

RC 24



## Bristol Bay Economic Development Corporation

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November 29, 2012

Mr. Karl Johnstone, Chairman  
Alaska Board of Fisheries  
Alaska Department of Fish and Game  
Boards Support Section  
P.O. Box 115526  
Juneau, AK 99811-5526

Dear Chairman Johnstone:

BBEDC has been a strong advocate for regulations, policies and programs to reverse the flow of limited entry permits out of the Bristol Bay region. It bears repeating that the declining number of resident limited entry permits has severely diminished the overall income generated by residents so that the out-migration of permits is one of the most detrimental economic events in the Bristol Bay region. The loss, or gain, of a permit can be hugely significant in communities such as ours that range in population from 2 to 2,500. A single limited entry permit creates the equivalent of at least 3 jobs supporting potentially 3 households, plus, through the multiplier affect, spins off more jobs that support even more households.

**People often ask what BBEDC is doing to reverse the flow of permits. The answer is more than many people might realize!** BBEDC does not confine it's efforts to advocacy alone. BBEDC has invested heavily in research and programs to reverse the flow. In this letter, I would like to describe some of our continuing efforts and results.

*"As we all agree, the problem is getting and keeping more Bristol Bay limited entry permits in the hands of local residents of the Bristol Bay area. Absent a quick regulatory or legislative fix, the two best ideas and opportunities are represented by initiatives maintained by Bristol Bay Economic Development Corporation: the Bristol Bay Permit Brokerage and the Bristol Bay Economic Development Corporation Loan Guarantee Program "[Permit Loan Program]. BRUCE TWOMLEY'S NOTES ON GETTING AND KEEPING MORE LIMITED ENTRY PERMITS WITHIN THE BRISTOL BAY REGION, Bruce Twomley, Commissioner, Alaska Commercial Fisheries Entry Commission, 11/16/10.*

**BBEDC's goal, first and foremost, is not simply to put permits in the hands of residents BUT rather to establish "successful commercial fishing operations". While putting a permit in a residents hands is essential; it is only the beginning.**

## **BBEDC Permit Loan Program**

BBEDC established the Permit Loan Program to provide assistance that enables eligible residents of the 25 Bristol Bay watershed communities to obtain a permit and to successfully operate a commercial fishing enterprise. Assistance is provided through one or more of a menu of benefits provided in conjunction with a loan from either the Alaska Commercial Fishing and Agriculture Bank (CFAB) or the Division of Economic Development Commercial Fishing Loan Fund (DED). BBEDC established a Memorandum of Agreement with both lenders.

### **Program Benefits/Program Services**

- Loan Guarantee of 25% to 75%
- Interest Subsidy of up to 4.5% annually, up to \$4,000 or actual interest due for the full loan term.
- Equity Assistance of up to 50% disbursed over an established period
- Mandatory financial counseling for the term of participation
- Mandatory business counseling for the term of participation
- Down payment assistance of up to 95% of the down payment/closing costs determined by the lender
- Analysis of each individual applicant's situation reveals the assistance needed

Participants must demonstrate yearly participation as commercial fishers; maintain the permit and loan in good standing, participate in minimum annual training and participate in minimum annual financial and business counseling.

### **Participation**

- Ten active participants
- Twenty-plus applications in process

### **Financial Investment (2009-2012)**

- \$131,359 cumulative financial assistance
- \$30,000 annually for financial and business counseling
- \$500,000 in loan guarantees

