transcribed by me or someone under my direction from a tape recorded by a person or persons unknown to me. I further certify that it is as complete and accurate a transcript as was possible based on the quality of the tape and the information furnished to me.

I further certify that I am not a relative or employee or attorney or counsel of any of the parties, nor financially or in any other manner interested in the outcome of the proceeding.

John H. Henshaw

Notary Public, State of Alaska
My Commission Expires: 6-4-78

HB

763

SPOKANE BANK FOR COOPERATIVES

FARM CREDIT BANKS BUILDING
W. 705 FIRST AVENUE
SPOKANE, WASHINGTON 99204
TELEPHONE: (509) 456-7340



February 1, 1978

1503

The Honorable Alvin Osterback
House of Representatives
Pouch V
Juneau, Alaska 99801

Re: "Financing Alaska Commercial-Fisheries Businesses:
Problems and Alternative Solutions"
by Franklin L. Orth, Alaska Sea Grant Program/
School of Management, University of Alaska
for Legislative Affairs Agency, State of Alaska

Dear Mr. Osterback:

We have received Mr. Orth's report on financing Alaska commercial fisheries businesses and believe that he did a commendable job of analyzing the available alternatives.

Mr. Orth's suggestion of a Cooperative Fisheries Development Bank, owned and controlled by its Alaskan patrons, appears to us to have considerable merit. The concept of a cooperative financing organization established on a basis that would make it eligible to obtain funds from the Bank for Cooperatives seems to us to be a viable one and would have our Bank's support.

Sincerely,

A. E. Van Winkle
A. E. Van Winkle
Senior Vice President

cc: Franklin L. Orth



EARL R. COMBS, INC.

CONSULTANTS IN ECONOMICS AND PLANNING

2737 - 77th Ave. S.E. • Mercer Island, WA 98040 • (206) 232-3991 • TWX 32-9472 MIS MRID

March 27, 1978

Rep. Al Osterback, Chairman
House Resources Committee
Pouch V State Capitol
JUNEAU, AK 99811

Dear Al:

As reported to your office by phone on March 27, I would recommend that the Resources Committee consider the following changes to HB763:

1) Section 1 - FINDINGS

The concept of the target group for assistance throughout Section 1 (fishermen and farmers) could be expanded to include processing firms and other businesses whose primary function is to service farmers and fishermen, by referring to "agriculture and fishing businesses" instead of "farmers and fishermen". This would appear to make the FINDINGS more consistent with Sec. 41.45.210 POWERS OF THE BANK as written (and as proposed for change in the remainder of this letter).

Sec. 41.45.210 POWERS OF THE BANK

Para (1) line 25, remove; replace with , and to seafood and agriculture processors, marketers and firms providing technical services to the agriculture and fishing industries for projects which will establish a facility within Alaska or which will establish or expand a market for the harvests of resident commercial fishermen or farmers.

Para (7) and (8) could be clarified by merging them and defining target projects as defined under para (1). This could be done by adding of the type approved under para (1) of this section at the end of line 7. Paragraphs (7) and (8) would then be replaced by a single paragraph:

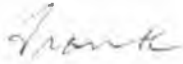
(7) invest in projects conducted by shareholders of the bank of the type approved under para (1) of this section by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 percent of the capital stock of a corporation;

ERC, INC.

March 27, 1978
Rep. Al Osterback
Page 2

I am hopeful that these comments will be of assistance. If any clarification is needed, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank", is written above the typed name.

Franklin L. Orth
Senior Economist

FLO:TOE

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PMS HONORABLE ALVIN OSTERBACK, REPORT DELIVERY

08-11

MEMBER HOUSE OF REPRESENTATIVES

ALAS (AN STATE LEGISLATURE COPY MESSAGE , FONE ASAP

JUNEAU AK 99801

REFERENCE HOUSE BILL 763 DUE FOR MARKUP SESSION OF RESOURCES COMMITTEE, PLEASE CONSIDER THE FOLLOWING THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE UNDER THE FARM CREDIT ACT OF 1971 IS CHARGED WITH THE SUPERVISION OF PROVIDING SHORT AND INTERMEDIATE TERM CREDIT FOR AGRICULTURE, INCLUDING FARMERS, RANCHERS AND HARVESTERS AND PRODUCERS OF AQUATIC PRODUCTS FOR THE STATE OF ALASKA BY PRODUCTION CREDIT ASSOCIATION AND OTHER FINANCING INSTITUTIONS. COMMENCING IN THE LATE 60S THE NORTHWEST LIVE STOCK PRODUCTION CREDIT ASSOCIATION HAS EXTENDED AGRICULTURAL CREDIT TO QUALIFIED FARMERS AND RANCHERS IN ALASKA. IN 1973, NORTHWEST LIVE STOCK PRODUCTION CREDIT ASSOCIATION ALSO BEGAN FINANCING FISHERMAN FISHING IN ALASKAN WATERS. TO DATE, EXPERIENCE HAS BEEN SATISFACTORY.

THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE WOULD NOT REGISTER OBJECTION TO THE CREATION OF A COMMERCIAL FISHING AND AGRICULTURAL COOPERATIVE DEVELOPMENT BANK AS PROPOSED IN HOUSE BILL 763. IN FACT, THE FICD OF SPOKANE LOOKS FORWARD TO WORKING CLOSELY WITH THE BANK WHEN AUTHORIZED IN ITS CREATION. THIS IS PARTICULARLY IMPORTANT BECAUSE THE PROPOSED BANK SHOULD BE STRUCTURED SO AS TO QUALIFY FOR DISCOUNTING LOANS WITH THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE.

FOR FURTHER INFORMATION, CONTACT THE FEDERAL INTERMEDIATE CREDIT BANK OF SPOKANE WEST 705 FIRST AVE SPOKANE WASHINGTON 99204, TELEPHONE (509) 456-7380. SINCERELY,

WILLIAM F BARRATT PRESIDENT FEDERAL INTERMEDIATE CREDIT BANK

OF SPOKANE

STATE OF ALASKA THE LEGISLATURE

POUCHY STATE CAPITOL
JUNEAU, ALASKA 99811
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

March 27, 1978

MEMORANDUM

SUBJECT: HB 763: W.O. #15/R

TO: The Honorable Alvin Osterback

FROM: John Williams
Research Analyst *JW*

You have asked that we prepare an analysis of HB 763, an Act relating to commercial fishing and agriculture. Following is a general description of the bill. We will first discuss the bill from a general perspective and then specifically address the issues of the purpose of the development bank, the structure, financial aspects, and the eligibility requirements.

OVERVIEW

HB 763 repeals the commercial fishing loan act (AS 16.10.300-370) and creates the Commercial Fishing and Agriculture Cooperative Development Bank (it does not repeal the Alaska Agricultural Loan Act--AS 3.10). The bank is subject to the provisions of the cooperative corporation laws (AS 10.15.005-600) except as otherwise specifically provided for in the bill.

The bank is to be initially capitalized via purchase by the State of non-voting preferred stock in the corporation. The initial seed money is to be repaid to the State within 20 years from the profits of the bank and from the purchase of stock by fishermen and farmers. If the State's initial investment is not returned within 20 years, the commissioner of Commerce and Economic Development may dissolve the corporation.

The bank may borrow money, lend money, guarantee loans, joint venture in loans with institutions of both the public and private sectors, hold equity interest in enterprises of its members (not to exceed 49%), and may issue bonds.

PURPOSE

Section 2 of HB 763 describes five purposes of the Act (economic assistance for Alaskan commercial fishermen and farmers, to encourage utilization of agrarian and fishery resources, encourage technological devel-

opment in those two renewable resource industries, and to promote a more rapid development of the agricultural industry). The bill will also have the effect of encouraging members of those industries to form cooperatives and perform decision making through peer group processes. The intended impact, however, is to insure the availability of financial resources for expansion of the fishing and agricultural industries in the State.

STRUCTURE

The bank is clearly modeled after components of the federal farm credit system, which were initially financed by the federal government and subsequently fully owned and financed by the members. The federal seed money was repaid, at which time federal involvement in the system was terminated (other than as a regulatory overseer).

The Commercial Fishing and Agriculture Cooperative Development Bank is established as an instrumentality of but separate from the Department of Commerce and Economic Development (Sec. 3). It is governed by a Board of Directors (three in number), with the initial directors appointed by the Governor. Subsequent directors are elected by the shareholders and serve three year terms. The directors are charged with filing the articles of incorporation and with adopting bylaws. They shall also establish the value for and issue stock in the bank, as well as set out a schedule of guidelines for loans made by the bank. A director of the bank is prohibited from voting on matters for which he or she has a conflict of interest (Sec. 41.45.190).

FINANCIAL ASPECTS

Capitalization

The bank is initially capitalized by the sale of preferred stock to the State (60-80% of issuance) and to members. Membership stock is issued in the amounts and with the value determined by the Board of Directors.

Sections 41.45.120-180 provides for bonding powers. The bank may issue bonds at its discretion, except that the maturity of any issue may not exceed 30 years, and the bank may not pledge the full faith and credit of the State. All property and bond issuances of the bank are tax exempt and legal investments for fiduciaries.

Sec. 41.45.210(15) allows the bank to borrow money and issue secured or unsecured evidence of indebtedness.

Lending

As mentioned earlier, the bank is fashioned after the farm credit system. To be eligible to borrow from the bank, a lendee must be a participant in the bank. The farm credit system specifies that a member must own at least 10% of the value in stock of an outstanding loan. A minimum participation is not specified in HB 763.

The bill leaves broad discretion to the Board of Directors in determining loan policy. Sec. 41.45.210 specifies that the bank may make variable rate or fixed rate loans, provide for extensions of loan terms (for poor fishing or farming seasons), make loans jointly with other public or private institutions, guarantee or endorse obligations of other corporations, and accept subordinate loans as security.

Sec. 41.45.210(18) allows the bank to provide "technical services" to shareholders to enhance their ability to obtain financial assistance from the bank.

Investments

The bank is given broad powers to invest its resources. Sec. 41.45.210(7) provides for the bank to "invest in projects conducted by shareholders of the bank by purchase of the capital stock of corporations involved in such projects, except that no investment in capital stock may exceed 49 per cent of the capital stock of a corporation". Subparagraph (8) of the same section provides for the bank to invest in projects relating to the development of farms, storage and processing of farm produce, etc. except that no investment may exceed 49% of the capital stock. There is no similar provision specifically allowing the bank to invest in "vertically integrated" fishing operations.

