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March 26, 2013

Senator Peter Micciche
State Capitol Room 125
Juneau AK, 99801

RE: SB 83

Dear Senator Micciche,

As a surety bond broker who works with many of the largest and most active general contractors in Alaska, and who represents all of the major sureties actively writing bonds in Alaska, I deal with the issue embodied in SB 83 on a regular basis. The issue of interest on look back taxes deals with one of the core elements of the surety underwriting process – reliable, consistent and conservative accounting.

Privately held contractors who are required to post bonds on projects rely on CPA-prepared financial statements to provide a credible third party confirmation of a contractor's financial performance. A contractor's performance is assessed over time, and due to the uncertainties inherent in contracting, namely the constant re-pricing from project to project due to bidding and the inability to fix costs due to differences in suppliers, subcontractors, project locations and other general conditions, determination of profitability on any one project before completion is by definition an estimate.

Every responsible contractor will be conservative in these estimates, and their surety demands it, since the contractor who underperforms expectations is a contractor who will not get the full support of their surety. Bonding is the lifeblood of many contractors, and the penalty of underperformance, that is not getting all the bonding that is needed, is simply too great.

Since the difference in profitability is generally due to legitimately conservative estimating, the interest on look back taxes should be considered as a tool to true up, not penalize. The State of Alaska would do well to conform to the Federal Government on this issue.

Respectfully,

Parker, Smith & Feek, Inc.

Scott Fisher
Principal, Construction Practice Group Leader

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