

FISCAL NOTE

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2000 LEGISLATIVE SESSION

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue
 Title Salmon Product Reports BRU Revenue Operations
 Component Income and Excise Audit
 Sponsor Representative Austerman
 Requester (H) Special Committee on Fisheries Component Serial No. 113

Expenditures/Revenues

(Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Personal Services	80.4	80.4	80.4	80.4	80.4	80.4
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	2.0	2.0	2.0	2.0	2.0	2.0
Supplies	2.0	2.0	2.0	2.0	2.0	2.0
Equipment	7.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING*	91.4	84.4	84.4	84.4	84.4	84.4
CAPITAL EXPENDITURES	**	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL						

Estimate of current year (FY00) cost: 0.0

POSITIONS

Full-time	2	2	2	2	2	2
Part-time						
Temporary						

ANALYSIS:

(see attached analysis and tables)

* Operating costs could be reduced by approximately \$22 thousand a year if electronic filing is required in the bill.

** Because of the short time frame available, we were not able to estimate the cost of contracting out the development of a database. However, from previous experience, we believe this cost would be at least \$20,000. This is a one-time cost that would occur in FY 2001.

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Bill Analysis

Section 1 amends AS 43.80.050(a) to require all fisheries businesses selling more than 240,000 pounds of salmon products at wholesale in a calendar year to report to the department the prices received and the quantities of the products involved in the sales, including sales by affiliates. In addition, the fisheries business must report for each 4 month period the total quantities of salmon products produced by the fisheries business and affiliates by month. Under current law, reporting is only required for the prices and quantities of thermally processed salmon products sold at wholesale.

Section 2 repeals and reenacts AS 43.80.050(b) to require the fisheries businesses to include in the reports:

- ◆ A description of the products produced and sold;
- ◆ The total quantity of each salmon product form produced and sold by area of production and by species; and,
- ◆ The wholesale price received.

This reporting would be required for the following product forms:

- ◆ Thermally processed salmon products by the number of each size of container
- ◆ Fresh headed and gutted salmon products by pounds
- ◆ Fresh fillet salmon products by pounds
- ◆ Frozen headed and gutted salmon products by pounds
- ◆ Frozen fillet salmon products by pounds
- ◆ Salmon roe products by pounds

Section 3 amends AS 43.80.050(c) to require all fisheries businesses selling to affiliates to report only the subsequent sales of that salmon product by the affiliates at wholesale. The information to be reported includes:

- ◆ A description of the products sold;
- ◆ The total quantity of each salmon product form sold by area of production and by species; and,
- ◆ The wholesale price received.

Section 4 amends AS 43.80.055 to require the department to determine from the reports the average monthly and annual wholesale prices for the sale of salmon products. These averages are to be determined for each pound by area of production by species by product form, except that for thermally processed salmon products the averages are determined by size of container by species.

Section 5 amends AS 43.80.055 to add a new subsection to require the department to publish the average wholesale prices in a report to be entitled the "Alaska Salmon Price Report".

Section 6 amends AS 43.80.060 to require the department to make the Alaska Salmon Price Report available to the legislature by the 15th day of each regular session. This provision, like current law, is unworkable if the intent is to provide the report for the immediately preceding calendar year. Section 1 provides that the reports by the processors for the months from September through December is due on January 31 of the following year, which makes the report to the legislature due before the department receives all the reports. The department will require time to receive the reports from processors, assimilate and review the data, and prepare the reports.

Section 7 amends AS 43.80.100(5) to provide that the reporting year is the calendar year after the calendar year in which the fisheries business sells more than 240,000 pounds of salmon products at wholesale.

Section 8 amends AS 43.80.100(7) to eliminate deductions in the nature of cash discounts allowed on sales and commissions paid to independent brokers in determining the wholesale price.

Section 9 amends AS 43.80.100 to add a new paragraph to define "area of production" in which a salmon product was produced to mean the commercial fishing management area established by the Board of Fisheries by regulation for specific commercial fisheries areas of the state.

Section 10 repeals Section 12, ch. 37, SLA 1998, which would have repealed AS 43.80.050 – 100 on July 1, 2003.

Section 11 amends the uncodified law to add a new section to provide that the first report required by AS 43.80.050 is due on September 30, 2000 for the period beginning May 1, 2000 and ending August 31, 2000, and must be filed by a fisheries business that sold more than 240,000 pounds of salmon products at wholesale during the 12 months ending August 31, 2000.

Section 12 provides a September 1, 2000 effective date.

Operating Expenditures

The following functions must be performed by DOR to meet the requirements of this bill: (1) public service (responding to questions from the public and processors), (2) data entry, (3) report production, (4) report and form dissemination, (5) accuracy and confidentiality checks, (6) non-filer identification, and (5) programming. We already perform these functions for the relatively simple average wholesale thermally processed

salmon report (2 page report and 4 page report form). We produce this report three times a year and it takes the equivalent of one month for one individual.

