

HOUSE FINANCE COMMITTEE  
April 1, 2005  
1:44 p.m.

CALL TO ORDER

Vice-Chair Stoltze called the House Finance Committee meeting to order at [1:44:43 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Eric Croft  
Representative Richard Foster  
Representative Mike Hawker  
Representative Jim Holm  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Carl Moses  
Representative Bruce Weyhrauch

MEMBERS ABSENT

None

ALSO PRESENT

Representative Paul Seaton; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Bernie Sorenson, Assistant Superintendent, Juneau School District; Representative Gabrielle LeDoux; Representative Bill Thomas

PRESENT VIA TELECONFERENCE

Buck Laukitus, President, North Pacific Fisherman's Association, Homer; Alan Parks, Homer; Dean Baugh, Finance Director, Homer; Erika Tritremmel, Akutan; Gary Henning, City Manager, King Cove; Jeff Currier, Manager, Lake & Peninsula Borough; Chris Hladick, Manager, Unalaska; Dennis Watson, Mayor, Craig; Shirley Marquardt, Mayor, Unalaska; Don Strand, Finance Director, Lake & Peninsula Borough; Aimee Kniazowski, Commissioner, Unalaska; Valery McCandless, Mayor, Wrangell; Julie Decker, Executive Director, Southeast Fishery Association (SARDF), Wrangell

SUMMARY

HB 66 "An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

CSHB 66 (FIN) was REPORTED out of Committee with a "do pass" recommendation.

HB 67 "An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

CSHB 67 (FIN) was REPORTED out of Committee with a "do pass" recommendation.

HB 25 "An Act relating to the sharing of fisheries business tax revenue with municipalities; and providing for an effective date."

HB 25 was heard and HELD in Committee for further consideration. A subcommittee was established.

SSHB 20 "An Act relating to a separate appropriation bill for operating expenses for primary and secondary public education and establishing a date by which the bill must be transmitted to the governor each year; relating to notice of nonretention for tenured teachers; and providing for an effective date."

CSSHB 20 (EDU) was REPORTED out of Committee with a "no recommendation" recommendation.

HB 131 "An Act increasing the criminal classification of theft of an access device and of obtaining an access device or identification documents by fraudulent means; increasing the criminal classification for certain cases of fraudulent use of an access device; and providing for an effective date."

HB 131 was postponed until March 4.

HB 132 "An Act relating to sentencing for certain crimes committed against the elderly; and providing for an effective date."

HB 132 was postponed until March 4.

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At ease.

[1:48:30 PM](#)

Co-Chair Meyer brought the meeting back to order.

HOUSE BILL NO. 25

"An Act relating to the sharing of fisheries business tax revenue with municipalities; and providing for an effective date."

REPRESENTATIVE PAUL SEATON, sponsor, explained that HB 25 addresses recent changes in fisheries. The "Raw Fish Tax", or the Fisheries Business Tax was designed so that the state would share 50 percent of fisheries business tax revenue collected on processed fishery resources with the municipality where the resources were processed. In addition, municipalities that demonstrate significant effects from fisheries business activities are eligible to share in 50 percent of the state's fisheries business tax revenue remaining after the state shares the tax revenue with those municipalities. All of the fish used to be processed in Alaska, but with the emphasis on "higher value products" many of the fish are shipped out unprocessed and none of the tax is returned to the community.

Representative Seaton continued to explain that of the fish that are processed outside of any municipal boundaries, half of the tax revenue goes to the Department of Commerce and Economic Development (DCCED) and half goes to the general fund. The department distributes its share among fishing communities in Alaska based on pounds of fish processed in 14 different Fisheries Management Areas. The percent that goes to each Fisheries Management Area is split between the communities.

Representative Seaton related that HB 25 provides that when products are landed in the municipality and then exported from the state, the port of landing would get back the share of the Raw Fish Tax.

The new CS creates a hold-harmless payment for cities with a population of 500 or less and boroughs with a population of 3,000 or less. The new CS also has a provision where 40 percent of the tax would continue to be distributed under the old revenue sharing program; however, when municipal revenue sharing is established at the minimal level of \$20,000 per community, then that provision no longer applies.

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Co-Chair Meyer stated the committee's intent to hold off on adopting the CS today.

Representative Joule asked if there are winners and losers because of this bill. Representative Seaton replied that there are. He named the communities that generate the tax and export unprocessed fish: Northern Southeast, Southern Southeast, Prince William Sound, South Central Alaska, Upper Cook Inlet, and Kodiak. The distribution of the tax is based on poundage of processed fish and is found mostly out West because of the large Pollock and Cod fleets. He termed those communities "gainers". Unalaska, Representative Moses' district would be a "loser" in the bill because of the large poundage that is processed there, which is the main factor in the distribution formula. DCCED spreads 50 percent of the tax based on a per share or per municipality basis, and the other 50 percent goes on a population basis. It is based on the fisheries management region and wherever the large volume of product is.