ELIGIBILITY

Sec. 41.45.210(1) describes the eligibility requirements. Applicants must be members of the bank to be eligible to receive loans. Eligible recipients are defined as "commercial fishermen and farmers or...corporations, partnerships, or joint ventures 51 per cent of which are owned by commercial fishermen or farmers who are state residents...."

Eligible activities do not appear to be limited to strictly fishing or farming. Subparagraphs (7) and (8) of Sec. 41.45.210 allow the bank to invest in activities conducted by shareholders of the bank. Subparagraph (7) is not specific as to what kinds of projects the bank may invest in, other than the projects must be projects "conducted by the shareholders". Subparagraph (8) specifies that bank investments may be made in the development and operation of vertically integrated activities relating to farming.

The bill is not specific as to what loan applications are eligible for consideration by the bank, except that loans are made only to members and members must be either commercial fishermen or farmers. Loan applications submitted by members for projects outside the purview of either fishing or agriculture are presumably eligible, unless otherwise provided for by the Board of Directors in the articles of incorporation or bylaws.

JW:dh

STATE OF ALASKA THE LEGISLATURE

LEGISLATIVE AFFAIRS AGENCY

POUCH Y. STATE CAPITOL
JUNEAU, ALASKA 99811
907-465-3800

MEMORANDUM

April 18, 1978

SUBJECT: Draft CS for HB 573 (Finance); W.O. #24/R

TO: The Honorable Terry Gardiner

FROM: John Williams 
Research Analyst

You have asked that we prepare a sectional analysis of the draft Finance Committee Substitute for HB 573. The following is a general description of the bill and a more detailed sectional analysis.

There are four major revisions and one minor revision of the commercial fishing loan program contained in the Committee Substitute. Section 1 provides for a minor revision--clarifying the present eligibility requirements for applicants. Section 2 expands the eligibility requirements for applicants. Section 3 raises the loan size to \$500,000 and provides for the state to assume a subordinate lien in some instances. Section 4 adds language that would allow applicants to receive a loan to purchase a limited entry permit.

SECTION 1

The section adds language to clarify the legislative intent with regard to eligible fishermen who may apply for commercial fishing loans. The language added specifies that eligible applicants must have been residents for five continuous years prior to making application for a loan, and must have been commercial fishermen for any three of those five years (and actively participated in a fishery).

SECTION 2

The present commercial fishing loan program is available only to individual commercial fishermen. Section 2 expands the eligibility

standards to include business ventures owned 100 percent by individual commercial fishermen. The allowable business arrangements are joint ventures, partnerships, and corporations.

Commercial fishing has become a major business activity for a large number of Alaskan fishermen, many of whom can no longer avoid taking advantage of the various business arrangements which allow them to limit liability, leverage capital, share risk, and take advantage of several other benefits offered by incorporation or other business arrangements. Present language would not allow a fisherman to receive a loan in the name of his fishing business or to apply with other fishermen for a loan to be utilized by a consortium. The provisions provided in section 2 should allow for a greater number of Alaskan fishermen to utilize the loan program.

SECTION 3

Paragraph (a) of section 3 (AS 16.10.320) provides for the limit on commercial fishing loans to be raised from \$150,000 (existing law) to \$500,000. The language also reorganizes the section so that loan terms are clearly presented. The paragraph contains no other changes in present law.

Paragraph (b) is contained in existing law.

Paragraph (c) is new language which sets out conditions whereby the state may accept a subordinate lien as loan security for the purchase of a new or existing vessel. The conditions are that (1) the borrower must have prior written agreement from a private lending institution to

accept a first lien on the vessel; (2) the size of the state loan may not exceed 35 percent of the vessel appraised value or \$1 million, whichever is less; (3) the term of the loan shall not exceed 15 years; and (4) the interest on the loan shall be between 7 and 8 percent at the discretion of the Department of Commerce and Economic Development.

Paragraph (d) prohibits more than one commercial fishing loan being made to an individual or associate of the individual, except as provided in paragraph (e).

Paragraph (e) allows for two or more eligible commercial fishermen to jointly obtain a loan, the size of which cannot exceed \$500,000 times the number of participating fishermen applying for the loan. The terms of the loan are identical to provisions in section 3, paragraph (a) of the bill.

SECTION 4

This section adds new language to AS 16.10 which allows the commercial fishing loan program to make loans to fishermen for the purpose of buying limited entry permits. Terms for loans shall be the same as provided in section 3, paragraph (a)¹. Paragraph (b) defines the procedure that would be utilized for entry permit loans; specifically that the commissioner of Commerce and Economic Development shall be the legal owner of the permit; the fishermen shall be listed as equity owner and debtor; and the debtor shall be issued the annual permit cards and shall bear full responsibility as permit owner. Paragraph (c) stipulates that

¹The term provisions are not specified in the draft CS. At page 5, line 6 of the work draft, delete "secs. 300-370" and insert "sec. 320(a)".

the commissioner is not liable for any act (or lack thereof) with respect to the permit. Once the debtor has satisfied his debt, the commissioner shall so notify the Commercial Fisheries Entry Commission (paragraph (d)) and shall amend the permit to list the debtor as legal owner (paragraph (e)).

Sec. 16.10.335 of section 4 specifies the actions to be taken by the commissioner if a debtor falls in arrears on an entry permit loan. The debtor shall be notified and given 60 days from the postmark of the notice to correct the situation. If he does not respond within the time allowed, any interest he may have in the permit may be terminated.

Sec. 16.10.337 specifies the means of disposing of permits which by default are the property of the state. The Commercial Fisheries Entry Commission is given first option to buy the permit (if the permit is for a fishery which has a buy-back program) for the amount outstanding on the loan (plus handling charges). If the commission does not exercise its option within 30 days, the person listed as debtor may name a qualified fisherman to whom he wishes to assign his former rights. If the nominated individual meets all necessary requirements to hold a limited entry permit, he may assume all rights and responsibilities of the original debtor. If the original debtor does not nominate a successor, the commissioner shall select at random, from a list provided by the Commercial Fisheries Entry Commission, a fisherman who may assume the loan.

Sec. 16.10.339 provides for the Entry Commission to adopt regulations to implement this portion of the bill.

Sec. 16.10.342 creates a foreclosure expense account from the "excess" interest earned on loans made with second mortgages (section 3,

paragraph (c)). Money may be expended from the account when necessary to protect the state's interest in collateral on loans granted under this chapter or to defray expenses incurred during foreclosure proceedings after a default.

Sections 5 and 6 of the bill provide for technical amendments (definitions and amendments to chapter 43). Section 8 is the effective date clause. The bill would take effect on July 1, 1978.

Please let us know if we may be of further assistance.

JW:jm

Juneau, Alaska
March 28, 1979

Hon. Hugh Malone, Speaker of the House of Representatives
Alaska State Legislature
Juneau, Alaska

Dear Mr. Malone,

Attached is a memorandum and comments listing additional support for the findings in CS HB763. I would list these ~~as~~ additional findings in three categories as stated.

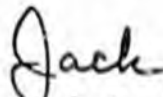
In response to your closing comments last night regarding the lack of findings in the legislation as it is written in the books, I would only say that this is unfortunate indeed. The findings should form the most important part of any legislation, for it is only through the statement of the findings that one can adequately determine the fulfillment of the intent of any legislation.

In scientific terminology the findings correspond to the identification of a problem. The final creature created by legislation, in this case the bank, can only be tested for purpose by comparing it with the original problem stated.

I would suggest that if the laws existing on the books have not been written to include findings in the past that the legislature do something to correct this practise.

I enjoyed testifying before the House Resources Committee last evening as much as you did creating the bill. Thank you for the opportunity.

Sincerely,



Jack O. Hakala

Enc. Comments requested on findings

cc. Chairman Osterbach
Mr. Gorder

To: Speaker of the House, Hugh Malone

From: Jack O. Hakkila

Date: March 28, 1978

Re: Comments on findings in CS HB763

My comments last night regarding the findings as presented in the committee substitute HB763 were as follows:

The first step in writing be it in business, government or science involves the proper identification of a problem. I concur with the committee in the statement of the problem regarding fisheries and the need for the creation of a credit source for the industry immediately.

I also identified a similar problem facing agricultural development.

The third element that should be brought together concerning these two areas is the inadequacy of banking in the rural communities.

While I do not have any data regarding these other two areas I will draw together some supporting evidence from the top of my head which may serve as additional findings or support for findings already identified.

Attached are my comments.

1. Fisheries:

The fisheries industry will support an additional one hundred thirty processing plants which will serve an additional eight hundred vessels.

For every person employed on water, seven persons are employed on shore. Five people employed per boat identified above would result in four thousand people employed on the water adding another twenty-eight thousand persons employed on shore.

The total immediate investment required for the processing plants and vessels above is approximately two billion dollars.

2. Agriculture:

The total of agricultural land which can be farmed in the state is approximately twenty million acres. An additional one hundred million acres of rangeland exists.

Current land in agriculture is 17,500 acres.

Within the decade ninety to ninety-nine percent of the agricultural lands in private ownership within the state will be in the hands of Alaska natives as a result of the ANCSA. This will not only give Alaska natives the opportunity to farm some five and one half million acres but will also be a mandate to do so since by 1991 these lands will be a part of the taxable lands within their respective areas. Individual native corporations which have begun agricultural planning such as Ruby and Galena contain twenty to thirty thousand acres of good farmland apiece.

3. Banking:

Banking within the state is totally inadequate within the state to finance the agricultural and fisheries development stated above.

Lending sources available include the following:

Total state lending of commercial banks is approximately one billion dollars. Total assets of commercial banks are approximately 2.6 billion dollars.

The state fund for commercial loans, fisheries and tourism has made approximately fifty million dollars in loans to date in all segments. Experience has been excellent. Only five thousand dollars in loans has been uncollectable.

Lending requirements for all banking will far exceed any ability to create financing in the coming years. The oil and gas industry will alone generate the requirement for additional financing to include petrochemical development far outstretching the requirements needed by fisheries and agriculture. Some examples of possibilities include:

The construction of a destructive dehydrogenation facility to upgrade the production of crude oil. This facility which would be located near Fairbanks could produce thirty to forty percent more crude oil by upgrading the distillates.

