

HOUSE FINANCE COMMITTEE
February 13, 2002
1:42 P.M.

TAPE HFC 02 - 25, Side A
TAPE HFC 02 - 25, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:42 P.M.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

MEMBERS ABSENT

Representative John Davies

ALSO PRESENT

Representative Gary Stevens; Senator Alan Austerman; Representative Drew Scalzi; Jeff Bush, Deputy Commissioner, Department of Community and Economic Development; Eddy Jeans, Manger, School Finance and Facilities Section, Department of Education and Early Development; Carl Rose, Executive Director, Association of Alaska School Boards (AASB), Juneau; Sandro Lane, Board Chairman, Alaska Seafood Marketing (ASMI), Juneau; Greg Favretto, Alaska Seafood Marketing Board (ASMI), Anchorage; Jamie Ross, Alaska Seafood Marketing (ASMI) Board, Homer; Rose Heyano, Alaska Seafood Marketing (ASMI) Board, Dillingham; Dale Kelley, Executive Director, Alaska Trollers Association (ATA), Juneau; Randall Ruaro, Staff, Representative Bill Williams; Leroy Cabana, Homer; Sherry Tuttle, Alaska Seafood Marketing Board and the Alaska Trollers Association, Sitka.

PRESENT VIA TELECONFERENCE

Gary Baldwin, Lower Kuskokwim School District, Bethel.

SUMMARY

HB 312 An Act relating to the delay of the reduction of supplementary public school funding; and providing for an effective date.

HB 312 was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by Department of Education & Early Development.

HB 360 An Act making appropriations to the Alaska Seafood Marketing Institute for generic salmon marketing; and providing for an effective date.

HB 360 was HEARD and HELD in Committee for further consideration.

#HB360

HOUSE BILL NO. 360

An Act making appropriations to the Alaska Seafood Marketing Institute for generic salmon marketing; and providing for an effective date.

REPRESENTATIVE GARY STEVENS stated that HB 360 would appropriate \$12 million dollars over the next five years to boost the marketing of Alaska's salmon.

The Alaska salmon industry touches thousands of Alaska families both along our coastline and in major cities. It is the State's largest private employer and the lifeblood of the coastal communities.

The salmon industry was severely impacted by the September 11th attack. The pipeline for fresh halibut froze. Prices plummeted and the Alaska Seafood Marketing Institute (ASMI) budget fell along with it.

Representative Stevens pointed out that the increase in fish farms around the world has flooded the United State markets and driven down the price of salmon to levels that are jeopardizing Alaska's industry. Currently, ASMI is in the second year of a federally funded program specifically geared to combat the impact of farmed salmon on Alaska wild salmon. The program will end in June 2003, just when it is gaining momentum.

Representative Stevens noted that the appropriation for ASMI, while not the only answer, could help to stop the erosion of the market and help turn the tide against a worldwide glut of cheap imported salmon in both the domestic and overseas markets.

Co-Chair Williams noted that it was not his intent to move the bill from Committee at this time.

SANDRO LANE, BOARD CHAIRMAN, ALASKA SEAFOOD MARKETING INSTITUTE (ASMI), TAKU SMOKERIES, JUNEAU, voiced support for HB 360. He addressed his comments to the reduction in ASMI funding that has occurred in the last five years. ASMI is facing approximately a 37% reduction in funds for marketing salmon worldwide and that trend is continuing. It is projected that the industry will be down 53% in the next four years. No funding has come directly out of the general fund appropriation since 1993. He requested that ASMI be assisted in a time of industry need. The time to market is when the industry is down.

Mr. Lane pointed out that the ASMI programs have been viable. The State's competitors have dwarfed marketing funds. Those competitors spend more than 10-fold what Alaska does. ASMI is looking for a source of unrestricted funds such as the Market Assistance Program (MAP) export grant monies. Those grant funds are matched funds and are not best serving the industry because they are restricted.

Mr. Lane urged Committee members to consider the request. He pointed out that the entire ASMI Board was present at the meeting. He added that the members of the ASMI Board represent the entire State regions.

Representative Hudson inquired what the 1% tax would generate for ASMI in the upcoming year.

Mr. Lane explained that it would generate \$1.8 million dollars. That number is down from \$3.6 million dollars in FY00. Those funds are domestic monies and cannot be used to leverage export-marketing funds. It is restricted money.

In response to Vice-Chair Bunde, Mr. Lane recalled that \$54 million dollars in raw fish tax was paid last year.