The increase in estimated form length, from 4 to 48 pages does not address the increase in complexity. Table 1 (see attached spreadsheet) provides some help in understanding the change in the level of complexity. The 48 page number assumes that each page of the form includes production area, pounds, wholesale price and product form by species by month. Consequently, there is a potential for 84 rows of data (14 production areas times 6 product forms per page). We are, however, assuming that, at most we will need to accommodate 32 rows per page. With 4 months of data and 6 species of salmon (including salmon roe) we have 24 pages. We then doubled this number because the data must be collected for both salmon sold and produced.

Not only will the number of filers increase, by at least 4 times, but the amount of information they must report will increase from 1 to 6 product forms, from by sale to by sale and production, and from statewide to by 14 different regions. This increase in complexity compounds the difficulty associated with accuracy and confidentiality checks.

Because of the large increase in complexity and amount of data, we are requesting two positions to meet our obligations under this bill. An Administrative Clerk III (@ \$36,600) will be needed to do all data entry, report and form dissemination, initial accuracy and confidentiality checks and initial public service. An Analyst Programmer I (@\$43,800) will be needed to do the query development and execution, non-filer identification, data base maintenance, final accuracy and confidentiality checks, special projects and responses to more complex public service questions and report production. Equipment, supplies and contractual obligations will be \$11,000 the first year because of a one-time cost of \$7,000 for computers and other equipment. After the first year, equipment costs will be zero and contractual and supply costs will be \$4,000 a year.

Another way to approach this issue is to examine how this cost compares to the cost of other tax programs that the tax division currently administers. The fisheries business tax return is the closest in similarity (in terms of complexity) to the proposed Salmon Product Report. Table 2 provides a comparison of the attributes of both of these programs.

Clearly, the fisheries business tax has more returns, species, and reporting areas. Additionally, the cost of the program includes accounting and collections costs, which would not be an issue for the Salmon Product Report. However, the fisheries business data is annual not monthly, does not include product forms, is not reported two different ways (production and sales) and is only received once a year, not 3 times a year. Also, because firms filing the report will be larger fishery businesses, the reports will be more comparable to the most complex of the fisheries business tax returns. Additionally, in our experience, fisheries businesses tend to fill out their tax returns more carefully than informational reports. This then requires more vigilance and time on the part of DOR

employees. The total administrative cost of the fisheries business tax is \$229,174, which is 2.7 times the estimated \$84,400 operating cost associated with this bill.

Capital Expenditures

The only capital expenditure would be the contract for creating a database and the associated data entry interface. We currently use an excel workbook because we only need 48 spreadsheets to accommodate the current information. At a maximum we would need 2,640 spreadsheets (4 months x 6 species x 55 processors x sold x produced). Each processor would have a separate spreadsheet for each month recording the pounds, product form and production area for a particular species. Each spreadsheet would potentially be 84 rows of data (14 production areas times 6 product forms). Although we know we would not need this many spreadsheets, even doubling the current number of spreadsheets would be too cumbersome to do in an excel workbook. We will also need to be able to execute relatively complex queries and to have a simple data entry interface.

Another advantage of using a database is it opens up the possibility of electronic filing. If electronic filing was required, we believe operating expenditures would decrease by approximately \$22 thousand a year. Although we have not had time to estimate the cost of contracting out for the development of a database, from previous experience we believe it would be at least a one-time cost of \$20 thousand. After the database system is set up, we believe the analyst programmer will be able to maintain the system and adjust it for changes.

Revenue

There is no direct revenue effect of this bill.

TABLE 1 - CHANGES TO REPORTING REQUIREMENTS: HB 363

	<u>Status Quo</u>	<u>HB 363 Estimates</u>
Number of processors reporting ¹	12	50-60
Number of product forms ²	1	6
Number of reporting areas ³	1	14
Number of species ⁴	5	6
Reporting point ⁵	sale	sale and-prod.
Reporting time period ⁶	monthly	monthly
Report due ⁶	3 times a year	3 times a year
Report threshold ⁷	240,000 lbs.	240,000 lbs.
Pages per report form ⁸	4	48
Software ⁹	Excel	Database

¹ We used fisheries business tax data to approximate the number of processors that would exceed the minimum reporting threshold.

² The following product forms are to be reported: (1) fresh headed and gutted, (2) thermally processed, (3) fresh fillet salmon products, (4) frozen headed and gutted, (5) frozen fillet and (6) salmon roe. Because thermally processed salmon products must be reported by the size of the container in which they are sold, they must be broken out separately from the other product forms. Although there are a large number of sizes, the vast majority of thermally processed salmon will fall under the four most common can sizes.