No one has come forth with a proposal for financing a required one billion dollar plus gas purification facility which will be necessary before natural gas is placed in the gasline being built by Northwest Alaska Energy.

Depending upon world marketing, the Northwest gas line will support the addition of a one billion dollar petrochemical plant per year in Alaska for each of the first ten years of operation of the pipeline.

It should be clear, then that the requirements for financing for the above types of ventures and the supportive ventures necessary for them will outstretch even the potential creation of capital through the creation of the permanent fund added onto existing lending capacities of Alaska lending institutions.

Juneau, Alaska
May 16, 1978

Ms. Diann Nelson
House Resources Committee
for Rep. Osterback

Re: CSHB 763

Diann:

I have the following comments to offer after briefly glancing over the revised version of HB 763 which you gave me yesterday:

- §§1 & 2 (1) In stating the need for the bill, the problems and possibilities inherent in beginning large-scale agricultural production and marketing are not adequately defined.
- §3 p.10 (2) In Section 41.45.210, Powers of the Board, items 7 and 8 are redundant. The establishment of a bank with State monies whereby the bank is allowed 49% ownership in projects raises a serious question regarding the nature of the bank. Is this to be a State institution or ultimately a private bank? Obviously through 49% control of a large number of corporations the State bank would not be encouraging private enterprise but rather controlling it. It would be my observation that the bank should not be competing with the enterprise it seeks to establish but only acting as a facilitator in the lending community.
- (3) The overall intent of the bill and the structuring of a private institution which will ultimately stand on its own is an excellent concept. There is a very strong need for this bank in Alaska immediately. I would suggest that in further defining the need for the bank a summary of current banking in the rural areas of Alaska as well as the availability of sound bank financing in Alaska as a whole be included.
- (4) In summary, the ultimate strength of this bank will not come through State participation but through the ability of a local people in rural areas which is harnessed into the structure of the bank from inception. I do not see any provision for local participation defined in the bill.

Jack Hakkila

Attachment: Resume

RESUME

Jack O. Hakkila

Born: Willimantic, Connecticut. June 26, 1940

Raised on poultry farm in Canterbury, Connecticut. Father retired in 1959 turning farming operation over to me at that time. Raised poultry there and on other farms in Eastern Connecticut until 1969 when moved to Fairbanks, Alaska

Education:

- 1961: Bachelor of Science, University of Connecticut, Storrs, Connecticut in Poultry Science. The University of Connecticut is the land grant institution in the State of Connecticut with the main campus at Storrs.
- 1969 Master of Science University of Connecticut, Storrs, Connecticut Agricultural Economics.

Professional Experience:

- 1959-69: Poultry operations in Eastern Connecticut. Served on Boards of Directors, United Cooperative Farmers, Inc. and Willimantic Egg Auction, Inc. United Cooperative Farmers, Inc. is a feed manufacturer and marketing cooperative with headquarters in Fitchburg, Massachusetts serving the New England area. The Willimantic Egg Auction, Inc. was an egg marketing cooperative in Southern New England.
- 1969-70: Assistant Professor, Economics, University of Alaska, Fairbanks, Alaska. The University of Alaska is the land grant institution for the State of Alaska with the main campus located at Fairbanks. The Department of Economics is part of the School of Business, Economics, and Government with a vital role in providing direction for the State of Alaska during a dynamic period of change with the advent of Prudhoe Bay oil discoveries and development.
- 1970-74: Field Underwriter, New York Life Insurance Co., Fairbanks, Alaska. New York Life Insurance Co. is one of the three largest mutual life insurance companies in the United States. During this time the first life insurance sales office for any major company was opened in Interior Alaska at Fairbanks. 1973, led the North Pacific Region in group insurance sales.
- 1974: Self employed as partner in First Industrial Financiers of Alaska. First Industrial Financiers represented over one billion dollars of loan packages to outside financial institutions.
- 1975: Account Executive trainee, Merrill Lynch, Pierce, Fenner & Smith, California Street Office, San Francisco. Merrill Lynch is one of the nation's leading brokerage firms. The California Street office is one of the major offices within the firm structure. Training was specific relating to Alaskan industrial development. All projects of First Industrial Financiers were turned over to Merrill Lynch.

Resume (page two)

1975-76: Self employed, Patent Development. Worked closely with Mr. Joseph C. Balch of Salcha, Alaska in developing certain patents related to soils refrigeration. Mr. Balch is holder of over thirty patents. The initial soils refrigeration patent was one of the ten Award of Merit exhibits at the annual new products exhibits at the New York Coliseum in 1966.

October 1976-May 1977: Assistant Project Director, Village Management Assistance Program, Tanana Chiefs Conference, Inc. Fairbanks, Alaska. The Tanana Chiefs Conference, Inc. is the non-profit corporation serving the area encompassed by Doyon Ltd., one of the twelve regional corporations established by the Alaska Native Claims Settlement Act. The Village Management Assistance Program was established to provide management assistance to village corporations established by the ANCSA. The Assistant Project Director was in charge of the staff of eight people, involving considerable travel throughout the region to identify needs of village corporations. The villages of Galena and Ruby responded most favorably to an educational approach with a request for further assistance.

May 1977: Sales Manager, first Tundra Times Special Summer Edition. The Tundra Times Special Summer Edition was directed as a free advertising mailer to the state's native community north of the Alaska Range. The content of the paper featured Alaskan agriculture.

June, 1977-August, 1977: Instructor in Agriculture, University of Alaska Regional Learning Center, Galena, Alaska. The Regional Learning Center was officially founded in the beginning of June, 1977 to serve the villages in the Middle Yukon, Koyukuk areas. The Instructor in Agriculture assumed responsibilities to establish an experimental station in Galena with teaching responsibilities in Ruby and Galena in agriculture.

September, 1977: Contractor to prepare a grant for agricultural development, Nوتاaghleedin, Ltd. Galena, Alaska. Nوتاaghleedin, Ltd. is the village corporation of Galena, Alaska. The service agreement with the Nوتاaghleedin, Ltd. provides for the preparation of a grant/ or legislative application for agricultural development for the Nوتاaghleedin, Ltd.

October, November, 1977: Presently employed as Assistant Wildlife and Parks Officer, Tanana Chiefs Conference, Inc. This position includes responsibilities to arrange and assist in holding meetings with the Tanana Chiefs Advisory Fish and Game Council and the State of Alaska Fish and Game Advisory Committees in Tanana, Fort Yukon, Galena, Holy Cross, and McGrath.

Professional awards, conferences, and papers:

- 1962: One of four International Farm Youth Exchange delegates to Switzerland, May-November. The International Farm Youth Exchange Program was organized to promote better understanding between and among farm peoples in 128 countries worldwide.
- 1962: One of three American delegates to the Third World Rural Youth Conference, Luntern, Holland. Held in June, 1962, the Third World Rural Youth Conference was sponsored by the World Assembly of Youth, New York, New York. Conference attendees came from throughout the free world to discuss mutual problems of rural life.
- 1969: Author, Oil, Catalyst for Alaskan Economic Growth, a paper presented at the 20th Alaska Science Conference, Fairbanks, Alaska.
- 1975: Co-Author with Joseph C. Balch, Permafrost: From the Bottom Up, a paper presented at the Third Port and Ocean Engineering Conference Under Arctic Conditions, University of Alaska, Fairbanks, Alaska.
- 1976: Author, Oil, Energy and Balanced Economic Growth in Alaska, a paper presented at the 27th Alaska Science Conference, University of Alaska, Fairbanks, Alaska.
- 1977: Author, Alaska, the Nation's Powerhouse, a paper presented at the Fairbanks town meeting on Energy, Fairbanks, Alaska, March, 1977.
- 1977: Attended Safety of Structures under Dynamic Loading, Trondheim, Norway. The conference considered problems of construction of offshore drilling platforms in Northern latitudes with the best known lecturers in several fields over a period of ten days.
- 1977: Attended annual meetings of the American Agricultural Economics Association, San Diego, California. Representative of Citizens for the Management of Alaska Lands.
- Presently: Co-Chairman with Dr. Wayne E. Burton in organizing a symposium for the annual meetings of the American Agricultural Economics Association in Blacksburg, Virginia, "Creating a Northern Agriculture, the Alaskan Case." These will be the first ever joint meetings of the American and Canadian Agricultural Economics Associations.
- 1977: Author, Editorial for Tundra Times supporting the Northwest Pipeline route and concurrent petrochemical development in Interior Alaska. The Tundra Times is the state's oldest newspaper with emphasis on news delivery to native communities.
- Member: Alpha Gamma Rho, Professional Agricultural Fraternity.
Gamma Sigma Delta, Honorary Agricultural Fraternity
American Agricultural Economics Association

Resume (page three)

December, 1977- present: Under contract with the Bureau of Indian Affairs to organize the Alaska Agricultural Development Foundation. The founding convention was held at the Alaska Methodist University January 26-28, 1978. As one of the founding directors, currently working on financing the foundation.

February, 1978- April, 1978: Consultant to the University of Alaska to begin teaching programs in Contemporary Business, Accounting, and Typing in the villages of Allakaket and Bettles, Alaska.

March 16, 1978

I am currently developing a paper on financing agricultural development in Alaska which will be delivered at the symposium on Alaskan agriculture at the American Agricultural Economics Association annual meetings at Blacksburg, Virginia mentioned above. My research to date has included visits to the Federal Reserve Board in Washington, D. C. as well as to the Federal Land Bank, Federal Intermediate Credit Bank and the Bank for Cooperatives in Washington, D. C. I first became aware of the House Bill 763 at the Federal Intermediate Credit Bank office in Spokane, Washington last week.

MESSAGES FROM THE GOVERNOR

"February 22, 1978

The Honorable Hugh Malone
Speaker of the House
Alaska State Legislature
Juneau, Alaska 99811

Dear Mr. Speaker:

It is my expressed objective to encourage and assist commercial development of presently under-utilized Alaska fish resources. Development activities which are economically sound and will lead to healthy community and State growth are of the highest priority. Therefore, I am committed to the establishment of a resident Alaska fishing fleet on bottom fish stocks and on-shore processing facilities.

