

AGENDA
SUB-GROUP ON FINANCING OPTIONS
March 20, 2007
10:15 am – 5:30 pm or until done
ADFG Headquarters / Commissioner's Conference Room

Federal

- ~~Crossover Proposal (Timeline?)~~
- ~~Rasmuson Plan (Could this be done on a federal level and how?)~~
- ~~Federal stamp (i.e duck stamp—Congressional action)~~
- NMFS loan program (how might this be used and would it be regulatory or legislative action)
- Federal buyout (Is it possible?) <http://www.nmfs.noaa.gov/sfa/buyout.pdf>
- Crossover Proposal (Timeline?)
- Rasmuson Plan (Could this be done on a federal level and how?)
- Federal stamp (i.e duck stamp – Congressional action)
- Additional Questions
 - ~~Who can hold Quota Share? Regulation or congressional change?~~
 - ~~Can Quota share be extinguished and not held by the state or an entity? (Rasmuson plan)~~
 - ~~If has to be held by State or entity, what about the use caps?~~
 - ~~Could the CQE entity be used in some fashion as the holding entity?~~
 - ~~Process or mechanism when quota is purchased and transferred to charter sector. For example, if initial allocation is published in the federal register as a percent of a combined fishery CEY—will it have to be published in the federal register every time more quota is purchased?~~
 - Can the moratorium permits have a fee assessed against them by congressional action?
 - Are there questions regarding leasing QS back and forth that need to be considered?

State

- State Charter Stamp (halibut only – is this legal?, saltwater, or all charter salt & fresh)
- Regional Associations (legislation & regulations)
 - Below are links for the legislation and regulations for the regional seafood marketing associations. I'll have at the meeting the enhancement information
 - http://www.legis.state.ak.us/basis/get_bill.asp?session=23&bill=HB419
 - http://www.dced.state.ak.us/oed/seafood/pub/RSDA_regulations.pdf
- Division of Investments Loan program
 - <http://www.dced.state.ak.us/investments/index.cfm>
- ~~Division of Investments Loan program~~
- State Bonding
- Rasmuson Plan (anything in here not previously covered?) (Timeline?)

**NORTH PACIFIC FISHERY MANAGEMENT COUNCIL
ALLOCATION/SHARE-BASED ALTERNATIVES AND OPTIONS
DECEMBER 12, 2006
REVISED**

APPENDIX

Mechanisms to finance compensated reallocation to the current charter sector to allow for growth

Option 1. State charter stamp

Option 2. Allow private entities to purchase commercial QS/IFQ through fundraising, grants, donations, etc.)and convert to charter allocation; lease back unused allocation at end of year (part of KACO plan)

Option 3. Business Improvement District (tax on trips dedicated to certain purpose)

Option 4. Funds from compensated transfer of unused charter allocation back to commercial sector

Option 5. Allow State to hold IFQs in trust through State bonds (similar to bonds issued recently for construction of State hatchery)

Option 6. Federal funding/grants/stamp to fund entities to purchase QS and convert to charter allocation

Kathy's Suggested Edits to arrangement at stakeholder committee 2.07

APPENDIX

Mechanisms to finance compensated reallocation to the current charter sector to allow for growth

Option 1. State charter stamp

Suboption a. State Bonding – (similar to bonds issued recently for construction of State Hatchery)

Option 2. Allow private entities (individuals/businesses/regional assoc.) to purchase commercial QS/IFQ through purchase fundraising, grants, donations, etc.) and convert to charter allocation; lease back unused allocation at end of year

Option 3. Regional Charter Associations

Regional Charter Association to purchase commercial QS/IFQ and convert to charter allocation; lease back unused allocation at end of the year to commercial to raise additional funds. (the charter fleet would vote to self-assess/state collects tax/ tax money goes into general fund and legislature may (intent is that they will but State does not allow dedicated funds) disburse funds back to assoc.)

Suboption a. Bonding

Suboption b. Division of Investment Loan program

Suboption c. NMFS loan program

Option 4. Funds from compensated transfer of unused charter allocation back to commercial sector

Option 5. Federal funding/grants/stamp to fund entities to purchase QS and convert to charter allocation

Option 6. Use current Federal IFQ Loan program to finance purchase/lease of QS/IFQ. Assess all halibut moratorium license holders an annual fee to pay off obligation.

Long Term Solutions and what scenarios are Available

By Kathy Hansen 2.1.07 version

Compensated Reallocation

The program picked and the method for compensated reallocation varies with each option above.

With IFQs issued to the charter operator this is the simplest method of re-allocation as the QS purchases are just between two individuals – a seller and a buyer at current market price. The industry sector that can best justify the cost of QS will be the sector that will buy available quota shares. Division of Investments and the NMFS loan program, along with private lending institutions (i.e. CFAB, Wells Fargo, other banks), would be possible for financing of QS.

The hard allocation scenario and an angler day scenario both allows either the State of Alaska, a regional association, or an individual or a combination of to purchase the QS and convert it to charter allocation that is held as an allocation that would be used as a whole for the charter sector in the individual regions of 2C and 3A.

- It would be possible to set it up under an angler day scenario that an individual could purchase commercial IFQs convert it to charter allocation and increase their own individual history to grow their own individual business while also growing the overall charter allocation.
- Or the State could buy or lease QS/IFQ to grow the charter allocation. Or a regional association could be set up to self-assess itself (this could be done by a \$5 or \$10 per client self tax or a % of the charter fee) and purchase or lease QS/IFQ. (Works the same way as the PNP hatchery assessment or a regional marketing assessment for the commercial fleet.)