### **Samples** (Actual loan details may vary depending upon individual applicant situation)

Purchase Price: \$40,000	Estimated Loan Amount (@ 95%): \$38,000		
Interest rate: 5.5%	Down payment & Closing Costs \$3,576		
Equity Benefit of 30%	With possible 95% Down Payment Grant \$3,397.20. Participant portion of down payment becomes \$158.80		
Term: 15 years			
Estimated Annual Payments	Year 1	Year 2	Year 3
Annual Payment Amount Before BBEDC	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00
Principal Portion	\$ 2,545.59	\$ 2,076.72	\$ 2,189.37
Interest Portion	\$ 1,454.41	\$ 1,923.28	\$ 1,810.63
Interest Subsidy from BBEDC	\$ (1,454.41)	\$ (1,923.28)	\$ (1,810.63)
Equity Benefit from BBEDC	\$ (1,628.57)	\$ (1,628.57)	\$ (1,628.57)
BBEDC Annual Assistance	\$ (3,082.98)	\$ (3,551.85)	\$ (3,439.20)
Annual Payment After BBEDC Assistance	\$ 917.02	\$ 448.15	\$ 560.80

Purchase Price: \$100,000	Estimated Loan Amount (@ 95%): \$95,000.00		
Interest Rate: 5.5%	Down Payment & Closing Costs: \$8,226.00		
Equity Benefit of 40%	With Possible 95% Down Payment Grant \$7,814.70. Participant portion of down payment becomes \$411.30		
Term: 15 years			
Estimated Annual Payments	Year 1	Year 2	Year 3
Annual Payment Amount Before BBEDC	\$ 10,100.00	\$ 10,100.00	\$ 10,100.00
Principal Portion	\$ 6,463.97	\$ 5,297.22	\$ 5,584.58
Interest Portion	\$ 3,636.03	\$ 4,802.78	\$ 4,515.42
Interest Subsidy from BBEDC	\$ (3,636.03)	\$ (4,000.00)	\$ (4,000.00)
Equity Benefit from BBEDC	\$ (5,428.57)	\$ (5,428.57)	\$ (5,428.57)
Annual Payment After BBEDC Assistance	\$ 1,035.40	\$ 671.43	\$ 671.43

## **Bristol Bay Permit Brokerage (BBPB)**

***A Changing Fishery and a not traditional brokerage!*** Today's commercial fishers must be independent small business operators with one eye on their nets and the other on their bottom line. Through the BBPB we strive to prevent migration of permits out of the region by providing clients with education and information sufficient to allow them to independently manage their fishing operation. Fishers find help with transfers, buying, selling, financial assessment, loan applications, filling out forms, USCG documentation and we act as a CFEC intermediate for emergency and permanent transfers as well as permit/vessel license renewals.

So far we assisted 162 CDQ and/or Watershed residents and 41 non-residents in 2012. Among those were 63 individuals assisted with emergency transfers. We consider an emergency transfer a "save" because it means that the resident permit holder did not have to sell their permit in order to make a loan payment, mortgage payment or tax payment and may allow time to locate a resident to buy or receive the permit if a permanent solution is necessary.

***The Business of Fish*** is an annual spring event coordinated by BBEDC in partnership with the Marine Advisory Program and other educational organizations. Resident fishers are provided with an opportunity to attend workshops on timely topics like financing options, new tools and technological developments, contracts and labor issues, shore fish leases, energy efficient operations, credit issues and counseling, marketing, tax tips for fishers, information on chilling equipment/methods, changes in regulations and more.

## **Emergency Transfer Grant**

In 2012 BBEDC saw great success with this new program. The E-T grant program is designed to enhance access to temporary fishing permits by residents that cannot afford to pay an emergency transfer fee (known by fishers as a permit lease). The objective is to assist individuals to become self sufficient permit holders by enabling an individual to explore commercial fishing as a feasible income generating activity, earn funds for the down payment necessary to purchase a permit, gain the required commercial fishing experience to qualify for the PLP, meet lender requirements and enhance their knowledge of the fishing industry.

### **Program Benefits/Program Services**

- Grant of up to 50% of the total Emergency Transfer cost (not to exceed a maximum grant amount determined annually by the Board)
- Assistance in locating an available permit
- Mandatory financial counseling

Participants must demonstrate that they have a contract or market in place which may be a processor or a captain with whom the permit will be fished, must have or be willing to execute an Emergency Transfer Agreement with the permit holder, must demonstrate that the vessel is owned and/or operated by a resident of one of the 25 Bristol Bay watershed communities, must be at least 18 years of age, must not have a financial or legal situation such that it will put the emergency transfer payment at risk.