If bottom fish development is to occur within a schedule more rapid than would occur in normal market operation, State Government must act as a catalyst, taking positive actions, now. I am convinced that the industry and Alaska coastal communities can and must develop in harmony with rational planning. This is especially true for the Aleutian Islands - Alaska Peninsula region where substantial fisheries activities have occurred with little or no regard to community needs.

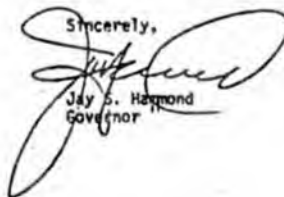
To provide for the coordination of such efforts emanating from the Legislature, the Executive, and the University of Alaska, I invite your designation of two members of the House to join with an Administration team to consider and expand or modify the following action plan:

1. Identify the financial and administrative requirements necessary for a comprehensive infrastructure development plan for Alaska coastal communities.
 - a. Concentrate efforts in the areas of greatest potential and need.
 - b. Consider present and future support needs of a fishing industry and requirements for healthy community development.
 - c. Review the New Cities Act as an instrument for infrastructure development, should new communities be required.
 - d. Recommend specific comprehensive port development projects.
2. Provide funds to support bottom fish production trials by existing in-shore vessels using gear types other than single vessel trawls. Through an educational system, encourage experienced technicians and fishermen from other states and countries to participate in this and other similar research and development projects.
3. Actively seek and encourage responsible investment, both domestic and foreign, through organized development groups to promote investment opportunities.
4. Prepare analyses of capital requirements whereby State financial programs may provide incentives for on-shore processing plant investments.
5. Prepare a work document to determine technical and financial assistance necessary to assure that properly equipped vessels are prepared to enter the fishery as markets and handling facilities are established.
6. Investigate the desirability and feasibility of obtaining a waiver to the Jones Act for temporary use of American manned foreign vessels during conversion to a U.S. Fleet.

7. Identify and recommend favorable areas for future trade development activities and assist in the development of an aggressive marketing program nationally and internationally.
8. Continue administration and analysis of existing assistance programs to processors. Continue application and administration of EDA technical assistance grants to support fishing operations.
9. Coordinate State participation with private industry and federal involvements encompassing bottom fish development activities.

Thank you Mr. Speaker for your encouragement and support. I firmly believe that this cooperative effort will result in a comprehensive, coordinated approach to the development of this vital State resource.

Sincerely,



Jay S. Hammond
Governor

Copies of the Governor's letters have been placed on each member's desk.

SPOKANE BANK FOR COOPERATIVES

FARM CREDIT BANKS BUILDING
W. 705 FIRST AVENUE
SPOKANE, WASHINGTON 99204
TELEPHONE: (509) 456-7340



April 20, 1978

The Honorable Alvin Osterback
House of Representatives
Pouch V
Juneau, Alaska 99811

Dear Mr. Osterback:

I appreciated the opportunity to visit with you last week regarding the Bank for Cooperatives' potential involvement with the Commercial Fishing and Agriculture Cooperative Development Bank. We would be pleased to assist in the development of the bylaws, lending guidelines and other policies and procedures of the new Cooperative Development Bank. Our Senior Vice President, A. E. Van Winkle, who has had over thirty years experience with our Bank, would be available to assist the board and management of the Cooperative Development Bank in the development of policies and procedures.

I have enclosed the index of our Bank's Policy and Operations Manual and a copy of the Credit and Business Development Department section of this manual. Toward the end of this section is a Credit Report Format which may be of interest. The Credit Report is the document used by our loan analysts to present a loan proposal to the Loan Committee for its approval or rejection. All sections of our Policy and Operations Manual are available to you and would be made available to the Board of Directors of the Cooperative Development Bank.

Also enclosed is a copy of the Bylaws of Growers Credit Corporation. Growers Credit Corporation is a cooperative organized to make loans to its grower-members. This cooperative obtains its funds from the Bank for Cooperatives and lends those funds plus its own net worth to its members.

The enclosed documents are only an indication of the type of information that is available. We would be pleased to provide any information that you may request. Senator Kerttula, Jim Edenso and Keith Specking have requested that we send copies of the enclosed information to them also. I have mailed this information to them under separate cover.

Mr. Van Winkle and I plan to be in Juneau during the month of May. We would like to meet with you at that time and I will call to make an appointment. If we may be of any assistance prior to that time, please do not hesitate to call on us.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Larry K. Butterfield".

Larry K. Butterfield
Assistant Vice President

Enclosures

POLICY AND OPERATIONS MANUAL

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CREDIT AND BUSINESS DEVELOPMENT DEPARTMENT

A. APPLICATION PROCESSING PROCEDURES

Business analysts' responsibilities in connection with loan accounts will include processing applications for loans, processing other requests made by the borrowers, calling to the attention of the Vice President-Credit or other Bank officer unusual circumstances which may jeopardize the loan or the Bank's relationship with the borrower, and generally serving as the Bank's primary contact with the borrower.

A set of application forms should usually be sent to borrowers with seasonal loans at least 60 days prior to the expiration date of the loan. A set of application forms will include an Application for Loan (Form BC 126), Resolution of the Board of Directors (Form BC 126-C), and a Corporate Certificate (Form BC 126-B for repeat borrowers and Form BC 126-D for new borrowers). Sample forms are attached in the Appendix. More than one type of loan may be applied for by the use of one set of application forms.

Credit Department personnel will be assigned to applicants or borrowers by the Vice President-Credit. The account will then remain the responsibility of the person so designated until it has been reassigned. Applications should be reviewed for adequacy upon receipt. Generally defective or incomplete application papers should be returned to the borrower immediately for correction in order that the attorney's opinion can be completed before the application is presented to the Loan Committee. However, if the discrepancy is such that it will not hinder completion of the attorney's opinion, the application paper(s) may be returned to the borrower for completion following approval of a loan commitment by the Loan Committee.

Increases in applications and applications for increases in existing loans may be accepted by letter or verbally and need not be accompanied by the usual Application for Loan and Corporate Certificate if received within 12 months of a previous, complete application. Likewise, applications for a different type of loan may be accepted by letter or verbally, and need not be accompanied by the usual Application for Loan form and Corporate Certificate if received within 90 days of a previous, complete application. In either case, a replacement Resolution of the Board of Directors will be needed to support the increased amount.

B. CREDIT ANALYSIS AND REPORTING PROCEDURES

1. General:

All loan actions by the Loan Committee shall be taken on the basis of information presented within a written memorandum, credit report or supplemental credit report. Such reports normally shall be prepared prior to a loan commitment action by the Loan Committee. In unusual cases where it is necessary to make a commitment without a written report, a post-commitment written report shall be prepared containing the relevant information upon which the commitment was considered and made.

In order to facilitate reading and understanding credit report information, such reports should utilize a consistent, uniform format to the extent appropriate to the circumstances.

The credit report shall contain sufficient information to allow members of the Loan Committee and, where appropriate, representatives of the Central Bank for Cooperatives and Farm Credit Administration, to make independent judgments relative to credit report recommendations. In general, the amount of time, effort and thoroughness of credit analysis shall vary depending on such factors as:

- a. Loan amount
- b. Loan quality
- c. Loan complexity
- d. Bank's experience with applicant - An original application requires more analytical detail than a supplemental. An applicant that has not borrowed from the Bank for some time requires more analysis than one upon which a credit report has recently been written.
- e. Type of applicant - An applicant with an operation of a type unusual or unfamiliar to Bank personnel requires a more exhaustive analysis than one of a type commonly handled. Material prepared by outside consultants should be made part of the credit report whenever necessary for adequate analysis.
- f. Special handling requirements - Additional credit report detail is needed on loans requiring Farm Credit Administration's approval since their representatives may not have access to background information available to Bank personnel.

2. Credit Reports:

The primary purpose of a credit report is to summarize, communicate and document the information needed for a loan decision. A credit report should be prepared in connection with most loan applications. An exception may be made if there is a recent credit report on file and there have been no major changes. In such cases the application may be presented by a memorandum supported by the last credit report.

A total credit report will be in two parts - a "Credit Report" (format shown in Exhibit 1) which presents the application and current supporting information and a "Permanent Report" (format shown in Exhibit 2) which covers matters that usually do not change much from year to year. The current credit report should make reference to the permanent report and any significant changes since the permanent report was prepared. The total credit report and permanent report combined should be self-contained to the extent that representatives of the Central Bank for Cooperatives, Farm Credit Administration, and others not closely associated with the association will have information and background necessary for a decision.

3. Other Memoranda:

- a. Amendments - A request for an amendment in loan terms should be presented by a memorandum prepared by the assigned business analyst.

Normally changes in loan agreement provisions should be handled by an amendment to the existing loan agreement.

- b. Miscellaneous - Other actions which require analysis by the Credit Department need to be initiated by a memorandum setting forth the necessary information.

C. BORROWER RELATIONS

In addition to the handling of various loan servicing activities, analysts assigned to specific borrower accounts shall have a major responsibility to develop and maintain good borrower relations. Inasmuch as such analysts usually serve as the Bank's primary contact with the borrower, a two-way communication liaison role is essential to good Bank-borrower relations.

D. NEW BUSINESS DEVELOPMENT

The following shall be developed and maintained by the Credit Department:

1. Names and addresses of operating cooperatives in the District and a record of new business development contacts made by Bank representatives.
2. A separate "Loan Inquiry" file containing information regarding inquiries from potential borrowers and the Bank's response.
3. A separate "New Cooperative Organization Inquiry" file containing information regarding inquiries from groups desiring information or assistance in forming a cooperative.

E. HANDLING OF SPECIAL ATTENTION LOANS

In order for the credit staff to have an effective format to deal with loans needing special attention and to provide the association with a detailed time-framed program for seeking a solution to the problems identified, the following procedure is to be used:

1. A Special Attention Loan List will be maintained by the Vice President-Credit and Business Development identifying loans which have serious credit weaknesses. This list will be reviewed and updated at the monthly credit staff meeting at which time any changes in the condition or status of a listed loan will be discussed in detail. During the week following the credit staff meeting, the Loan Committee will review the list and during the succeeding month may add loans to the list as it reviews the respective loan proposals.

Loans in this special attention category are to have significant credit weaknesses including one or more of the following:

- a. Inadequate working capital;
- b. History of low earnings or recent substantial decrease in earnings;
- c. Management change, or poor management;
- d. Inventory or receivable problems;
- e. Problems in providing normal statements or reports to the Bank;

- f. Cash flow problems or delinquency with major creditors;
- g. Highly leveraged position;
- h. Recent significant change in sales; and
- i. Evidence of speculation in either marketing commodity or supply inventory.