Regional Charter Association

- Part of K.A.C.O. plan
- A regional association set up using the model of the commercial hatchery associations or regional marketing association sets up a mechanism that allows the fleet involved to vote to self-assess itself. For the commercial regional marketing associations the requirement for a vote was that at least 30% of the eligible participants had to vote and then of those that voted it needed to be a simple majority. The legislation was written to allow the choice of 2%, 1-1/2%, 1% and 1/2% of the ex-vessel value of the seafood. For the charter industry a fee per client might be the appropriate choice or a % of the fee charged for the charter.
- Would need State of Alaska legislation in order to implement and regulations developed.
- In the hatchery regulations there were guidelines for the make up of the board of directors that were not spelled out in regulations for the regional marketing associations.
- Allow charter association to either buy or lease quota share and to also lease back unused quota share to the commercial sector at the end of the season.

Mechanisms to finance compensated reallocation

State Charter Stamp

- Would take state legislation to implement. If set up to collect stamp funds from freshwater and saltwater operations how would the funding be split between freshwater and saltwater fisheries? If saltwater charter stamp, would the stamp be for purchase of halibut quota share only? If bottomfish charters only how do you deal with the situation of a client catching a halibut when out salmon fishing? Release the halibut when salmon fishing?
- Under a charter stamp you could collect the funds and then purchase quota share from a willing seller or you could possibly go out and sell bonds to have the

funding up front and have the funds from the charter stamps be used to pay back the bonds. This purchase would be from willing quota share holders.

- It's possible to set it up if the State is holding the quota share to purchase quota share for the area being purchased in 2C or 3A by paying the fair market price for quota share and purchasing a % of everyone's quota share. This would be a forced purchase or lease on every quota share holder but would impact commercial quota share holders equally. Or the state could buy QS from a willing seller at fair market price.
- Another possible option for a halibut stamp would be to require a client to purchase a halibut stamp for every halibut retained. (They would still need the moratorium/limited entry permit to fish halibut from that vessel)
- This will have the busy successful charter operators end up funding the allocation purchase for the non-busy charter operators.
- State would maintain control of the funds.

Bonding

- State bonding could be done under a limited entry or angler day alternative.
- State bonding would be dependent upon a financing mechanism such as a state charter stamp.
- Bonding could also be done by a regional charter association using the self-assessed tax as reimbursement of the bonds.

NMFS Loan Program

- Could be used under any of the alternatives and could be used by individuals or regional associations
- NMFS loan program has been set up to allow individuals to borrow for the purchase of QS to be converted to charter IFQs
- NMFS loan program could probably be changed to allow the purchase or lease of QS to convert to charter allocation and assess an annual fee on all halibut moratorium license holders to pay off the obligation.
- Program could be changed to allow regional association to borrow and pay back the obligation with the self assessed tax.

Leasing

Leasing of Quota Share Under all options:

This segment is to try to explain how leasing might work.

- While some purchase of quota share will be necessary to have sufficient quota for the charter industry, some leasing of quota share could work to address the yearly fine tuning of quota share necessary.
 - Leasing can work in several ways depending upon choices made.
 - Leasing can work both ways, from commercial to charter and charter allocation not used at the end of the season leased back to the commercial sector. This would help raise the funds to purchase or lease QS in future years.
 - Questions that need to be addressed is how much should individual commercial fishermen be allowed to lease to the charter industry where

you don't undermine one of the fundamental basis of the IFQ program for owner/operator provisions. Should a ceiling be developed on the amount of commercial QS pool by areas that can be leased/transferred to charter sector to protect the commercial sector. Should there be limits to the amount that the charter sector can lease back into the commercial fishery.

- The limits discussed above are to prevent the business of buying and holding QS strictly for the purposes of leasing.
 - The cost of leasing commercial QS/IFQ will probably run between 60% and 75% of the current ex-vessel price for halibut. A commercial fisherman who steps on another boat to fish his QS will generally pay the vessel owner 25-40%.
- **Voluntary Leasing – Pre-season Pledges:** Under this scenario the commercial fisherman willing to lease would pre-season pledge to lease X amount (probably would have ceiling on amount that could be leased from each individual) of his quota share for X price. This bidding might be done by so much poundage for XX amount of dollars, a % of the average ex-vessel price etc. The State or the regional association would choose between the offers received the amount of quota share they need to lease for the season. Another alternative to setting a limit on how much an individual could lease per year is maybe allowing leasing up to 100% of the QS 1 out of 5 years.
 - **Involuntary** leasing from the commercial sector to the charter sector would take 0 % to 10% from every commercial QS holder and then pay each individual their share of the quota lease at the end of the year. This could possibly be done as a credit against their cost recovery fee. The price paid would have to be equivalent of the NMFS estimated average price paid by area for any used quota and/or a 20%? holding surcharge would probably need to be paid for unused quota as the commercial operator was also unable to fish it. The commercial fisherman would still be allowed the same 10% amount of carryover underages from amount issued on certificate along with any unused quota held for the charter industry would be returned to the commercial fisherman the following year. Involuntary leasing would work if the State was the entity holding the allocation and could possibly work with a regional association.
 - **Leasing Between Individuals:** Voluntary leasing between a charter individual and a commercial QS holder would also be possible under an angler day, limited entry or IFQ program. This would be an agreement between individuals.

Leasing of Quota Share back to commercial sector

- This would be a viable option under state controlled financing mechanisms, individuals and regional associations.
- This would probably have to done on some type of bid.
- Keep in mind that it is not always easy to catch fish at the very end of the season. Probably need to be ready to fish by the commercial fishing sector by Sept 1-15th.