

# FISCAL NOTE

Bill Version: CSHB 363 (FIN)

(H) Publish Date: 3/29/00

## 2000 LEGISLATIVE SESSION

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

### 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	43.8	43.8	43.8	43.8	43.8	43.8
Travel	0.0	0.0	0.0	0.0	0.0	0.0
Contractual	1.0	1.0	1.0	1.0	1.0	1.0
Supplies	1.0	1.0	1.0	1.0	1.0	1.0
Equipment	3.5					
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING*</b>	<b>49.3</b>	<b>45.8</b>	<b>45.8</b>	<b>45.8</b>	<b>45.8</b>	<b>45.8</b>

<b>CAPITAL EXPENDITURES</b>	**	0.0	0.0	0.0	0.0	0.0
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<b>CHANGE IN REVENUES ( )</b>	0.0	0.0	0.0	0.0	0.0	0.0
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### FUND SOURCE (Thousands of Dollars)

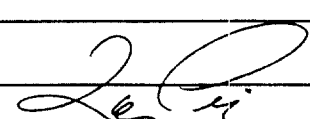
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>						

Estimate of current year (FY00) cost: 0.0

### POSITIONS

Full-time	/	/	/	/	/	/
Part-time						
Temporary						

**ANALYSIS:** (see attached analysis and tables)  
 \*\* 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.

Prepared by	<u>Brett Fried, Economist and Carl Meyer, Chief of Appeals</u>	Phone	<u>465-3682 or 465-2343</u>
Division	<u>Income and Excise Audit</u>	Date/Time	<u>March 28, 2000</u>
Approved by		Date	<u>March 28, 2000</u>
Commissioner	<u>Wilson L. Condon</u>		
Agency	<u>Department of Revenue</u>		

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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 for each 4 month period the prices received and the quantities of the products involved in the sales, including sales by affiliates. 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:

- ◆ The total quantity of each salmon product form 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 43.80.050 by adding a new section (f) to require the filing of an annual report. The annual report covers the period from January 1 through December 31 of the calendar reporting year and must be filed by January 31 of the following calendar reporting year. The report is to include a description of the products and the quantity, by size of container for thermally processed salmon and pounds for other salmon product forms, of each salmon product form produced by the processor and affiliates in each area of production and by species.

Section 5 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 6 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 7 amends AS 43.80.060 to require the department to make the Alaska Salmon Price Report available to the legislature by March 15 of each year. The report is to include the wholesale prices paid and the quantities of salmon products produced during the preceding year.

Section 8 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 9 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 10 amends AS 43.80.100 to add new paragraphs to define the following terms: the "area of production" in which a salmon product was processed means specified fisheries areas of the state; "produce" means to process salmon into a salmon product; and "wholesale" means the first sale of a salmon product at wholesale after the fisheries business tax was paid or payable on the salmon from which the product was produced. One problem with the definition of 'wholesale' is that 'wholesale' is also included in the meaning presenting a circular conundrum. Another problem is that since the fisheries business tax is neither paid nor payable until March 31<sup>st</sup> of the following calendar year, an argument could be made that sales made before this date are not reportable. We believe the intent, however, is that wholesale is to mean the first sale of a salmon product to a person other than the final consumer that occurs after the liability for the fisheries business tax is incurred on the salmon from which the product was produced.

Section 11 repeals Section 12, ch. 37, SLA 1998, which would have repealed AS 43.80.050 – 100 on July 1, 2003.

Section 12 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 first wholesale during the 12 months ending August 31, 2000.

Section 13 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 20 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 20 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 48 rows of data (8 production areas times 6 product forms). We are, however, assuming that, at most we will need to accommodate 32 rows per page. With 4 months of data and 5 species of salmon we have 20 pages. We will also have to produce an annual report using annual data. This form should be approximately 5 pages long.

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, and from statewide to by 8 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 one position to meet our obligations under this bill. An Analyst Programmer I (@\$43,800) will be needed to do the following: (1) query development and execution, (2) non-filer identification, (3) data base maintenance, (4) data entry, (5) report and form development, dissemination, and production, (6) accuracy and confidentiality checks, (7) special projects and (8) public service. Equipment, supplies and contractual obligations will be \$5,500 the first year because of a one-time cost of \$3,500 for computers and other equipment. After the first year, equipment costs will be zero and contractual and supply costs will be \$2,000 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, 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. The total administrative cost of the fisheries business tax is \$229,174, which is 5.0 times the estimated \$45,800 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 1,020 spreadsheets (4 months x 5 species x 51 processors) to accommodate the sales data and 255 spreadsheets (5 species x 51 processors) for the production data. Each processor would have a separate spreadsheet for each month recording the pounds, product form and production area for a particular species. 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. 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 \$20,000. 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.