Any loan of the Bank having such weaknesses should be considered for inclusion on this Special Attention Loan list. Efforts should be made, however, to keep the number of loans on this list to a minimum so that the credit staff can maximize its efforts on those accounts which need priority attention.

2. When a loan is added to the Special Attention Loan List for the first time, a meeting will be requested with the association's management, and in most cases, the board within 30 days after the loan has been put on the Special Attention Loan List. This meeting should be attended by the business analyst handling the account and a junior or senior officer. The following areas will be discussed during that meeting:
 - a. Evaluation of problem;
 - b. Discussion of alternatives for solution of the problem, or problems;
 - c. Determination of a format and timetable for corrective action.

Sufficient information will have been gathered prior to this meeting by the Bank staff to determine the format for the meeting and prepare any necessary comparisons, ratios, charts and graphs, or other information to assist the manager and/or Board in identification of the problem and in determination of a solution to the problem. After the meeting with the association, the business analyst will prepare a report for the Loan Committee which will cover the following areas:

- a. The extent of the problem or problems which caused the loan to be classified as a special attention loan will be explained including the extent of the impairment of the financial condition and/or the potential loss involved.

- b. The cause of the problem will be identified and discussed;
 - c. A program for corrective action will be described with specific dates for completion of each corrective step proposed. Ideally, this program will have been presented to the board of directors, or determined during the meeting with the association so as to have had the concurrence of the manager and board. An example of a proposed time format is attached as Exhibit "A".
- 4. The program will then be presented by the analyst to the Loan Committee and the Loan Committee will have the responsibility of reviewing the program and implementing any follow-through action.
 - 5. An outline of the program including each corrective step with appropriate time frames will be described in a letter to be sent to the board thereby reinforcing the Bank's concern about the problems involved and reconfirming deadlines of action to be taken by the association.
 - 6. The Vice President-Credit and Business Development will maintain a master calendar for all loans included in the special attention loan category which will show all actions required by the program submitted to the Loan Committee and the respective deadlines for each step therein. These programs will be reviewed at least monthly with the credit staff, or more often as necessary.
 - 7. Unless specifically waived by the Loan Committee, all special attention loans will have the following requirements:
 - a. Monthly financial statements; and
 - b. Monthly or more frequent collateral reports.
 - 8. In order to facilitate the action program with the association, it may be suggested at the meeting with the board and management that a committee of the board be formed to work with the Bank determining and implementing the solution to the financial problems of the association.
 - 9. If at any time a loan is not responsive to these special loan handling procedures or otherwise merits more concentrated "problem" loan administration, then the matter should be brought to the attention of Loan Committee and the Loan Closing and Services Department.

CREDIT REPORT FORMAT

Appl. No.
Date

TO: Loan Committee

FROM: (name of analyst)

APPLICANT: (name and address of association)

PRODUCT OR SERVICE AND RECENT LOAN HISTORY

1. Brief description of services provided, products handled, and in some cases, the area or areas served.
2. Schedule summarizing recent loans and those now in effect showing loan number, date, amount of commitment, amount brought forward, advances, peaks, lows (seasonal only) and current outstanding balance.

Generally, the low shown for a seasonal loan should be the low to date for the season being financed by the loan. This schedule should be followed by brief comments, as appropriate, concerning such things as the period during which the seasonal loan was zeroed out, reasons for a carryover in a seasonal loan or an increase in a carryover, payment status of the term loan, security provisions for the term loan (if such will not be presented later), etc.

REFERENCE TO PERMANENT REPORT

The following statement should be used in referring to the Permanent Report:

This report is supplemented by a Permanent Report dated _____ which contains information concerning this association that does not ordinarily change much from year to year. The Permanent Report has been reviewed and remains correct in all material respects except the following:

AMOUNT APPLIED FOR AND PURPOSE

1. Description of amounts applied for and purposes for which funds will be used.
2. Comments as required regarding:
 - a. Reasons for a difference in the loan proposed from that applied for on the written application
 - b. Reasons for an increase in a seasonal line
 - c. The adequacy of the seasonal line to do the job.
3. Schedules listing expenditures should not only be structured to convey information to the Loan Committee, but should also be designed so they can be used for, or at least provide, a meaningful basis for the "Schedule of Expenditures Report" which will be required of the borrower. The "breakdown" to be used in the "Schedule of Expenditures Report"

should be coordinated with the borrower when possible.

4. For term loans, areas to be considered and commented on may include:
 - a. Whether major construction projects are covered by firm contracts
 - b. Plans regarding performance bonds
 - c. Timing of capital expenditures and expected completion dates
 - d. Need for the facility and expected benefits
 - e. Whether all property is covered by existing mortgage
 - f. Whether new property is deeded or leased
 - g. Who designed major construction
 - h. Site preparation and testing
 - i. Whether used equipment is included in purchases.

Other information that would be included in this section when appropriate:

- a. Schedule showing all loans and commitments to this borrower by the Bank now in effect and being proposed
- b. Indication of a participation loan
- c. Indication of loans requiring prior or post approval by Farm Credit Administration
- d. Description of other lines of credit, if any, and the terms of such lines
- e. A reminder if special handling is required; for example, when a member of the District Board, Central Bank or Federal Farm Credit Board is also an officer, employee, or Board member of the association
- f. Whether other creditors are to be paid, the amounts, plans, and other pertinent information
- g. When other creditors are involved, who holds the insurance policies
- h. Comment regarding whether filing to cover "equipment of the type used in farming" is necessary.

RECOMMENDATIONS

This section should include a summary of recommendations regarding loan terms and related matters including, as appropriate:

1. Amounts and types of loans
2. Security
3. Advance limits
4. Repayment amounts and dates and commitment expiration dates
5. Requirements for performance bonds, contracts, mortgagee title insurance, working capital, and other conditions
6. Waiver if collateral reports are not to be required
7. Outstanding balance clause amount for new or supplemental mortgages
8. Clearance for planned equity redemptions, facility expenditures, etc.
9. Waiver if filing to cover "equipment of the type used in farming" is not necessary
10. Requirements regarding liens of other creditors
11. Review date if considered necessary
12. Special provisions.

Unless stated otherwise, it will be understood that the loan agreement will also include the terms in the standard printed loan agreement for the type of loan under consideration.

SECURITY

1. Describe the book and appraised values of the recommended fixed asset security.
2. Describe exclusions.
3. Show the percent the proposed and existing term loans are of the book and appraised values of the recommended security. If a portion of the seasonal loan rests on term security, this portion should be included in the foregoing percentage.
4. Indicate values of secondary security. If equities in other cooperatives are used as secondary security, indicate whether the issuing company has waived its rights of offset.
5. Describe existing mortgages as to date, outstanding balance clause amount, and whether existing mortgages cover all of the recommended security.
6. If a new or supplemental mortgage is needed, indicate if it is to cover deeded or leased land, and whether there are any existing liens. If property is leased, give name of the owner. If the owner is other than a major railroad, consider (and make appropriate recommendation in Recommendations section) the need to obtain a lien search against the owner and the need to require that the lease be recorded.
7. Provide information to support recommendations for mortgagee title insurance.

Total amount of mortgagee title insurance required =

<u>Total loan amount</u>	
Est. total security appraisal value	X Est. dollar appraisal value of real property security

8. Provide information to support recommendation for outstanding balance clause.
9. If used equipment is being obtained, indicate if a lien search against the vendor has or should be made. If the association has obtained such a search, copy of its search may do. If not, consideration should be given to whether Bank should request a lien search. Generally, a search should be required unless the used equipment is only a nominal part of the total security.
10. Field investigation should include a check on procedures and values used in reporting collateral.
11. Collateral report format should be coordinated with the borrower.
12. Indicate whether pool products pledged as security are covered by a grower contract giving adequate authority to pledge the products covered and whether substantially all growers have signed the contract.

FINANCIAL CONDITION

Comparative financial statements prepared as indicated on the instruction cards attached and identified as Exhibits _____ through _____ should be attached to each credit report.

Comments should be made as required in the circumstances on balance sheet accounts and in some cases on the figures on Exhibit "B" to the credit report (the net worth reconciliation -- source and use figures). Only accounts or changes of major significance require comments. Some of the more common comments and concerns would cover:

1. Receivables

- a. Comparative b_y down
- b. Comparative aging or number of days' sales covered, or both
- c. Description of credit policy, both written and practiced
- d. Adequacy of reserve for bad debts
- e. Bad debt experience
- f. Current condition of growers in the area. Have they had a particularly bad year?

2. Inventories

- a. Comparative breakdown
- b. Basis of valuation, i.e. cost, market or other basis
- c. Position -- Is level or number satisfactory?
- d. Whether costs that must be paid have been reserved when inventories have been valued at market
- e. Obsolescence or dead wood
- f. Inventory control procedures
- g. Inventory turnover.

3. Net Facilities

- a. Additions made or planned
- b. Adequacy of the facilities
- c. Condition of the facilities.

4. Other Notes and Contracts

- a. Reasons for
- b. Repayment terms
- c. Security for
- d. Whether clearance is to be required or is to be waived
- e. Business analyst should make it a practice to review UCC information requests before credit examinations and discuss indicated liens of other creditors with association. Other liens are to be discouraged. If a lien of a creditor other than this Bank is to be tolerated, the credit report should reflect the reasons and need for this lien, the value of the property covered, and a recommendation regarding clearance or waiver of clearance.

5. Due Growers

- a. Indicate what account consists of
- b. Indicate expected returns on pools and comparison with prior years, area cash market, etc.
- c. Whether "capital retains" from the pool or pools covered are still in this figure or are in net worth.

6. Net Worth

- a. Revolving plans and program
- b. Adequacy of revolving program
- c. Whether approval of a planned retirement is being requested or has already been approved
- d. Adequacy of capital generation to fund satisfactory revolving program
- e. Describe adjustments shown on the net worth reconciliation if significant in amount.
- f. Terms and conditions of capital stock and equities are normally described on Exhibit "B" of the comparative financial statements. Bank should have sample copies on file of certificates or other writings (including letters of notification).
- g. Due-dated capital should be shown in the term liabilities section of the balance sheet and should be called to the Loan Committee's attention.