### **Participation**

- 21 Participants
- 54 total residents directly impacted (permit holder household, *does not include crew member households*)
- 15 participants that indicated an interest in becoming permanent permit holders
- 8 E-T Grant applicants/recipients have applied for the Permit Loan Program as of 11/1/12

### **Financial Investment**

- \$110,875 expended by BBEDC
- Avg drift E-T/Lease amount: \$15,000
- Avg drift grant amount: \$7,500
- Avg set E-T/Lease amount: \$ 6,000
- Avg set grant amount : \$3,000

### **Personal Finance/Education**

Education and counseling on personal financial management/credit recovery is a critical part of providing residents with the knowledge and tools necessary to manage their fishing operations.

BBEDC and Money Management International (previously Consumer Credit Counseling Services of Alaska) established a relationship in early 2008. BBEDC continues the relationship with MMI to provide individual counseling services and educational activities throughout the region. MMI has become an integral part of the BBEDC Permit Loan Program as an alternate route of education/counseling for residents who have not been approved for our Permit Loan Program because of problems with their credit/financial situation. MMI provides a resource that allows them an opportunity for credit recovery and future participation in the Permit Loan Program.

Bristol Bay residents, fishers and Permit Loan Program participants learn about credit management, check their credit records, clarify loan paperwork, repair credit issues, receive advice on identity theft issues and ensure they are credit-worthy and solvent. MMI and BBEDC staff travel to communities on a regular basis to assure that assistance is accessible to residents.

### **Participation**

- 300+ residents have conferred/consulted with credit counselor when in-region
- 55 residents have become "clients" of MMI

### **Financial Investment**

2009	\$ 12,700.00
2010	\$ 12,000.00
2011	\$ 15,500.00
2012	\$ 17,000.00
	<hr/>
	\$ 57,200.00

### **Technical Assistance**

Through the Technical Assistance (TAA) Program, BBEDC provides access to professional business advisors and consultants. We assist residents with business ideas, fisheries related financing and other projects. Much of the work with clients involves assistance to frame and hone their ideas (client comes in with broad thought and the business advisor helps them to narrow the scope to something feasible and then focus on steps to accomplish the plan). The advisors will counsel, coach, mentor and assist clients in business or project planning including feasibility assessments, business planning, business plan,

identifying financial needs, identifying sources for financial assistance, loan applications, grant applications, preparing and understanding financial reports and other tasks.

**Participation**

154 residents have conferred/consulted with business counselors since 2009

**Financial Investment**

2009	\$ 50,000
2010	\$ 66,000
2011	<u>\$ 42,000</u>
	\$158,000

**Vessel Upgrade Program**

This program provides grants for upgrading fishing vessels. The grant amount was increased to \$10,000 in 2011, up from \$5,500 previously, to help resident fishers make modifications to their boats to improve fish quality and harvest efficiency. The grant can be used to rebuild and reconfigure fish holds, since gradually more markets are requiring brailer weights of 800 pounds or less, lighter than those used historically. Flush decks, favored by processors and increasing numbers of fishermen because they reduce the number of times fish are handled and improve harvesting efficiency, have been popular modifications installed by residents using BBEDC vessel upgrade grants. The grant can also be leveraged with a State of Alaska Commercial Fishing Loan to help pay for new engines, mechanical refrigeration systems and deck gear such as net reels and rollers.

**Participation**

In 2012, BBEDC's vessel upgrade program helped 10 watershed resident setnetters and 31 resident drift fishers upgrade their fishing equipment. Eleven additional upgrade projects are pending completion. Since the program's inception in 2003 through 2011, more than 100 vessels were insulated. Much of that work is performed by local contractors, to the benefit of the region's economy.