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Representative Joule asked if that is what the fiscal note analysis from the Department of Revenue is showing. Representative Seaton said yes. The fiscal note shows the percentages obtained now and for future impacts. He explained why he could not provide exact figures, only broad area figures. He gave examples of communities that are losing revenue due to the exporting of unprocessed fish.

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Vice-Chair Stoltze inquired if this is model legislation for evaluating other resources. He voiced concern about the policy direction. Representative Seaton explained that the policy has already been established in Alaska. The extracted value of the product is taxed 3 percent. Half of gross 3 percent tax is shared back to the communities that are generating the revenue in order to help support the infrastructure. He explained the problems due to the definition of "processed" fish. Higher value products are encouraged, which leads to a reverse incentive. If the product is processed, the community gets half of the tax; if the product is shipped out unprocessed, the tax is lost. Representative Seaton suggested that this tax policy could apply to mining and other resources as well.

Vice-Chair Stoltze inquired if this policy could be extended to the infrastructure for the oil industry and in other areas. Representative Seaton related it to other taxes, such as oil taxes, on an offset sharing basis.

Co-Chair Meyer asked which areas would be adversely affected. Representative Seaton repeated the list of areas that would benefit and not benefit by the bill.

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In response to a question by Representative Kelly, Representative Seaton explained how processing fish has changed in the last five years toward the higher value product. The tax structure was based on sharing the revenue back to where the fish was processed. The category of exported, unprocessed fish has increased and the tax does not return to the communities because the fish leaves the state unprocessed.

Representative Moses related that with Salmon in Bristol Bay up to 5 percent is applied to the value of the ticket. He referred to a list of 28 communities that charge a local fish tax, in addition to what the state charges, which varies from 1 to 4 percent tax. He pointed out that 17 of these communities are in his district. He asked if it would be fair if the winners in this bill implemented a local fish tax, rather than take away from other communities.

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Representative Seaton replied that many of those communities already have a local fish tax. The state tax gives back to the communities 50 percent of the raw fish tax. Now it is being distributed to other communities based on poundage of fish produced there. It is going from a high value product, not getting 3 percent, and being distributed to places that have a large volume of low value product. He explained again the revenue sharing process. He related that the bill targets fish landed and exported from the state unprocessed.

Representative Moses asked if Homer has a local fish tax. Representative Seaton said yes. He inquired if that gives Homer an unfair advantage in the marketplace. Representative Seaton replied that is like saying since Anchorage does not have a sales tax, they have an unfair advantage in the marketplace. He repeated an explanation of the state fish tax. He restated the problems the bill addresses.

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Representative Moses maintained that cities without a fish tax have an advantage on the market. Representative Seaton spoke about encouraging high value fisheries products, but noted that the tax structure has not kept up. He opined that the Legislature did not intend the tax share to be lost. He repeated the intent of the bill.

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Representative Weyhrauch compared this discussion to past sales tax discussions. He asked if there is a way to deal with the local sales tax issue in the context of the fish

tax issue. Representative Seaton replied that he does not think it is quite the same. He explained the raw fish tax, and maintained that it is not related to sales or property tax. He emphasized that the bill addresses a new segment of fish only, and returns revenues to the original communities.

Representative Weyhrauch posed a scenario where smaller vessels process roe on board, sell it to a scow that's not in a port, and the scow processes the product. He wondered if the state receives tax on that product. Representative Seaton said the fish tax applies to that scenario, as well. The 50 percent still goes through the Department of Community and Economic Development and is distributed throughout those regions. This bill does not change that situation.

Co-Chair Meyer asked why the bill did not go to the House Resources Committee and the House Fisheries Committee. Representative Seaton replied that it is a tax distribution issue. Co-Chair Meyer pointed out that the bill has a zero fiscal note.

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Representative Foster asked about the affects of the bill on Nome and Western Alaska. Representative Seaton indicated that the bill would have no effect on those areas because it is based on the total count of product processed in an area.

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BUCK LAUKITUS, PRESIDENT, NORTH PACIFIC FISHERMAN'S ASSOCIATION, (via teleconference) spoke in support of HB 25. He emphasized that this bill modernizes and corrects a poorly constructed tax statute. He opined that Draft C is the best vehicle for this purpose. He related that if a community invests in fisheries infrastructure, it should share in a direct, proportional manner, the tax that is generated. He gave examples of how fishers all over the state would benefit from this bill. He termed it a fairness and equity issue.

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ALAN PARKS, HOMER, (via teleconference) testified in support of HB 25. He spoke of the effects of the Icicle Fire and the reduction in city taxes. He spoke in support of Version C.

