

HOUSE FINANCE COMMITTEE
March 24, 2003
3:39 PM

TAPE HFC 03 - 37, Side A
TAPE HFC 03 - 37, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 3:39 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Reggie Joule
Representative Kevin Meyer, Vice-Chair
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Carl Moses

ALSO PRESENT

Senator Gary Stevens; Senator Ben Stevens; Cheryl Sutton, Staff, Senator Ben Stevens; Chuck Harlamert, Revenue Audit Supervisor, Tax Division, Department of Revenue

PRESENT VIA TELECONFERENCE

Kris Norusz, Icicle Seafoods

SUMMARY

HB 90 "An Act relating to a salmon product development tax credit under the Alaska fisheries business tax and the Alaska fisheries resource landing tax; and providing for an effective date."

CSHB90 (FIN) was REPORTED out of Committee with No Recommendation and one new fiscal impact note from the Department of Revenue.

HB 104 "An Act relating to payment of the fisheries business tax and to security for collection of the fisheries business tax."

CSHB 104 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

#hb90

HOUSE BILL NO. 90

"An Act relating to a salmon product development tax credit under the Alaska fisheries business tax and the Alaska fisheries resource landing tax; and providing for an effective date."

Co-Chair Harris MOVED to ADOPT the Committee Substitute HB 90 (FIN), Work Draft 23-LS0525\I (Utermohle). There being no OBJECTION the Committee Substitute was ADOPTED.

SENATOR BEN STEVENS, SPONSOR, spoke in support of the bill. He explained that the Committee Substitute resulted from work with the Salmon Task Force over the past seven months. He noted that the Salmon Task Force prioritized its proposals to the legislature based on potential impact to the 2003 harvest cycle. He pointed out that the bill contained two tax credits: one for product development and one for salmon utilization.

Senator B. Stevens went on to explain important elements of the salmon product development tax credit. First, he pointed out that the credit could not exceed a taxpayer's liability by more than fifty percent. Second, he noted that the opportunity to invest lasted for three years, with a three-year carry on for those investments made in the third year.

Senator B. Stevens stated that the credit applied to processing vessels as well as shore plants. He emphasized that the credit applied to the property first placed in service, encouraging investment in new equipment to produce new products for the industry with the intent of raising the vessel value over the long term.

Senator B. Stevens also noted that a taxpayer may not participate in the program if they are in arrears on any other state liability.

Senator B. Stevens discussed the salmon utilization tax credit, and reiterated that a taxpayer could not exceed fifty percent of their liability with a combination of the two tax credits. He also noted the difference between the two tax credits: one being for equipment to produce new products, and one for "the cost associated with the development, manufacture, purchase, or operation of new equipment or a manufacturing process to produce marketable products using the bones, skin, viscera and carcasses of salmon"(page 4, line 5). He noted that this language was

added in an effort to attract the industry toward full utilization.

Senator B. Stevens observed that the bill was a priority of the Salmon Task Force, and suggested that the legislation would ultimately raise the ex vessel value over the next three years by raising product quality.

Senator B. Stevens stated that the impact of fiscal note was uncertain until investment was actually made. He explained that the fiscal note merely projected impact of potential investment. He stated that the long-term return of the benefit was also undetermined at this time.

In response to a question by Co-Chair Harris, Senator Stevens explained that the Fisheries Business Tax was a buyers tax, paid based on the value of a product purchased, differentiating this from wholesale value. He noted that the tax was 3 percent on shore and 5 percent off shore.

Senator B. Stevens clarified that the tax credits pertained to both on and off shore processors. He confirmed that the bill did not focus on fishers but rather on the tax liability of processors, whether a large multi-facility or a small, individually owned facility.

Representative Croft referred to a Letter of Intent written by the House Special Committee on Fisheries, signed by Representative Seaton, recommending two additions to the bill. Senator B. Stevens stated that these additions were not included in the Committee Substitute.

Senator B. Stevens went on to explain that the Letter of Intent requested the addition of a refined definition of "value added" and a "claw back" provision in case the system was abused. Senator Stevens suggested that if policy was created to address potential abusers, the policy then lost its value. He reiterated that this language was not included in the legislation.

In response to a question by Representative Stoltze, Senator B. Stevens confirmed that if a taxpayer invested and utilized the tax credit, it would reduce the liability to the general fund.

Representative Stoltze asked if a cap for individuals or the overall tax credit was considered. Senator B. Stevens reiterated that taxpayers were limited to fifty percent of their total liability. He indicated that an overall cap was not considered but speculated that, since the total [salmon] tax was \$5.6 million, if fully utilized the credit would still yield \$2.8 million to the state.

Vice-Chair Meyer referred to the fiscal note dated 3/20/03 written by the Department of Revenue and asked for an explanation of costs.