CONTINGENT LIABILITIES

1. Describe.
2. If no contingent liabilities, so state.
3. Expected results of pending lawsuits or damage claims
4. Adequacy of liability insurance protection.

WORKING CAPITAL

1. Projection to the next harvest, next fiscal year-end, or both
2. Comparison with prior years
3. Capital flow planning. Borrowers should be encouraged to project capital flows ahead five years or so and to update their projections at least annually. A format for making such projections is attached as Exhibit ____.
4. Comment as to the adequacy of working capital.

CURRENT OPERATIONS

1. Expected results of current year's operations, taking care to indicate the amount of patronage refunds included in net margin figure
2. Expected tonnage or volume
3. Expected pool returns and comparison with prior years, area cash market, etc. (if not already covered under "Due Growers")
4. Significant developments that might bear on association's operations; for example, crop failure, closing down of major local industry, adequacy of irrigation water, pollution control requirements, changes in government regulations, etc.
5. Industry trends
6. Member support
7. Present and future needs by members for the goods and services provided. Possible need to change "goods and service" mix in the future.
8. New competition.

INSURANCE

1. Amounts and types of coverage for:
 - a. Buildings and equipment
 - b. Inventories
 - c. Product, automobile, operations and premises liability
 - d. Employee dishonesty
 - e. Business interruption
2. Building and equipment insurance, cash value or replacement cost
3. Frequency of insurance appraisals
4. Comment as to adequacy of insurance coverage.

ATTORNEY'S OPINION

1. Statement as to attorney's findings
2. Report any qualifying statements made by attorney in his opinion and make recommendations where required.

SOURCE OF INFORMATION

1. Sources of information and date(s) of visit or recent telephone or other contacts.

MANAGEMENT

1. Manager
2. Age (approximation if exact age is not known)
3. Years in position
4. Comments -- If management continues to be satisfactory, then omit No. 4. (This section will be used to discuss any changes or problem areas appropriate, including those listed below.)
 - a. Comments on any changes in management during the past year including reasons for the change and background and experience of the new manager
 - b. Comments on management ability if operating results or observations would indicate that management is not or may not be able to perform adequately
 - c. If present management is anticipating retirement in the near future, comment on the availability or lack of potential management within the organization and, if possible, the age and experience of the probable replacement.
 - d. Observations concerning any problems between the board and management
 - e. Any dissensions or problems with the board.

PERMANENT REPORT

Exhibit 2
Section I

Prepared by:

HISTORY: Date of incorporation -
 Mergers, acquisitions or major additions -

This section includes the date of incorporation and any significant events that have occurred since that date, including but not limited to major construction projects, mergers, acquisitions, changes in operations, etc.

These events are listed chronologically and each item to be preceded by the year in which the event occurred. If available, any construction project also to include the price of the project.

OPERATIONS: Type of service or product -
 Location of facilities -
 Major supplier, marketing affiliate or agency -
 Territory served -
 Percent of volume in area -
 Type of agriculture -
 Method of operation -
 If pool, timing of payments -
 Brand names -
 Marketing contract - ; Cancellation provisions -

TAX STATUS: Exempt
Compliance with 1962 Revenue Act
Method of notification to members

COOPERATIVE ASPECTS:

Corporate paper are adequate	-
Provision for eliminating voting rights of inactive members	-
Voting member limited to one vote	-
or limit of 10% stock dividend	-
Voting by proxy allowed	-
Voting by mail allowed	-

<u>CAPITAL:</u>	<u>Type</u>	<u>Voting</u>	<u>Div. (%)</u>	<u>Cum.</u>	<u>Revolved</u>	<u>Estates</u>	<u>Due Date</u>	<u>Source</u>
-----------------	-------------	---------------	-----------------	-------------	-----------------	----------------	-----------------	---------------

History and Status of Capital Retirement Program

<u>Date</u>	<u>Amount</u>	<u>Year</u>	<u>% of Net Worth</u>
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The first part of the capital section lists each type of net worth on capital and indicated whether each type of capital has voting rights, pays dividends, is revolved or paid to estates, is due dated, and also how that type of capital is provided.

The second section is intended to show the effectiveness of the association's capital retirement program and includes a summary of the association's recent year's history of repaying capital.

It is expected that these sections will not only show the association's commitment to maintaining an annual revolve, but also will indicate how quickly the capital is turning over. It is expected that after the permanent reports have been updated, this consolidated comparative data will provide useful information concerned in the normal percentage of revolving capital retired each year per industry.

AUDIT: Unqualified -

MANAGEMENT AND DIRECTORATE:

- Board of Directors - Number of members -
 - Length of term -
 - Limitation of no. of years -

Past & Present Management

Name

Years in Position

AMENDED BY-LAWS
OF
GROWERS CREDIT CORPORATION

ARTICLE I

OFFICES

The principal office of the corporation in the State of Washington shall be located in the City of Wenatchee, County of Chelan. The corporation may have such other offices, either within or without the State of Washington, as the Board of Directors may designate or as the business of the corporation may require from time to time.

The registered office of the corporation required by the Washington Business Corporation Act to be maintained in the State of Washington may be, but need not be, identical with the principal office in the State of Washington, and the address of the registered office may be changed from time to time by the Board of Directors.

ARTICLE II

SHAREHOLDERS

Section 1. ANNUAL MEETING. The annual meeting of the shareholders shall be held on the first Tuesday in the month of February in each year, beginning with the year 1971, at the hour of 10:00 o'clock A.M., for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the day fixed for the annual meeting shall be a legal holiday in the State of Washington, such meeting shall be held on the next succeeding business day. If the election of Directors shall not be held on the day designated herein or any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as conveniently may be.

Section 2. SPECIAL MEETINGS. Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the President or by the Board of Directors, and shall be called by the President at the request of the holders of not less than 10 per cent of all outstanding shares of the corporation entitled to vote at the meeting.

Section 3. PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Washington, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place, either within or without the State of Washington, as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the corporation in the State of Washington.

Section 4. NOTICE OF MEETING. Written notice stating the place, day and hour of the meeting, and in case of a special meeting, the purpose or purposes for which the meeting is called, shall, unless otherwise prescribed by statute, be delivered not less than ten, nor more than fifty days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary,

or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid.

Section 5. CLOSING OF TRANSFER BOOKS OR FIXING OF RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the corporation may provide that the stock transfer books shall be closed for a stated period, but not to exceed, in any case, fifty days. If the stock transfer books shall be closed for the purpose of determining shareholders entitled to notice of or to vote at a meeting of shareholders, such books shall be closed for at least ten days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than fifty days, and, in case of a meeting of shareholders, not less than ten days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If the shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

Section 6. VOTING LISTS. The officer or agent having charge of the stock transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at each meeting of shareholders or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each. Such list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof.

Section 7. QUORUM. A majority of the outstanding shareholders of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 8. PROXIES. At all meetings of shareholders, a shareholder may vote in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the corporation before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

Section 9. VOTING RESTRICTIONS. No shareholder shall be entitled to more than one vote upon each matter submitted to a vote at a meeting of shareholders, regardless of the number of shares of stock in this corporation which such shareholder may own. At each election

for Directors, every shareholder entitled to vote at such election shall have the right to one vote, in person or by proxy, for each director position then being voted upon, but he shall not be entitled to cumulate his votes.

Section 10. VOTER QUALIFICATIONS. In order to vote, a shareholder must at the time of such vote be a current bonafide producer of agricultural and horticultural products within the State of Washington or an association of such producers, and, in addition thereto, must be a current patron of this corporation. In the event that a shareholder shall fail to qualify as a current producer and patron as herein required, such shareholder shall, during such non-qualifying period, have no rights in the management of affairs of the corporation other than the right to participate, in accordance with the law, in case of dissolution, and to receive the par value or book value of such stock, whichever is less, in the event of a sale or transfer of such stock, as provided in the Articles of Incorporation.

Section 11. SHAREHOLDER WARRANTY. By subscribing or applying for, or becoming a holder and owner of record of the common stock of this corporation, each subscriber, applicant or owner or holder of record or acceptor expressly warrants that he is, or will at once become and continue to be eligible to be a common shareholder of this corporation, and expressly agrees that if and when the Board of Directors finds him to be ineligible as a shareholder, that during the period of such ineligibility he shall have no voice or right as a shareholder in the management of the affairs of this corporation and all such management shall be determined and conducted as though such subscription or application for, or issuance of, such stock has never been made.

Section 12. VOTING OF SHARES BY CERTAIN HOLDERS. Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the By-Laws of such corporation may prescribe, or in the absence of such provision, as the Board of Directors of such corporation may determine.

Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Section 13. INFORMAL ACTION BY SHAREHOLDERS. Any action required to be taken at a meeting of the shareholders, or any action which may be taken at a meeting of the shareholders, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof.

Section 14. COPIES OF ARTICLES AND BY-LAWS. Every shareholder shall be provided a copy of the corporate articles and by-laws upon first becoming a shareholder. Copies of all amendments to the Articles of Incorporation and By-Laws shall be distributed to all shareholders upon the adoption of such amendments.

ARTICLE III

BOARD OF DIRECTORS

Section 1. GENERAL POWERS. The business and affairs of the corporation shall be managed by its Board of Directors.

Section 2. NUMBER AND TENURE. The number of directors of the corporation shall be seven. There shall be one director who is a resident of and/or a producer of agricultural and horticultural products in Chelan County, one director who is a resident of and/or a producer of agricultural and horticultural products in Douglas County, and one director who is a resident of and/or a producer of agricultural and horticultural products in Okanogan County, each of whom shall hold office for a term of three years and until his successor shall have been elected and qualified. The remaining four directors shall be directors at large and each shall hold office for a term of two years and until his successor shall have been elected and qualified. The names and addresses of the directors in office as of the date of these restated amended by-laws, that is February 20, 1973, are as follows:

- (1) Director at Large, Position No. 1, now filled by Stanton H. Cain whose address is P.O. Box 126, Malott, Washington 98829.
- (2) Director at Large, Position No. 2, now filled by Carroll P. Rank whose address is P.O. Box 243, Cashmere, Washington 98815.
- (3) Director at Large, Position No. 3, now filled by Robert R. Brunner whose address is Rt. 3, Box 3197, Wenatchee, Washington 98801.
- (4) Director at Large, Position No. 4, now filled by H. Leslie Carpenter whose address is Rt. 1, Box 72, Manson, Washington 98831.
- (5) Chelan County Director, now filled by Robert M. Todd whose address is P.O. Box 217, Entiat, Washington 98822.
- (6) Douglas County Director, now filled by William G. Stewart whose address is 2480-4th Street SE, East Wenatchee, Washington 98801.
- (7) Okanogan County Director, now filled by Leonard R. Hutchinson whose address is Rt. 1, Box 105, Tonasket, Washington 98855.

