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REPRESENTATIVE Paul Seaton

District 35

Common Questions on HB 59

How would the Division of Economic Development determine whether or not a product is manufactured in the state of Alaska?

The legislation states that in order for a borrower to be eligible for the rate reduction “at least 50 percent of the loan proceeds” need to be spent on a product that is manufactured or produced in the state (p.1, l.8). As long as half of the money borrowed is spent on an Alaskan product, the entire loan is eligible for the rate reduction. The Department would have vendors certify their product under the Made in Alaska and Alaska Product Preference programs (see email from Cathy Jeans).

Mary Ellen, AG for the Department of Commerce, Community and Economic Development, is confident that the language in the bill is clear enough for the Department to administer and that any further definitions can be dealt with in regulations. The language defining Alaska Manufacture in the bill came from the State Procurement statutes, AS 36.30.332 and 338.

Can you clarify the definition of manufacture?

HB 59 states “ ‘manufactured or produced’ means processing, developing, or making an item into a new item with a distinct character and use.” (p.1 l.13-14) Merely assembling a product from a kit would not be making a product with a new and distinct purpose. However, taking various parts – pieces of pipe, steel and wire – and making a new distinct product would be considered a product manufactured in Alaska. The Department would require the borrower to prove the product was manufactured in Alaska by presenting a statement from the Alaskan company before they would be eligible.

Hypothetical borrowing situations:

Under the Product Quality Program:

A fisherman borrows \$40,000 under the Product Quality Program. They purchase an Alaskan made refrigeration unit for \$30,000 and spend \$10,000 to install it. Seventy-five percent of the loan is spent on an Alaska manufactured product, which makes the entire \$40,000 loan eligible for a rate reduction under HB59.

Under the Engine Efficiency Program:

A fisherman borrows \$20,000 under the Engine Efficiency Program. They purchase an Alaskan made marine electrical generator for \$14,000 and spend \$6,000 to install it. Seventy percent of the loan is spent on an Alaska manufactured product, which makes the entire \$20,000 loan eligible for a rate reduction under HB59.

Staff contact: Katie Koester, 465-2028

*Prepared by the office of Rep. Seaton
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Katie Koester

From: Jeans, Cathy (CED) [cathy.jeans@alaska.gov]
Sent: Monday, January 31, 2011 3:06 PM
To: Katie Koester
Cc: Ayers, Wanetta Jo (CED); Andersen, Jim (CED)
Subject: RE: common questions on HB59

Categories: Katie

Hi Katie, I met with our director and senior management staff to discuss the first question listed in your "response to questions for house finance" document. The question was: How would the Division of Economic Development determine whether or not a product is manufactured in the state of Alaska? We discussed that an expedient way to deal with the question of Alaskan manufactured products would be to have the vendors certify their products with the Made in Alaska and Alaska Product Preference programs to meet the requirement. It appears that the processes already in place for these programs may mirror the intent of this legislation.

We thought the following definitions for the Made in Alaska and Alaska Product Preference programs and their respective websites would be helpful. Please let us know if you have additional questions. Thank you. Cathy

Made In Alaska - <http://www.commerce.state.ak.us/ded/dev/mia/permit.htm>

Certification Requirements

A finished product that is only partially manufactured within the state may be authorized to use the MADE IN ALASKA emblem if:

- the producer demonstrates that no manufacturing facility exists in the state with the capacity or expertise to do the work being accomplished outside the state; the commissioner or MADE IN ALASKA agent will not consider cost alone as a valid justification for using out-of-state manufacturing facilities; and
- the majority of the value-added processes are accomplished in the state.

DEFINITIONS

- (3) "manufactured product" means a product that is built, formed, fabricated, or assembled from a raw or semi-finished material which is changed in character in the final product;
- (4) "product line" means a product or group of products that is manufactured utilizing similar materials and manufacturing processes and producing a finished product that is similar in form, content, and use;
- (5) "value-added process" means a process that changes a raw material or a basic industrial material into a more finished product or alters the function, shape or appearance resulting in a product with increased value.

Alaska Product Preference - <http://www.commerce.state.ak.us/ded/dev/prodpref/prodpref.htm>

Product Certification

To be certified as Alaska Product Preference, a product must be made with materials and supplies that are:

1. 25 percent or more and less than 50 percent produced and/or manufactured in state. This is **Class I**, and receives 3% bid preference;
2. 50 percent or more and less than 75 percent produced and/or manufactured in state. This is **Class II**, and receives 5% bid preference;
3. 75 percent or more produced and/or manufactured in state. This is **Class III**, and receives 7% bid preference.

Please note that the certification in the State's preference programs goes to the products and not to the manufacturer.

Per AS 36.30.338, the following **definitions** are used:

1. "Alaska product" means a product of which not less than 25 percent of the value, as determined in accordance with regulations adopted under AS 36.30.332(a), has been added by manufacturing or production in the state;
2. "produced or manufactured" means processing, developing, or making an item into a new item with a distinct character and use through the application within the state of materials, labor, skill, or other services;
3. "product" means materials or supplies but *does not include gravel and asphalt* .