**Investment**

The 2012 completed vessel upgrades averaged \$8,161 per fisherman, for a total of \$334,610. The 11 projects awaiting completion are estimated to cost \$92,400. Prior year's investment in insulation projects totaled more than \$400,000. Much of the work under the vessel upgrade grant program is done by local contractors, to the benefit of the region's economy.

**Chilling Products Program**

Since 2003 a major focus of BBEDC has been to improve salmon quality by icing the fish as they are caught. Delivering better quality salmon earns resident fishers higher prices for their catch, and allows salmon processors to develop new salmon products, increasing the value of the entire Bristol Bay pack in world markets.

BBEDC provides a variety of tools to help fishers chill their fish. Slush ice bags made of waterproof vinyl hold a mix of ice and water, and the mesh brailer that contains the fish, which are chilled as the cold water circulates through the mesh of the brailer. When the brailer is hoisted out of the fish hold, the slush ice mixture remains in the slush bag. Insulated fish totes, provided in 10 and 21 cubic foot sizes, can hold ice for several days until it's needed. Flexible sheet foam insulation provided by BBEDC is used to line fish holds and keep the ice from melting.

### **Participation**

Since 2003, BBEDC has distributed more than 2,100 slush bags, more than 1,100 insulated totes, and thousands of square feet of flexible foam insulation at no cost to the fishers.

### **Financial Investment**

BBEDC investment in insulated totes since that distribution began in 2005 totals more than \$667,000. The investment in slush bags for resident fishermen since 2004 totals more than \$168,000.

### **Pre-Season Advance Program**

New for 2012, the Pre-Season Advance Program provided up to \$5,000 to help resident fishers pay pre-season expenses such as nets, insurance, license renewals and other fishing "start-up" expenses. More than 95 percent of the pre-season advances plus a \$25 application fee was repaid to BBEDC through agreements with the recipients' fish processors.

### **Participation & Financial Investment**

Fifty-five watershed residents received pre-season advances totaling \$239,999 in 2012.

### **That's not all we do**

I have listed many of our programs that are directly related to the commercial salmon fishery in this letter. But that's not all. We are one of the busiest organizations in the state. Every one of our programs has an impact on residents and resident fishers alike. We issue a Program Guide at the beginning of each calendar year; we will have copies available at the Board of Fish meeting.

### **Why so long.....**

The second most common question that is asked of BBEDC is why it has taken so long to develop programs and to see results.

The answer to that question, in short, is that there are no models. Every other program that we have found is offered by either a government organization or a traditional non-profit organization.

BBEDC is a CDQ organization that generates revenue through profit making activities and then invests the profit into non-profit activities. Those non-profit activities include program services delivered to individuals. BBEDC, like other CDQ organizations, must design programs and then constantly scrutinize the results to assure that they meet the standards for non-profit programs under IRS regulations. Unfortunately, that takes time. In the end it makes a huge difference in the success of our programs and the taxable status of the financial assistance to both BBEDC and the recipient.

### **What's next?**

BBEDC will continue to evaluate the results of our current programs. Under Board direction, we are also exploring and expect to develop additional programs in 2013. Some of these include the following

- Vessel/Site Acquisition Assistance
- Business Initiative

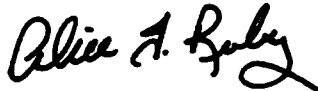
### **Please Consider**

Entering or re-entering the fishery is a capital intensive prospect. The price tag for a permit, vessel, site, gear and the cost of operations can be one of the most expensive purchases of an individual's life, often costing even more than a family home or a college education. We urge the Board to avoid adopting regulations that will further increase the cost of entry into the fishery and potentially push it out of reach of our region's residents.

### **Closing**

We are always happy to provide information to residents and non-residents alike. Please do not hesitate to let us know if there is any information that we can provide OR if there are suggestions that will help us to further reverse the flow and grow the **successful resident commercial fishing operations in the Bristol Bay region.**

Sincerely,



Alice Ruby, Coordinator  
BBEDC Economic Development & Permit Brokerage