Section 3. DIRECTOR QUALIFICATIONS. Each director shall be a common shareholder of this corporation or the authorized representative of an association which is a shareholder of this corporation. All directors at the time of their election and at all times during the term of their office shall, either individually or through the associations which they represent, meet the voting restrictions and voting qualifications and stock ownership requirements imposed upon the stockholders of this corporation pursuant to its Articles of Incorporation and By-Laws.

Section 4. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Washington, for the holding of additional regular meetings without other notice than such resolution.

Section 5. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the President or any two directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Washington, as the place for holding any special meeting of the Board of Directors called by them.

Section 6. NOTICE. Notice of any special meeting shall be given at least two days previously thereto by written notice delivered personally or mailed to each Director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any director may waive notice of any meeting. The attendance of a director shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

Section 7. QUORUM. A majority of the number of Directors fixed by Section 2, of this Article III, shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 8. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

Section 9. ACTION WITHOUT A MEETING. Any action that may be taken by the Board of Directors at a meeting may be taken without a meeting if a consent in writing, setting forth the action so to be taken, shall be signed before such action by all of the Directors.

Section 10. VACANCIES. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining directors. A director elected to fill a vacancy shall be elected to serve until the next election of directors by the shareholders. Any directorship to be filled by reason of an increase in the number of directors may be filled by election by the Board of Directors for a term of office continuing only until the next election of directors by the shareholders.

Section 11. EMPLOYMENT OF GENERAL MANAGER. The Board of Directors shall have the power to employ a general manager and such other employees as may be necessary to carry out the purposes of the corporation and to fix the compensation for such general manager and other employees. No director shall serve as general manager.

Section 12. COMPENSATION. The compensation of the director, and President of the corporation may be fixed at any annual or special meeting of the shareholders. The directors shall fix the compensation of the general manager and all other employees of the corporation.

Section 13. INDEMNIFICATION AND INSURANCE. (a) The Corporation shall indemnify each person who is or was a Director or officer, of the corporation against any and all liability and reasonable expense that may be incurred by him in connection with or resulting from any threatened, pending or completed claim, action, suit, or proceeding whether civil, criminal, administrative or investigative, or in connection with an appeal relating thereto, in which he may become involved, as a party or otherwise, by reason of his being or having been a director or officer of the corporation, or by reason of any past or future action, taken or not taken in his capacity as such director or officer whether or not he continues to be such at the time such liability or expense is incurred, provided such person

acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, he had no reasonable cause to believe that his conduct was unlawful. As used in this section, the terms "liability" and "expense" shall include but shall not be limited to, attorneys' fees, judgments, fines and amounts paid in settlement, actually and reasonably incurred by him, in connection with such action, suit or proceeding. The termination of any claim, action, suit or proceeding, whether civil or criminal, by judgment or settlement (whether with or without court approval) or conviction or upon a plea of guilty or of nolo contendere, or its equivalent, shall not create a presumption that a director or officer did not meet the standards of conduct set forth in this section.

(b) In the event of a threatened, pending or completed action or suit against a person, by or in the right of the corporation, to procure a judgment in its favor by reason of the fact that such person was or is a director or officer, of the corporation, then in such event, before indemnification shall be made the standards and qualification imposed in subparagraph (a) of this section shall be met and, in addition thereto, no indemnification shall be made in respect to any such claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine upon application, that, despite the adjudication of liability, but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

(c) Any such director or officer referred to in this section who has been wholly successful, on the merits or otherwise, with respect to any claim, action, suit, or proceeding of the character described herein shall be entitled to indemnification as of right. Except as provided in the preceding sentence, any indemnification hereunder shall be made only upon a determination that such is proper in the circumstances and that the standards imposed herein have been met. Such determination shall be made as follows:

- (1) By the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or
- (2) If such a quorum is not obtainable or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or
- (3) By the shareholders of the corporation.

(d) Expense incurred with respect to any such claim, action, suit or proceeding may be advanced by the corporation prior to the final disposition thereof upon receipt of an undertaking by or on behalf of the recipient to repay such amount unless it shall ultimately be determined that he is entitled to indemnification under this section. The rights of indemnification provided in this section shall be in addition to any rights to which any person concerned may otherwise be entitled by contract or as a matter of law, and shall inure to the benefit of the heirs, executors, and administrators of any such person. The right of indemnification herein provided is secondary to any insurance possessed by a director, or officer of the corporation or by the corporation itself which covers any of the risks of loss for which indemnification is herein provided.

(e) The corporation, acting through its officers and Board of Directors, shall have the power and authority to purchase and maintain insurance on behalf of any person who is or was a director or officer of the corporation, against any liability asserted against him and incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liability under the provisions of this section.

ARTICLE IV

EXECUTIVE COMMITTEE

Section 1. APPOINTMENT. The Board of Directors by resolution adopted by a majority of the full board, may designate three of its members to constitute an Executive Committee. The designation of such committee and the delegation thereto of authority shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law.

Section 2. AUTHORITY. The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee and except also that the Executive Committee shall not have the authority of the Board of Directors in reference to amending the Articles of Incorporation, adopting a plan of merger or consolidation, recommending to the shareholders the sale, lease or other disposition of all or substantially all of the property and assets of the corporation otherwise than in the usual and regular course of its business, recommending to the shareholders a voluntary dissolution of the corporation or a revocation thereof, or amending the By-Laws of the corporation.

Section 3. TENURE AND QUALIFICATIONS. Each member of the Executive Committee shall hold office until the next regular annual meeting of the Board of Directors following his designation and until his successor is designated as a member of the Executive Committee and is elected and qualified.

Section 4. MEETINGS. Regular meetings of the Executive Committee may be held without notice at such times and places as the Executive Committee may fix from time to time by resolution. Special meetings of the Executive Committee may be called by any member thereof upon not less than one day's notice stating the place, date and hour of the meeting, which notice may be written or oral, and if mailed, shall be deemed to be delivered when deposited in the United States mail addressed to the member of the Executive Committee at his address. Any member of the Executive Committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person. The notice of a meeting of the Executive Committee need not state the business proposed to be transacted at the meeting.

Section 5. QUORUM. A majority of the members of the Executive Committee shall constitute a quorum for the transaction of business at any meeting thereof and action of the Executive Committee must be authorized by the affirmative vote of a majority of the members present at a meeting at which a quorum is present.

Section 6. ACTION WITHOUT A MEETING. Any action that may be taken by the Executive Committee at a meeting may be taken without a meeting if a consent in writing, setting forth the action so to be taken, shall be signed before such action by all of the members of the Executive Committee.

Section 7. VACANCIES. Any vacancy in the Executive Committee may be filled by a resolution adopted by a majority of the full Board of Directors.

Section 8. RESIGNATIONS AND REMOVAL. Any member of the Executive Committee may be removed at any time with or without cause by resolution adopted by a majority of the full Board of Directors. Any member of the Executive Committee may resign from the Executive Committee at any time by giving written notice to the President or Secretary of the corporation, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 9. PROCEDURE. The Executive Committee shall elect a presiding officer from its members and may fix its own rules of procedure which shall not be inconsistent with these by-laws. It shall keep regular minutes of its proceedings and report the same to the Board of Directors for its information at the meeting thereof held next after the proceedings shall have been taken.

ARTICLE V

OFFICERS

Section 1. NUMBER. The officers of the corporation shall be a President, one or more Vice-Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except the offices of President and Secretary.

Section 2. ELECTION AND TERM OF OFFICE. The officers of the corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

Section 3. REMOVAL. Any officer or agent may be removed by the Board of Directors whenever in its judgment, the best interests of the corporation will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for a term of office continuing only until the next election of directors by shareholders.

Section 5. BOND. The Directors may, at their discretion, require any or all officers and employees of the corporation to furnish such fidelity bond or bonds as the Directors may determine; the corporation to pay all premium charges on such bonds furnished.

Section 6. PRESIDENT. The President shall be the principal executive officer of the corporation. He shall, when present, preside at all meetings of the shareholders and of the Board of Directors. He

may sign, with the Secretary or any other proper officer of the corporation thereunto authorized by the Board of Directors, certificates for shares of the corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 7. THE VICE PRESIDENT. In the absence of the President or in the event of his death, inability or refusal to act, the Vice President shall perform the duties of the President and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign, with the Secretary or an Assistant Secretary, certificates for shares of the corporation; and shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 8. THE SECRETARY. The Secretary shall: (a) keep the minutes of the proceedings of the shareholders and of the Board of Directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-Laws or as required by law; (c) be custodian of the corporate records and of the seal of the corporation and see that the seal of the corporation is affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (d) keep a register of the post office address of each shareholder; (e) sign with the President, or a Vice President, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 9. THE TREASURER. The Treasurer shall: (a) have charge of and be responsible for all funds and securities of the corporation; (b) receive and give receipts for monies due and payable to the corporation from any source whatsoever, and deposit all such monies in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these By-Laws; and (c) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

Section 10. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President or a Vice President certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

Section 11. GENERAL MANAGER. The General Manager shall be the chief administrative officer of the corporation in control of all administrative functions and in general charge of all of the business of the corporation. His powers shall include the right and authority to make and deliver receipts for the payment of any indebtedness owing

and paid to the corporation and to execute valid releases of any and all security instruments or mortgage liens given to the corporation as security for such indebtedness.