GREG FAVRETTO, BOARD MEMBER, ALASKA SEAFOOD MARKETING INSTITUTE (ASMI), ANCHORAGE, spoke to the declining revenues that ASMI has been experiencing. He indicated that ASMI is in unanimous support of a self-imposed tax. ASMI does need the funding support from the Legislature in order to impact that which is taking away market shares. He urged the Committee's support. Mr. Favretto mentioned the huge impact that the crisis in Central Alaska is experiencing.

JAMIE ROSS, BOARD MEMBER, ALASKA SEAFOOD MARKETING INSTITUTE (ASMI), HOMER, noted that he was present at the meeting to represent the coastal villager fishermen who are desperately struggling with their current salmon crisis. The fishing business is being extremely affected by the downturn in the Japanese economy and the farmed fish competition.

Mr. Ross noted that ASMI has a deep commitment to the fishermen and the hard work of the members of the

corporation. He pointed out that ASMI is using creative methods to access federal matching funds. The fishing problems cannot be solved in the face of such desperate times. ASMI cannot exist without marketing money. That is how HB 360 will help. He guaranteed that for every dollar spent, there would be a measurable return.

Mr. Ross stated that the State of Alaska is facing an incredible tragedy given the fishing disaster. The effects of next summer will be dramatic from Bristol Bay and the western coast of Alaska as the prices continue to slide. HB 360 is a long-term plan to fill the gap. The fishing industry needs bolstering in order for it to survive in the State.

Representative Hudson mentioned the increased consumption and farmed salmon opening into new markets.

Mr. Ross replied that one of the biggest sections of growth in this country is farmed-filletts. Some regions are hoping to enter into that fillet market and that could be done domestically. However, without the bolstering of the 1% tax, Alaska will not be able to enter into that arena.

ROSE HEYANO, BOARD MEMBER, ALASKA SEAFOOD MARKETING INSTITUTE (ASMI), DILLINGHAM, voiced strong support of HB 360. She noted that it is important to support marketing and that the 1% tax could only be used for that purpose. The fishing industry depends on the ASMI Board to make the marketing of Alaska salmon possible. She stressed that there is not another business in the State that could replace the commercial fishing base, a major industry for decades. She urged that support continue. Ms. Heyano reminded members that the industry is sinking dramatically and it needs the help of State officials.

Vice-Chair Bunde encouraged Committee members to support marketing by taking samples of Alaska seafoods to out of State national meetings and events. He stressed that personal marketing is effective and suggested that the low cost and personal advertisement would serve the industry well.

Co-Chair Williams acknowledged that there is a problem in the industry and that everyone does want to help with that concern. He added that no one really knows how to address the problem. He pointed out that Senator Austerman is working on a bill to help the industry.

Co-Chair Williams reiterated that he did not know what to do and how the funds should be spent. He reminded Board members that the State also is in a spending crisis. He hoped that some plan could be devised that would address the crisis in the fishing industry.

Representative Hudson asked if the Administration had submitted a plan which recognizes the need for special assistance.

JEFF BUSH, DEPUTY COMMISSIONER, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, stated that the Governor did submit a plan that would provide \$5 million dollars for ASMI. He stated that the Governor does recognize the shortfall for the salmon industry and realizes that there are no short solutions for those problems. Marketing will need to be a piece of any plan. Mr. Bush stated that HB 360 was part of the necessary piece.

He added that the Governor has also proposed a regional, international market analysis and research plan. It has been suggested that those are pieces of a puzzle that could turn into solutions. They need to be on the table as well.

DALE KELLEY, EXECUTIVE DIRECTOR, ALASKA TROLLERS ASSOCIATION (ATA), JUNEAU, stated that the Alaska Trollers Association (ATA) strongly supports State funding for the Alaska Seafood Marketing Institute (ASMI). By phasing in that support over a period of years, HB 360 offers the State an avenue to support seafood marketing in a manner sensitive to the State's current budgeting needs.

Recent years have brought a series of challenges for those who harvest and market Alaska seafood. For instance, fishermen have seen their bottom line ravaged by the rapid rise of cheap subsidized farm salmon in the marketplace, combined with numerous regulatory policies restricting their access to salmon. Processors have struggled to maintain old markets, and develop new, in the face of increased production costs and the glut of farmed salmon.

She added that in 2000, Chile increased its export of farmed salmon by 57%. Canada's new government has just lifted its moratorium on new salmon farms. A look to Norway, Scotland, Ireland, New Zealand, Iceland, and even the United States, makes the future painfully clear "salmon farming" is here to stay and we must find a way to compete. More farmed species and product forms are in development and will further test marketing skills. Now more than ever, the seafood industry needs to identify its wholesome array of wild-caught fish as uniquely different in the marketplace.

