

March 27, 2013

Senator Peter Micciche
State Capitol Room 125
Juneau, Alaska 99801

Dear Senator Micciche

Davis Constructors & Engineers, Inc. is strongly in support of Senate Bill 83 and appreciates your efforts to address the issue of look-back interest rates charged by the State of Alaska. We employ hundreds of Alaskans, construct government and private buildings in this great state and are proud to direct a portion of our profits to charitable causes that assist members of the communities we work in.

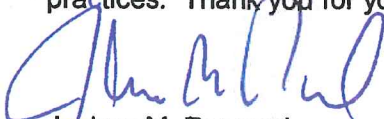
The State of Alaska assesses interest on look-back taxes due from construction contractors on long-term contracts at the delinquent tax rate, set by statute with a floor of 11 percent. The problem is that these taxes due are not "delinquent", but are the result of a successful contractor performing well on a project that bridges multiple years.

Large contractors are required to use the percentage of completion method to account for taxable contract income. Taxes are paid based on income calculated using estimated gross profits until the project is complete. If the estimated gross profit increases over the life of the job, the taxes due for prior periods are recalculated and paid with interest.

Good business practices dictate that contractors are conservative in their initial estimates of long-term projects. As you might imagine, there are many uncertainties in the beginning stages of a project and good contractors will include contingencies for the unexpected. As the project progresses and risks are managed, the gross profit often goes up and that is something that shareholders, banks and bonding companies like to see.

The federal government charges a look-back tax interest rate that fluctuates with the current state of the economy and is subject to change each quarter. The current federal interest rate assessed on look-back taxes is substantially lower than the state's 11 percent and reflects the fact that contractors pay taxes based on estimates. When actual amounts are known and paid, a reasonable interest rate is paid to the federal government to account for the fact that they're paid in later years.

Senate Bill 83 will tie Alaska look-back tax interest rates to the federal rates and help to level the playing field for C Corporation construction contractors in Alaska. We choose to pay state income tax and should not be penalized for having sound business practices. Thank you for your support of Senate Bill 83.



Joshua M. Peperd
President



Idonna Pieper Nelson
CFO