DEAN BAUGH, FINANCE DIRECTOR, HOMER, (via teleconference) testified in support of HB 25. He spoke in support of Version C. and the original bill, as well as the hold-harmless clause and the sunset provision.

Vice-Chair Stoltze asked if Homer receives any benefits in the form of fees from fishing. Mr. Baugh noted that a fee is charged for the use of the dock and cranes.

ERIKA TRITREMMEL, AKUTAN, (via teleconference) related that the fish tax was established to pay for the impacts of the fishing industry to the cities. Akutan has no state-owned infrastructure. She spoke against HB 25.

GARY HENNING, CITY MANAGER, KING COVE, (via teleconference) spoke in opposition to HB 25 due to potential revenue loss of \$30,000 caused by the bill. He related that 75 percent of annual revenue comes from fisheries in the North Pacific and the Bering Sea. He shared methods taken when revenues to King Cove decreased. He spoke of the disadvantages of not being on a road system.

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JEFF CURRIER, MANAGER, LAKE & PENINSULA BOROUGH, (via teleconference) agreed with Mr. Henning's testimony. He spoke of the impacts from fishing on the community and the lack of cost offset by the tax. He opined that the tax would take away from some communities. He suggested changing the definition of processed fish.

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DON STRAND, FINANCE DIRECTOR, LAKE & PENINSULA BOROUGH, (via teleconference) testified in opposition to HB 25. He commented that this is a processing tax, and if no processing is being done, a community should not be subject to the tax. He suggested that the entire bill has been re-written. He listed various cities that have fish taxes that are trying to compete with cities that have no tax.

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AIMEE KNIAZIOWSKI, COMMISSIONER, UNALASKA, (via teleconference) spoke in opposition to HB 25. She noted that the intent of the original tax structure was to support communities through revenue sharing to help mitigate the impact of processing and fisheries. Unalaska does have a raw fish tax. It does experience a tremendous impact by the fishing industry. She spoke in favor of redefining processing.

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DENNIS WATSON, MAYOR, CRAIG, (via teleconference) testified in opposition to HB 25. He pointed out that the shared fisheries business tax bill from the 90's was a result of Craig's proposal. He read the original bill analysis and summarized that the bill does not allow for sharing the tax

with other communities. He maintained that HB addresses impact monies, not revenue sharing monies.

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SHIRLEY MARQUARDT, MAYOR, UNALASKA, (via teleconference) agreed with Aimee Kniaziowski's testimony in opposition to the bill. She discussed the volatility of the market and the major differences in Alaska fishing communities, and cautioned against legislation that attempts to "cherry pick" an ever-changing area and market. She asked why the bill did not pass through the fishery committee. She stressed that the smaller communities have to be protected.

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VALERY MCCANDLESS, MAYOR, WRANGELL, (via teleconference) requested that committee members look through a new "lens", not that of "winners and losers". She stated that the proposed bill is a raw fish tax bill. She provided a brief history on the process of the fish tax. Wrangell pays a 7% sales tax and receives no money back from the tax on fresh fish products. She gave an example of two hypothetical communities, one that receives money from the tax, and one that doesn't. Wrangell needs to be able to obtain money from this raw fish tax, but because of an interpretation, those monies are going to those communities that do the bulk of the processing themselves. It is based on a formula regarding poundage cost. She mentioned fuel taxes in the context of the fish tax. She voiced distress that money was going out to the Aleutian Chain and spoke in favor of the bill.

JULIE DECKER, EXECUTIVE DIRECTOR, SOUTHEAST FISHERY ASSOCIATION (SARDF), WRANGELL, (via teleconference) voiced support for the legislation. She questioned the decision that unprocessed fish is treated as processed. She maintained that the original bill was clear and plain. She provided an example that occurred in Ketchikan regarding the raw fish tax. Another aspect is that the market place is demanding more product. She feared that the problem would grow. She opined that the money has been "hijacked" from her community. Ms. Decker voiced support for a sunset on the hold harmless clause.

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Co-Chair Meyer placed HB 25 into a Subcommittee consisting of members: Representative Hawker, Chair, and Representatives Weyhrauch and Moses.

Representative Seaton responded to the comment about fund allocation, and repeated that the bill only allocates funds generated within a municipality into that municipality.

Representative Kelly noted that the difficulty with the legislation is that it sets up winners and losers. He warned about the zero sum situation and the hold harmless concerns. Representative Seaton agreed. He thought that there would be more problems down the road with the increase in fisheries.

HB 25 was heard and HELD in Committee for further consideration. A subcommittee was established.

AT EASE: [3:13:33 PM](#)

RECONVENE: [3:26:32 PM](#)

HOUSE BILL NO. 66

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

Co-Chair Chenault brought the meeting back to order. He highlighted the issues related to the mental health budget.

Representative Croft asked if the mental health board has submitted a letter to the committee about the budget. Co-Chair Chenault said he has not seen any.