CHUCK HALAMERT, CHIEF OF OPERATIONS, TAX DIVISION, DEPARTMENT OF REVENUE projected an investment in FY 04 of \$3 million, with a maximum of \$4.8 million in FY05. He stated that the total credit over a six-year period was estimated at \$4.9 million.

Co-Chair Williams asked for clarity about the changes in fiscal impact between the original bill and the Committee Substitute.

CHERYL SUTTON, STAFF, SENATOR BEN STEVENS, clarified that the Committee Substitute added a tax credit for full salmon utilization to the original bill. She pointed out however that the combined credits could not exceed fifty percent of a taxpayer's liability.

Co-Chair Williams asked if a fiscal note was created to address the original bill. There was some question as to the amount of change in the new fiscal note.

Co-Chair Harris observed that the new fiscal note [to the House Fisheries' version] projected the state would experience a loss of approximately \$500 thousand in FY 04, increasing to a maximum of \$1.2 million, and then decreasing to \$50 thousand in FY 09. He further observed that state operations cost would be approximately \$23 thousand in general funds. He asked for further explanation regarding the \$6 thousand reduction in cost between the new (3/20/03) and the previous (3/04/03) fiscal notes.

Mr. Harlamert explained that the difference in cost was due to an error in the original fiscal note. He noted that an audit position and associated travel was included in the original fiscal note, and explained that the position was eliminated from the subsequent fiscal note.

In response to a question by Representative Croft, Mr. Harlamert clarified that the value added salmon processing equipment credit would generate \$2 to \$3 million in investment in the first year.

Representative Croft maintained that the new credit definition was much more broad. He speculated that any new equipment used to market the product would potentially qualify.

Mr. Harlamert concurred that full utilization potential was much more broad.

Representative Croft asked whether the deduction could total fifty percent of as much as \$5.6 million if full utilization occurred. He suggested that the loss to the general fund would be between \$1.2 million and \$2.8 million.

Mr. Harlamert pointed out that the credit was intended to generate investment in its first three years, which then could apply toward taxes generated over a six-year period. He noted the potential to leverage earnings beyond the fifty percent figure.

Representative Croft asked if, assuming that the taxes remained somewhat stable at \$5.6 million, the maximum of general fund revenue in any one-year would be \$2.8 million.

Co-Chair Williams asked for an estimate of the potential revenue loss, without the incentive.

Mr. Harlamert explained that the revenue impact was impossible for the department to determine, and something that an economist might better determine.

Representative Whitaker clarified that the state would receive approximately \$2.5 million in tax revenues in any given year, under the new tax credits, and asked if the revenue curve was declining or flat.

Mr. Harlamert speculated that the state had experienced a downward trend in salmon tax. He maintained that it was unclear how much the credit would affect this pattern.

Representative Whitaker asked how applications would be reviewed if the credit were fully utilized.

Mr. Harlamert responded that there was no competition among participants, since there was no set amount for the tax relief, other than a percentage of existing taxation.

Representative Whitaker followed up to ask if projections were therefore conservative, and if there might be a great deal more participation.

Mr. Harlamert expressed his belief that the projections were optimistic in terms of generating credit. He speculated that a fairly limited group of taxpayers had the required liability and were able to take advantage of the credit. He explained that the liability was based on what they paid for raw fish.

Representative Chenault theorized that if liability were based on payment for product, revenue would increase by creating a better product. Mr. Harlamert concurred that if prices increased, the tax revenue would also increase.

KRIS NORUSZ, ICICLE SEAFOODS, testified via teleconference in support of the bill. She maintained that the bill supported development of the industry. She cited a previous tax credit in the 1980's, and stated that her company took advantage of that credit to purchase improved equipment that increased efficiency. She proposed that a similar tax credit would also stimulate industry development.

Representative Stoltze asked whether the Administration was in support of the bill.

Ms. Sutton responded that the Administration supported the bill. Representative Stoltze requested that written support be available should the bill proceed to the House Floor. Ms. Sutton confirmed that the Administration viewed the bill as a method of improving the industry this season.

Representative Joule expressed his desire to also see legislation that supported fishers as well as processors.

Representative Whitaker asked for clarity about which fiscal note would be adopted.

Co-Chair Williams stated that an updated [Department of Revenue] fiscal note would accompany the bill to the House Floor.

Representative Whitaker asked for assurance that the fiscal note represented an accurate range of projections.

Mr. Harlamert clarified that the fiscal note for the Committee Substitute would be different from the current fiscal note, both in terms of revenue and operating costs.

Co-Chair Williams addressed the issue of salmon utilization. He noted that currently the industry experienced costly difficulty in processing and disposing of salmon waste.

Representative Joule asked whether it was appropriate to send the bill from Committee without an appropriate fiscal note. Co-Chair Williams also expressed his discomfort with the lack of clarity over the new fiscal note.

Vice-Chair Meyer also expressed his discomfort with this process. He asked about the compliance associated with the fish product waste.