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**TABLE 1 - CHANGES TO REPORTING REQUIREMENTS: CSHB 363**

	<u>Status Quo</u>	<u>CSHB 363 Estimates</u>
Number of processors reporting <sup>1</sup>	12	51
Number of product forms <sup>2</sup>	1	6
Number of reporting areas <sup>3</sup>	1	8
Number of species <sup>4</sup>	5	5
Reporting point <sup>5</sup>	sale	sale and prod.
Reporting time period <sup>6</sup>	monthly	monthly
Report due <sup>6</sup>	3 times a year	3 times a year
Report threshold <sup>7</sup>	240,000 lbs.	240,000 lbs.
Pages per report form <sup>8</sup>	4	20
Software <sup>9</sup>	excel	database

<sup>1</sup> According to the Alaska Department of Fish and Game, 51 processors exceed the minimum reporting threshold

<sup>2</sup> 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.

<sup>3</sup> The eight areas of production are (1) Southeastern and Yakutat, (2) Prince William Sound, (3) Cook Inlet, (4) Kodiak, (5) Chignik, (6) Aleutian Islands, Atka-Amlia Islands and Alaska Peninsula, (7) Bristol Bay, (8) Kuskokwim, Yukon-Northern, Norton Sound-Port Clarence, and Kotzebue.

<sup>4</sup> Under CSHB 363, there are the following five species of salmon (1) Chinook, (2) Sockeye, (3) Coho, (4) Pink, and (5) Chum.

<sup>5</sup> Under CSHB 363, the total quantity of salmon products produced and sold must be reported. However, production must only be reported once a year on an annual (not monthly basis).

<sup>6</sup> The processor must provide monthly sales data every four months to the Department of Revenue and annual production data once a year.

<sup>7</sup> 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.

<sup>8</sup> Because of the increase in the number of product forms (from 1 to 6), and the reporting by production area (8 production areas), we estimate that the report length will increase by a factor of 5. Additionally, it will increase in complexity. For example, for thermally processed salmon it will increase from three data fields (pounds or size, value and months) to 5 (pounds or size, value, months, product form and production area) data fields.

<sup>9</sup> An excel spreadsheet with 48 pages linked to a summary page is all that is currently necessary. This will no longer work with 51 processors reporting 6 product forms, by 8 production areas, by species and by month (see operating expenditures discussion).

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

	<u>Fisheries Business</u>	<u>CSHB 363 Estimates</u>
Number of processors reporting <sup>1</sup>	449	51
Number of product forms <sup>2</sup>	0	6
Number of reporting areas <sup>3</sup>	54	8
Number of species <sup>4</sup>	all	5
Reporting point <sup>5</sup>	proc. or trans.	sale and prod.
Reporting time period <sup>6</sup>	annual	monthly
Report due <sup>6</sup>	once a year	3 times a year
Report threshold <sup>7</sup>	none	240,000 lbs.
Pages per report form <sup>8</sup>	26	20
Software <sup>9</sup>	database	database

<sup>1</sup> According to the Alaska Department of Fish and Game, 51 processors exceed the minimum reporting threshold.

<sup>2</sup> Under CSHB 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.

<sup>3</sup> The eight areas of production are (1) Southeastern and Yakutat, (2) Prince William Sound, (3) Cook Inlet, (4) Kodiak, (5) Chignik, (6) Aleutian Islands, Atka-Amlia Islands and Alaska Peninsula, (7) Bristol Bay, and (8) Kuskokwim, Yukon-Northern, Norton Sound-Port Clarence, and Kotzebue. For the fisheries business tax, we have included the number of communities that received fisheries business shared tax revenue in FY 99.

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

<sup>5</sup> Under CSHB 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. However, production must only be reported once a year on an annual (not monthly basis). For the fisheries business tax, pounds and value must be reported once, either when the fish is processed or transported out-of-state unprocessed.

<sup>6</sup> Under CSHB 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.

<sup>7</sup> 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.

<sup>8</sup> 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 (8 production areas), we estimate that the report length will be 20 pages. Currently, the fisheries business tax return is 26 pages long.

<sup>9</sup> An excel spreadsheet with 48 pages linked to a summary page is all that is currently necessary. This will no longer work with 51 processors reporting 6 product forms, by 8 production areas, by species and by month (see operating expenditures discussion).