Ms. Kelly noted that obviously, the old methods of selling seafood does not work in the face of the new-age market threats. That is not expected to change, which necessitates new strategies to reposition and expand our place in the market. Well-crafted marketing programs are essential if Alaska is to make buyers aware of the many fine seafood

choices available from here. Sound generic marketing campaigns are essential to underpin any niche marketing that individual fleets may choose to pursue.

She pointed out that seafood is Alaska's first industry. It is the business that has directly and indirectly provided more jobs and income than any other to Alaskans and the State for well over 100 years. When the fishing industry loses market share, the entire State feels the pain of reduced employment and income for our communities and the general fund. We harvest more fish in the State than most countries and are competing head to head with entire nations that invest millions and millions of dollars to market fisheries product. This year, the Norwegian fish farm industry estimates it will need \$100 million to market in the face of some of the problems it faces. Norway is already known to invest \$40 million plus each year to help their industry move fish. Obviously they recognize a strong reliance on seafood. She asked if there was a similar link between Alaska seafood and the economic success of the State.

In the face of significant market challenges, the seafood industry still contributed \$52 million dollars to the general fund in FY01. The industry has tremendous potential to do better with increased support and investment. The industry has a working fleet of thousands, and most of them are residents of Alaska, whose earnings are distributed widely within the State. Even Anchorage, who is not immediately identified as a fishing port, has over 900 permit holders and nearly 40 processing plants. Alaska relies on the seafood industry.

Alaska fishermen are digging deep into their pockets during this very lean time and choosing to support ASMI through reauthorization of the marketing tax. Their 1% contribution makes up a significant portion of ASMI's budget. Regardless, the expectations for ASMI are not proportional to its level of funding and the corporation is expected to do too much with too little.

Ms. Kelly stated that considering the good things ASMI does now, imagine what they could do with the State's help and backing. She encouraged the Legislature to work in partnership to ensure the long-term health of the industry which has been a cornerstone of Alaska's economy.

Vice-Chair Bunde asked how many members working for the commercial fishing industry would be willing to pay a broader base tax to help run the State of Alaska.

Ms. Kelly noted that she did not have the answer to that question, however, pointed out that a lot of taxes that come

into the general fund are coming out of the bottom line at the dock. Fishermen pay a tremendous amount of tax and that is money that is coming back through the general fund. She pointed out that the Alaska trollers consist of 85% resident participation. She did not know about the number of non-residents and their contribution to the State coffers.

Vice-Chair Bunde understood that the commercial fleet consisted of about 75% non-residents. He surmised that they were not putting much of their money back into the economy of the State.

Representative Hudson asked the value of the fishing industry combining into one professional industry. He asked how through the proposed legislation, would the value of ASMI work in educating Alaska fishermen to seek different markets. He inquired without those assets, how could they "crack" into that market.

Ms. Kelly agreed that there was a correlation between ASMI's program and other individual marketing schemes. ASMI provides a base line of information, which would take a tremendous amount of research for any firm to do on their own. She stressed the value of ASMI.

Representative Hudson addressed quality and competition within the foreign product. He thought that because of the situation in the market, it is essential to determine new ways for the State to remain in that market.

Ms. Kelly pointed out that quality is important and that is what Alaska is known for. Many processors have acknowledged that the State needs to shore-up the quality of the product. She added that it is important that quality programs are done sensitively. All of the fisheries in the State are unique. There is not a one size fits all. She added that any fleet could improve.

Representative Stevens thought that it was shortsighted to think in terms that taxation could be costing the fishermen. He noted that if ASMI did not exist, what would take its place. What is available to support the marketing of Alaska salmon.

He noted that in 1997, the last funds in the amount of \$570 thousand dollars was provided for the ASMI program. The funding received from the federal government for ASMI in FY02 will be \$4 million dollars and that will end in FY03. The salmon marketing tax from fishermen was up as high as \$4.8 million dollars. That currently has dropped to \$2 million dollars. The \$4 million dollar processing tax will be reduced to \$2.8 million dollars. He highlighted the large decreases in funding to that program. If \$4 million

dollars is lost from the federal government, it will have a terrible impact.

Representative Stevens stated that the proposed bill is about "growing the economy". The funding will be used for that purpose. The bill addresses the impact that it will have on all fishing communities throughout the State.