ARTICLE VI

SAVINGS

Section 1. ALLOCATION OF SAVINGS. The corporation is hereby obligated to allocate to the shareholders who patronize it the net patronage savings as defined in the By-Laws (Article VI, Section 4) for each fiscal year on a patronage basis, which allocation shall be paid in whole or in part in cash, or in whole or in part in credits, as hereinafter stated. The amount allocated to each patron shareholder of the corporation and not paid in cash shall be credited to Retained Patronage Earnings in the name of such patron shareholder on the books of the corporation. All amounts so credited to any patron shareholder of the corporation shall have the same status as though the amount so credited had been paid in cash to the patron shareholder and the patron shareholder had then furnished a corresponding amount of capital to the corporation. As soon as practicable after the close of each fiscal year, a statement shall be issued to each patron shareholder showing the amount of Retained Patronage Earnings that said patron shareholder has been credited with by the corporation in that fiscal year.

Section 2. REFUNDING OF EXCESS RETAINED PATRONAGE EARNINGS. In order to further the cooperative character of this corporation, it shall refund its Retained Patronage Earnings at such time as the Board of Directors finds that the financial condition of the corporation will so permit. The Board of Directors of the corporation shall annually determine the capital requirements of the corporation and after so doing shall review the capital made available by each patron to the corporation. If the Board of Directors determines that a patron has contributed capital in excess of his proportionate share of the total capital requirement of the corporation, said excess may be refunded to the patron as funds are available. In so doing, the Board of Directors may establish priorities, based upon the percentage of excess capital, for payments to patrons who the Board determine have contributed capital in excess of their proportionate share.

Section 3. ALLOCATION OF LOSSES. Whenever a net patronage loss occurs, said loss shall be borne, insofar as possible, by patrons in the year of said loss in accordance with their respective patronage with the corporation during the year of said loss and shall be charged to said patron shareholders' capital accounts in the following manner and order:

- (1) Against the Retained Patronage Earnings standing to the credit of said patron shareholder or to which he may be entitled, until such loss is satisfied in full or the Retained Patronage Earnings or other amounts to which he may be entitled, have been fully depleted.
- (2) After fully depleting the Retained Patronage Earnings, the balance of the loss shall next be applied against the Reserve Fund standing to the credit of said patron shareholder or to which he may be entitled, as provided in Article VII, Section 6 of these By-Laws.
- (3) If the applications set out in subsections (1) and (2) above are not sufficient to fully satisfy the loss so allocated to any patron shareholder, the balance of the loss remaining shall

be borne by the patron shareholder to whom said loss has been allocated and/or all patron shareholders of the corporation on as equitable a basis as the Board of Directors in its sole discretion finds practicable.

The principal on which this section is based is that the corporation is operating at cost and that any charge made against the Retained Patronage Earnings or any other capital funds constitutes an additional assessment to the patron shareholders to cover said deficiencies. Whenever a net non-patronage loss occurs, the corporation shall first apply said loss, to the extent allowable, in accordance with the carry back and carry forward provisions of the applicable income tax codes and regulations. Any balance remaining may be charged to the shareholders' Retained Patronage Earnings, Allocated Capital Retain or Reserve Fund as determined by the Board of Directors.

Section 4. DEFINITIONS. As used in these By-Laws the term:

- (a) "Net Patronage Savings" means the excess of income directly related to loans made to borrowers less applicable expenses, as provided by the income tax codes and regulations.
- (b) "Net Patronage Losses" means the excess of expenses over income directly related to loans made to borrowers as provided by the income tax codes and regulations.
- (c) "Net Non-Patronage Income" means the excess of income from sources not related to loans made to borrowers less applicable expenses as provided by the income tax codes and regulations.
- (d) "Net Non-Patronage Losses" means the excess of expenses over income not related to loans made to borrowers as provided by the income tax codes and regulations.

Section 5. SHAREHOLDER TAX REPORTING. Each person, firm or corporation, who hereafter becomes a shareholder in this corporation, and each shareholder of this corporation on the effective date of this By-Law who continues as a shareholder after such date, shall by such act alone, consent that the amount of any assessment for allocated capital retain and reserve fund and distribution with respect to any patronage occurring after the effective date of this By-Law which are made in written notices with respect to such assessments and/or distributions (as defined in 26 U.S.C. 1388) and which are received by said shareholder from the corporation, will be taken into account by said shareholder at their stated dollar amounts in the manner provided in 26 U.S.C. 1385 (a) in the taxable year in which such written notices with respect to such assessments and/or distributions are received by said shareholder.

Section 6. LIEN. The Retained Patronage Earnings standing to the credit of the borrower are the property of the borrower, subject to a first lien to this corporation for any indebtedness owed by the holder thereof to the corporation and dissolution provisions all as provided herein.

Section 7. CONSENT AND AUTHORIZATION. By becoming a shareholder of the corporation or continuing as a shareholder after notice of this change in its By-Laws a shareholder agrees to be bound by the Savings provisions set forth herein.

ARTICLE VII

SPECIAL FUNDS

Section 1. ALLOCATED CAPITAL RETAIN. The corporation shall establish a capital fund known as "Allocated Capital Retain". When a member first joins the corporation, he shall pay into the Allocated Capital Retain fund a per packed box amount, as established by the Board of Directors from time to time, of his average annual production for the preceding three years. In addition thereto, each patron shareholder shall each year pay into said fund an amount equal to a percentage, as established from time to time by the Board of Directors, of interest charges on loans made to him by the corporation. Funds collected shall be credited in full to a capital account maintained in the name of each patron. The funds so collected may be used as collateral for borrowing and loaning purposes by the corporation at the discretion of the Board of Directors.

Section 2. REFUNDING ALLOCATED CAPITAL RETAIN. In order to further the cooperative character of this corporation, it shall refund its Allocated Capital Retain at such time as the Board of Directors finds that the financial condition of the corporation will so permit. The Board of Directors of the corporation shall annually determine the capital requirements of the corporation and after so doing shall review the capital made available by each patron to the corporation. If the Board of Directors determines that a patron has contributed capital in excess of his proportionate share of the total capital requirement of the corporation, said excess may be refunded to the patron as funds are available. In so doing, the Board of Directors may establish priorities, based upon the percentage of excess capital, for payments to patrons who the Board determines have contributed in excess of their proportionate share.

Section 3. TRANSFER OF ALLOCATED CAPITAL RETAIN. The allocated Capital Retain standing to the credit of a patron who is not then a current borrower, may, with the prior permission of the Board of Directors, be transferred. The holder of Allocated Capital Retain shall request the secretary of the Corporation to transfer his Allocated Capital Retain.

Section 4. SALE OF ALLOCATED CAPITAL RETAIN. The Allocated Capital Retain standing to the credit of a patron who is not then a current borrower may, with the prior permission of the Board of Directors, be sold by the holder thereof.

Section 5. LIEN ON ALLOCATED CAPITAL RETAIN. Allocated Capital Retains standing to the credit of the owner thereof are the property of said owner, subject to a first lien to this corporation for any indebtedness owed by the holder thereof to the corporation, dissolution provisions and subject to the provisions set forth herein.

Section 6. RESERVE FUND. The corporation shall establish and maintain a "Reserve Fund" to be used for bad debts and for losses as set forth herein in Article VI, Section 3. The funds collected may be used as collateral for borrowing or may be loaned by the corporation to its members, all at the discretion of the Board of Directors. Each Patron shareholder shall pay into said fund an amount equal to a percentage, as established from time to time by the Board of Directors, of interest charges on loans made to him by the corporation. The funds collected shall be credited in full to a separate capital account known as the Reserve Fund maintained in the name of each patron.

Section 7. REVOLVING OF RESERVE FUND. The Reserve Funds remaining after reduction for losses as provided in Article VI, Section

3 hereof, may be revolved to patron shareholders at the discretion of the Board of Directors. Upon revolving said fund, the oldest outstanding Reserve Funds by years shall be revolved first.

Section 8. LIEN ON RESERVE FUND. The Reserve Fund standing to the credit of the borrower are the property of said borrower, subject to a first lien to this corporation for any indebtedness owed by the holder thereof to the corporation, dissolution provisions, bad debts and net patronage losses, all as provided herein.

Section 9. ACCOUNTING. The corporation shall account to its patrons for the funds collected for both Allocated Capital Retain and Reserve Funds during the corporation's fiscal year. Such accounting shall be made within eight and one-half months from the close of the fiscal year.

Section 10. CONSENT AND AUTHORIZATION. By becoming a shareholder of the corporation or continuing as a shareholder after notice of this change in its By-Laws a shareholder agrees to be bound by the Special Funds provisions set forth herein.

ARTICLE VIII

DISSOLUTION

Upon dissolution or winding up of the corporation in any manner, after paying all debts and after retiring all outstanding common stock at par, the remaining assets shall be distributed as follows: (1) all allocated Capital Retain book entry holders shall first be paid in full or pro-rata without priority at the face value of their Capital Retain as shown on the books of the Corporation; (2) all Reserve Fund book entry holders shall next be paid in full or pro-rata without priority the face amount of their book entry as shown on the books of the Corporation; (3) the balance of all corporate assets shall next be distributed, without priority, to the holders of Retained Patronage Earnings in proportion to their respective credits thereof as shown on the books of the corporation.

ARTICLE IX

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. CONTRACTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

Section 2. LOANS. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

Section 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

Section 4. DEPOSITS. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositaries as the Board of Directors may select.

ARTICLE X

CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 1. CERTIFICATES FOR SHARES. Certificates representing shares of the corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary and sealed with the corporate seal or a facsimile thereof. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer book of the corporation. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled; except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the Board of Directors may prescribe.

Section 2. TRANSFER OF SHARES. No shares shall be transferred without the prior approval of the Board of Directors. Transfer of shares of the corporation shall be made only on the stock transfer books of the corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

ARTICLE XI

MISCELLANEOUS PROVISIONS

Section 1. FISCAL YEAR. The fiscal year of the corporation shall begin on the first day of June and end on the thirty-first day of May in each year.

Section 2. CORPORATE SEAL. The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the corporation and the state of incorporation and the words, "Corporate Seal".

Section 3. WAIVER OF NOTICE. Whenever any notice is required to be given to any shareholder or director of the corporation under the provisions of these By-Laws or under the provisions of the Articles of Incorporation or under the provisions of the Washington Business Corporation Act, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XII

AMENDMENTS

These By-Laws may be altered, amended or repealed and new By-Laws may be adopted by the shareholders at any regular or special meeting of the shareholders.

CERTIFICATION

STATE OF WASHINGTON)) ss.
COUNTY OF CHELAN)

H. LESLIE CARPENTER and CARROLL P. RANK, being first duly sworn on oath deposes and say: We are the President and Secretary