Co-Chair Williams speculated that the Environmental Protection Agency and the Department of Environmental Conservation set requirements for dealing with waste disposal. He noted that the State did not have water primacy issues. He discussed the methods for handling these waste products and emphasized its importance to industry participants.

Vice-Chair Meyer asked whether the process needed to be examined to find a solution to the disposal requirements.

TAPE HFC 03 - 37, Side B

Senator Ben Stevens addressed concerns regarding the new fiscal note. He clarified that the combination of the development and the utilization tax credits could never exceed fifty percent of a user's total liability. He maintained that since the fisheries business tax generated \$5.6 million, the cost of full utilization was \$2.8 million. He speculated that the investment level was the only unknown.

Representative Croft observed that the fiscal note was between \$1.2 million and \$2.8 million. Senator Stevens stated that the \$1.2 million figure was based on the credit not being fully utilized in the first year. He maintained that it was unclear how many processors would participate in the credit.

Senator B. Stevens stated that the value of the product correlated directly to the tax revenue. He explained that the intent of the bill was to increase the value of the overall industry. He indicated that the largest year for the salmon industry was \$882 million.

Representative Croft speculated whether if salmon prices rebounded the tax credit would generate a greater cost. Senator Stevens pointed out that the credit was only for three years, and maintained that the industry would likely not change significantly in that time.

Senator B. Stevens indicated that the purpose of the legislation was to stimulate investment in the industry. He pointed out that the uncertainty was not in the cap of liability but rather in the management of the liability.

Representative Croft clarified that the full utilization credit was to encourage processing of all discard, excluding traditionally used parts of the fish.

Senator B. Stevens referred to Page 2, line 23 of the bill (FSH), which outlined value added portions.

Representative Croft expressed confusion as to the specific equipment that could be written off with the utilization credit. Senator Stevens conceded that some equipment may be included in the development tax credit and as well as the utilization credit, but pointed out that both credits apply to the same fisheries business tax.

Representative Croft maintained that, since different limits pertained to each credit, it might allow for abuse of the tax credit system.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, testified via teleconference regarding the new fiscal note. He provided information on the fiscal history of the business fisheries tax. He noted that in fiscal years 93 through 96, the [total fisheries] tax revenue was \$42, \$34, \$39, and \$38 million respectively. He also stated that in FY 02 the tax revenue was at \$25.5 million.

Mr. Persily explained that the original fiscal note had been revised on March 20. He referred to the Finance Committee Work Draft, and committed to publishing a final Committee Substitute fiscal note by the next day.

In response to a question by Representative Croft, Mr. Persily stated that the total FY 02 fisheries business tax revenue was approximately \$25.3 million, with half going to the general fund and half to municipalities.

Senator B. Stevens noted that the fisheries business tax applied to all species, such as halibut, crab etc. He clarified that the tax under consideration pertained only to the salmon portion, which was \$5.6 million.

Representative Croft confirmed his support of assisting industry development. He stated his belief that the cap was not a clear \$2.8 million, but rather 50 percent of the price of product, which fluctuated. He speculated that the amount might therefore exceed \$2.8 million. He stated that this amount was contained in the fiscal note, and should therefore be clear.

Representative Croft MOVED to report CSHB 90 out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 90 (FIN) was REPORTED out of Committee with "No Recommendation" and one new fiscal note from the Department of Revenue.

#hb104

HOUSE BILL NO. 104

"An Act relating to payment of the fisheries business tax and to security for collection of the fisheries business tax."

SENATOR GARY STEVENS, SALMON TASK FORCE, testified in support of the bill. He pointed out that the previous bill (HB 90) was modeled after a successful bill, which assisted

the pollock industry. He expressed his hope that the current bill would have a similar affect on the salmon industry.

Senator G. Stevens explained that HB 104 also pertained to the processing industry. He noted that often the smaller processors did not have the financial depth to pay tax liabilities on an annual basis. He noted that the bill allowed taxes to be paid on a monthly basis.

Senator G. Stevens indicated that larger processors might choose to continue to pay their taxes annually. He noted that participants would be required to file a bond for \$50 thousand, or demonstrate lienable property valued at \$100 thousand. He speculated that it might only be taken advantage of by a handful of smaller processors. He summarized that the bill allowed smaller processors to expand development.

Representative Chenault expressed concern on behalf of processors in his area. He asked about the accessibility of a \$50 thousand bond.

Senator Stevens responded that the legislation did not prevent processors to continue with their current business practices, but merely provided them with another opportunity.

Ms. Sutton noted that a Salmon Task Force member who owns a salmon processing center in Naknek viewed the bill as an opportunity that would benefit his business management.

Representative Foster MOVED to report CSHB104 out of Committee with the accompanying fiscal note

There being NO OBJECTION, it was so ordered.

CSHB 104 (FIN) was REPORTED out of Committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue.

#

ADJOURNMENT

The meeting was adjourned at 4:47 PM