Vice-Chair Bunde shared concerns with the State getting involved with private enterprise.

Representative Stevens pointed out that tourism and fishing are tied together. He asked how the State could support one without the other.

LEROY CABANA, HOMER, spoke for the concerns of the common commercial fishing person. He noted that ASMI has provided the opportunity to move forward. Without ASMI, the industry is not sophisticated enough to move forward. Fishermen are too spread out geographically to organize. He referenced the amount of raw fish tax and the contribution that the commercial fishing industry has made to the State. He thought that to provide funding to ASMI to help market fish, helps to save actual tax dollars. As the value of the fish goes down, the value of the contribution goes down.

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SHERRY CUDDLE, BOARD MEMBER, ALASKA SEAFOOD MARKETING INSTITUTE (ASMI), SITKA, commented that fish product carries a message about the State of Alaska to the rest of the world. She quoted the number of hours that many fisheries put in order to make the industry work. She requested the Committee's support for the legislation.

Co-Chair Williams stated that HB 360 would be HELD in Committee for further consideration.

#HB312
HOUSE BILL NO. 312

An Act relating to the delay of the reduction of supplementary public school funding; and providing for an effective date.

RANDALL RUARO, STAFF, REPRESENTATIVE BILL WILLIAMS, stated that HB 312 suspends the erosion on the "Supplemental Funding Floor" established in SB 36 during the 20th Legislature. Currently, the erosion effect takes some school funds away from 22 school districts across the State. The suspension will be in place pending the results of a study of school district cost factors funded by this

legislature last session. The results of that study will be available for consideration by the Legislature in determining school funding for FY04.

Mr. Ruaro stated that the Supplemental Funding Floor is a way to help school districts that lost funding in SB 36 make the transition from the old community based funding formula to the new school funding formula established by SB 36.

Mr. Ruaro pointed out that the supplemental funding floor held school districts that qualified for less State funding under SB 36 than under the old community based funding formula "harmless". The districts were given additional funds that represent the difference between the districts old community based funding formula and the new school funding formula established by SB 36.

However, as a school district qualifies for increased funding, the school districts supplemental funding floor continues until the school district no longer qualifies for a supplemental funding floor.

Mr. Ruaro advised that HB 312 proposes to suspend the 40% reduction to the supplemental funding floor for FY03 only. The suspension will allow legislators to have current, reliable, area cost differential information while deliberating the FY04 budget. It will give the next legislature the tools necessary to make sound and informed school funding decisions based upon the best possible information.

EDDY JEANS, MANGER, SCHOOL FINANCE AND FACILITIES SECTION, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, spoke in support of HB 312. He stated that the legislation is a step in the right direction to suspend erosion in the supplemental funding until completion. He offered to answer questions of the Committee.

Representative Lancaster asked if the bill would make any district whole.

Mr. Jeans replied that was the intent and that it would suspend the erosion for a one year period.

CARL ROSE, EXECUTIVE DIRECTOR, ASSOCIATION OF ALASKA SCHOOL BOARDS (AASB), JUNEAU, spoke in support of the legislation. He stated that the foundation formula has been adjusted in the past. He mentioned that there are things that could be done to make the foundation formula more perfect.

SB 36 moved the State from the unit factor into a per pupil factor. As a result of the transition in that floor, the State thought that we could remove 40% per student for people that were covered by the floor. Moving away from

unit funding to per pupil funding has been done. He thought that all students should be entitled to what they generate, which is the issue before the Committee. He claimed that this is an issue of fairness, equity and integrity. The bill is the right way to go and it will be good for Alaska. Additionally, it is only a one year extension to help deal with area cost differentials.

Vice-Chair Bunde interjected if in the next year, would they be arguing to reinstate the floor. He understood that the floor was put in place because not all school districts could justify the funding they got based on a per pupil count. If the floor is removed, it will memorialize their use of funds that cannot be justified on a per pupil count.

Mr. Rose responded that anytime you go into the foundation formula, you create a situation in which the foot is larger than the shoe. The shoehorn for SB 36 was the "floor". That was intended to change the way that schools were being funded and it was intended to have a dramatic impact on some of the small schools. The economy of scale was such that they could not deal with it. The bill does not injure anyone, and would be covered equally by the funding floor. SB 36 is part of the State's reality, and the issue of adequacy needs to be addressed.

Representative Hudson asked if this would be a permanent change.