³ The fourteen areas of production are (1) Southeastern, (2) Yakutat, (3) Prince William Sound, (4) Cook Inlet, (5) Kodiak, (6) Chignik, (7) Aleutian Islands, (8) Atka-Amlia Islands, (9) Alaska Peninsula, (10) Kuskokwim, (11) Bristol Bay, (12) Yukon-Northern, (13) Norton Sound-Port Clarence, and (14) Kotzebue.

⁴ Under HB 363, there are the following five species of salmon (1) Chinook, (2) Sockeye, (3) Coho, (4) Pink, (5) Chum and (6) Roe. Under the existing report, salmon roe is not reported.

⁵ Under HB 363, the total quantity of salmon products produced and sold must be reported. Because both of these events occur at different points in time, they will be reported separately. This effectively doubles the reporting requirement.

⁶ The processor must provide monthly data every four months to the Department of Revenue.

⁷ A processor only has to fill out the report if during the previous calendar year the processor has sold more than 240,000 pounds at wholesale.

⁸ Because of the increase in the number of product forms (from 1 to 6), the reporting of salmon products produced and sold (from just sold) and the reporting by production area (14 production areas), we estimate that the report length will increase by a factor of 12. Additionally, it will increase in complexity. For example, for thermally processed salmon it will increase from four data fields (pounds, value, months and size) to 7 (pounds, value, months, product form, production area, sold or produced and size) data fields.

⁹ An excel spreadsheet with 48 pages linked to a summary page is all that is currently necessary. This will no longer work with at least 50 processors reporting 6 product forms, by production area, by species and by month (see operating expenditures discussion).

TABLE 2 - A COMPARISON OF HB 363 REPORT & FISH. BUS. TAX

	<u>Fisheries Business</u>	<u>HB 363 Estimates</u>
Number of processors reporting ¹	449	50-60
Number of product forms ²	0	6
Number of reporting areas ³	54	14
Number of species ⁴	all	6
Reporting point ⁵	prod. or trans.	sale and prod.
Reporting time period ⁶	annual	monthly
Report due ⁶	once a year	3 times a year
Report threshold ⁷	none	240,000 lbs.
Pages per report form ⁸	26	48
Software ⁹	database	database

¹ We used fisheries business tax data to approximate the number of processor's that would exceed the minimum reporting threshold.

² Under HB 363, the following product forms are to be reported: (1) fresh headed and gutted, (2) thermally processed, (3) fresh fillet salmon products, (4) frozen headed and gutted, (5) frozen fillet and (6) salmon roe. Because thermally processed salmon products must be reported by the size of the container in which they are sold, they must be broken out separately from the other product forms. Although there are a large number of sizes, the vast majority of thermally processed salmon will fall under the four most common can sizes.

³ Under HB 363, the fourteen areas of production for HB 363 are (1) Southeastern, (2) Yakutat, (3) Prince William Sound, (4) Cook Inlet, (5) Kodiak, (6) Chignik, (7) Aleutian Islands, (8) Atka-Amlia Islands, (9) Alaska Peninsula, (10) Kuskokwim, (11) Bristol Bay, (12) Yukon-Northern, (13) Norton Sound-Port Clarence, and (14) Kotzebue. For the fisheries business tax, we have included the number of communities we share with.

⁴ Under HB 363, there are the following five species of salmon (1) Chinook, (2) Sockeye, (3) Coho, (4) Pink, (5) Chum and (6) Roe. Species are listed by species code on the fisheries business tax return.

⁵ Under HB 363, the total quantity of salmon products produced and sold must be reported. Because both of these separate events occur at different points in time, they will be reported separately. This effectively doubles the reporting requirement. For the fisheries business tax, pounds and value must be reported once, either when the fish is processed or transported out-of-state unprocessed.

⁶ Under HB 363, the processor must provide monthly data every four months to the Department of Revenue. The fisheries business tax return is due once a year.

⁷ A processor only has to fill out the report if during the previous calendar year the processor has sold more than 240,000 pounds of salmon products at wholesale. All individuals or businesses that process fisheries resources in Alaska or transport unprocessed fisheries resources out of Alaska must file the fisheries business return.

⁸ Because of the increase in the number of product forms (from 1 to 6), the reporting of salmon products produced and sold (from just sold) and the reporting by production area (14 production areas), we estimate that the report length will be 48 pages. Currently, the fisheries business tax return is 26 pages long.

⁹ An excel spreadsheet with 48 pages linked to a summary page is all that is currently necessary. This will no longer work with at least 50 processors reporting 6 product forms, by production area, by species and by month (see operating expenditures discussion).