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Co-Chair Meyer moved to report CSHB 66 (FIN) out of Committee with individual recommendations. There being NO OBJECTION, it was so ordered.

CSHB 66 (FIN) was REPORTED out of Committee with a "do pass" recommendation.

[3:29:32 PM](#)

HOUSE BILL NO. 67

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

Co-Chair Chenault mentioned that the issues in HB 67 have been discussed in subcommittee. He related that this budget is a \$271,492,000 increase over the FY 05 plan. He listed increases in various areas. He thanked all committee members for their hard work. He concluded that this budget

goes a long way to address the needs of the citizens of Alaskans.

Vice-Chair Stoltze thanked Bruce Tangeman for his assistance.

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Representative Joule opined that progress has been made in developing this budget, but some issues still need to be addressed. Though oil projections may spike and the state does well, impacts on communities may be harmful. There are currently 9 communities that no longer function well, 17 with serious debt issues, and 39 that have terminated key services. He emphasized that the state needs to step up to the plate and provide assistance. He related that matching grants allow communities to improve. He expressed a belief that if teen alcohol prevention programs are funded, money can be saved in other areas. He encouraged the House of Representatives to consider pro-active action.

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Representative Croft noted that the budget has nothing for K-12 education, and the fast track bill with funds for education is being "held hostage". The increase for the university is 5 percent, the amount for municipalities is nothing, and there is nothing for PERS and TRS. He emphasized that the overall operating budget increases 13.7 percent, yet does not fund education. He voiced serious concerns about municipalities and education.

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Co-Chair Chenault said he does not believe that the committee approved the language that the other body has used in their education bill, HB 1. The conference committee should address that concern.

[3:45:06 PM](#)

Co-Chair Meyer MOVED to report CSHB 67 (FIN) out of Committee with individual recommendations. There being NO OBJECTION, it was so ordered.

CSHB 67 (FIN) was REPORTED out of Committee with a "do pass" recommendation.

[3:46:07 PM](#)

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 20

"An Act relating to a separate appropriation bill for operating expenses for primary and secondary public

education and establishing a date by which the bill must be transmitted to the governor each year; relating to notice of nonretention for tenured teachers; and providing for an effective date."

Representative Paul Seaton explained that SSHB 20 requires a separate appropriation bill for operating expenses for primary and secondary public education. The purpose of the bill is to get early funding for education. The governor would submit an education bill, which the legislature would pass out by March 5. This would improve teacher morale when pink slips have to be sent out because the school district does not know their budget ahead of time. It would be limited to the operating budget.

Co-Chair Meyer noted that Amendment 1 has been withdrawn.

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Representative Hawker indicated that the bill bifurcates the budget process and may violate a fundamental constitutional principle regarding dedicated funds. The bill creates a situation where education is funded first.

Representative Seaton related that legislative legal found no constitutional problems with the bill. It only sets up a procedure and tries to do what the House did this year; get early funding.

Representative Hawker maintained that it violates the constitution. He opined that the legislature has the option to deal with this issue in another way. He said he is looking for substance in the bill. Representative Seaton replied that the legislature does this quite a bit. He gave examples of the Alaska Seafood Marketing Association and Aquaculture Associations where taxes are collected with the intent to rebate. In those instances, a procedure is set up similar to that in the bill.

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Representative Hawker agreed in principle.

Representative Joule noted that each funding increase has come at the very end of the session.

Representative Seaton stressed that the prevailing argument is adequate funding versus early funding. He emphasized that education has become a priority. He pointed out the number of letters from school districts in support of this legislation.

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Representative Kelly acknowledged the importance of the issue and questioned if similar legislation has been discussed in previous legislatures.

Representative Seaton recalled that HB 19 was discussed in the 23<sup>rd</sup> Legislature. Previously, many school boards felt they had a better chance of receiving increased funding by coming before the legislature at the end of the session. Many school boards have concluded that early funding is preferred.

Representative Kelly expressed concern that the Legislature's hands not be tied.

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EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, testified in support of the legislation.

Co-Chair Meyer wondered if education would receive more funding by holding out to the end of the legislative session.

Mr. Jeans observed that the increase to the foundation formula must come through the student base allocation, which occurs through statute. He acknowledged the problems associated with notification of tenured teachers and the purchase of supplies. He cautioned school districts from building budgets beyond the amount allocated through statute. Local school districts are required by law to submit their budgets to local municipalities by May 1<sup>st</sup>.

Representative Foster MOVED to report CSSSHB 20 (EDU) out of Committee with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CSSSHB 20 (EDU) was REPORTED out of Committee with a "no recommendation" recommendation.

Co-Chair Meyer announced that HB 131 and HB 132 would be postponed until March 4.

#### ADJOURNMENT

The meeting was adjourned at 4:08 PM