Mr. Rose replied that in November 2002, there would be more information on the district cost study. He stressed that right now, there is a floor, which is penalizing growth. To suspend that, it will provide an opportunity to deal with "real" data to determine the real costs.

Representative Lancaster asked if the communities had come forward requesting additional funding.

Co-Chair Williams responded that the communities have been requesting it ever since SB 36 was passed.

Representative Whitaker questioned if "more kids were getting less".

Mr. Rose explained that for those school districts that were protected by the floor, which would have received less or "held harmless", one of the stipulations was that any of the additional students received only 40% of that allotment would be withheld. HB 312 recognizes the hold harmless and clarifies that if the pupil generates 100%, which it is designed to do, then that is what should occur. At this time, any new student only gets 60% of the money if protected by the floor.

In response to Representative Whitaker, Mr. Rose explained the rationale for the protection was when moving away from the unit, some of the smaller school districts were harmed that did not have the benefit of the economy of scale.

Co-Chair Mulder explained the intent when the foundation formula was being rewritten and that no district would receive less money than they were currently receiving. Under the new formula, they would receive more than they were entitled to. To allow them to be able to grow into the new formula, the operating floor was put in place. There is a disproportionate amount of money received. He advised that there are 20 schools impacted. Since the floor was put in place, 15 schools have grown into the floor and are no longer impacted by it.

Vice-Chair Bunde commented that they grew into the new formula and away from the subsidy that they could not justify by the number of students.

He added, any bill signed by the Governor will have input from the Legislature and the Administration. The floor was what made SB 36 work. The bill provided a percentage to the smaller rural schools. SB 36 was a way to provide a subsidy for those districts that could not justify the funding that they needed. Those districts are getting 60% more, rather than receiving 40% less.

Representative Croft suggested that the transition language, the floor and the erosion, in SB 36 was "okay" if moving to a new formula, if you have confidence that it is a better one. As the State gets closer to having better data, it became more obvious that relying on that floor for a year did not make good sense. The criticism of the district cost factor made it more difficult to justify the data. He stressed that it became more important to have the good data and that the McDowell study did not support the entire weight that was put upon it. It now has become fair to suspend action on that change until the full data is available.

Representative Whitaker thought that it could impact the appeal of the Kasayulie Court case.

Co-Chair Williams understood that Kasayulie case stipulates that the Legislature has not funded the rural communities adequately.

Co-Chair Mulder interjected that the Kasayulie case dealt with construction dollars. The issue before the Committee is in regard to SB 36. In SB 36, the final solutions were crafted in the House Finance Committee. He added that it has been contentious since the day it was signed. Under the new formula, the new money is not warranted. The question

is if it is on merit warranted. He supported Co-Chair William's recommendation that the Legislature be brought forward from that original legislation. He hoped that next year, with the area cost differential study, the State will be looking at a rewrite.

Representative Whitaker commented for the record that it should be made clear that the legislation under discussion is not related to rural school construction and has nothing to do with the Kasayulie case.

Representative Croft agreed that the legislation does not deal with capital money, but rather an operating issue. The legislation is unrelated to the Kasayulie case.

Vice-Chair Bunde suspected that when it goes to court, it would be acknowledged that the Legislature had been discriminating and handling the money fairly.

GARY BALDWIN, [TESTIFIED VIA TELECONFERENCE], ASSISTANT SUPERINTENDANT, LOWER KUSKWIN SCHOOL DISTRICT, BETHEL, spoke in support of the proposed legislation. He prefaced his comments that the most important obligation for the State of Alaska is in providing quality education for children. He noted that he fundamentally disagreed with the basic principles of SB 36. As inflation continues to eat away at what the resources can provide to the students, the districts need to receive the full benefits of the increases.

Mr. Baldwin mentioned having a quality teaching staff. The major teacher turnover in rural schools each year has a negative impact on the ability to provide quality teaching.

Representative Hudson MOVED to report HB 312 out of committee with individual recommendations and with the accompanying fiscal note.

Vice-Chair Bunde OBJECTED. He commented that if there is extra money for spending, it should be added for all schools and not just nineteen districts. He reminded members that SB 36 brought \$40 million dollars of new money into the education system throughout the State.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Harris, Hudson, Lancaster, Moses,
Whitaker, Croft, Mulder, Williams
OPPOSED: Bunde

Representative J. Davies was not present for the vote.

The MOTION PASSED (9-1).

HB 312 was reported out of Committee with a "do pass" recommendation and with fiscal note #1 by Department of Education & Early Development.
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ADJOURNMENT

The meeting was adjourned at 3:00 P.M.