

MINUTES
SENATE FINANCE COMMITTEE
April 13, 2005
9:06 a.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [9:06:37 AM](#).

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Fred Dyson
Senator Bert Stedman
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: SENATOR CHARLIE HUGGINS; SENATOR RALPH SEEKINS; DEBBIE GRUNDMANN, Staff to Senator Charlie Huggins; STEVE BOYD, Alaska Chapter of National Electrical Contractors Association; ROB BENTZ, Deputy Director, Division of Sport Fish, Department of Fish and Game; GORDON GARCIA, Department of Fish and Game; DOUG VINCENT-LANG, Assistant Director, Division of Sport Fish, Department of Fish and Game;

Attending via Teleconference: From an offnet location: MIKE WILLIAMS, Auditor, Tax Division, Department of Revenue; From Fairbanks: BUKI WRIGHT, General Manager, Aurora Energy

SUMMARY INFORMATION

SJR 14-REPEAL FEDERAL ESTATE TAX

The Committee heard from the sponsor, the Department of Revenue and a union representative. The resolution was reported from Committee.

SB 147-SPORT FISHING FACILITY REVENUE BONDS

The Committee heard from the sponsor, the Department of Fish and Game and a power producing company. The bill was held in Committee.

SB 158-MUNI TAX ON STATE CONSTRUCTION CONTRACTS

The Committee heard from the sponsor, the City of Nome, a

subcontractor and a union representative. The bill was held in Committee.

SB 16-POWERS/DUTIES DOTPF/TRANSPORTATION PLAN

This bill was scheduled but not heard.

SB 70-CRIMES INVOLVING CONTROLLED SUBSTANCES

This bill was scheduled but not heard.

#SJR14

[9:07:16 AM](#)

SENATE JOINT RESOLUTION NO. 14

Urging the United States Congress to amend the tax code to permanently repeal the federal estate and generation-skipping transfer tax.

This was the first hearing for this resolution in the Senate Finance Committee.

DEBBIE GRUNDMANN, Staff for Senator Charlie Huggins, read testimony into the record as follows.

Before you is Senate Joint Resolution 14 - Urging the United States Congress to amend the tax code to permanently repeal the federal estate and generation-skipping transfer tax.

The estate of a deceased individual is required to pay a tax to the federal government commonly known as the death tax. This tax is on assets that have been previously taxed and then requiring the survivors to pay taxes on those assets again through an inheritance tax. In 2005 the top tax is 47% with a 1.5 million dollar exclusion.

This is a tax that is

1. Bad on economic growth - disincentive to start small or family owned businesses, build a family farm or ranch with the goal of passing it on to your children.
2. May give little incentive to save and invest
3. This tax hurts families at a very fragile time.

In 2001 Congress enacted bipartisan legislation to phase out and eventually repeal the death tax until 2010. Therefore in 2010 the estate tax is repealed; however, it springs back to

life in 2011 at its old rate of up to 55 percent and at an exemption level of only \$1 million.

President Bush has included the permanent repeal of the estate tax in his Fiscal Year 2006 budget proposal. Legislation has also been introduced this year in the US Senate and US House to permanently repeal the estate tax. The US House is scheduled to vote on permanent repeal of the estate tax legislation this week.

With passage of this resolution we will offer our support to Congress to act this year ending this tax on work, savings, job creation and the American dream. I encourage your support of this legislation.

[9:09:22 AM](#)

SENATOR CHARILE HUGGINS remarked this resolution "falls into the 'right thing to do' category."

[9:10:14 AM](#)

Senator Stedman supported this resolution, although an estate tax should be levied on multi-million dollar estates to "slow down the concentration of wealth". He reminded of the situation of the late 1800s and early 1900s when a few families owned a majority of the wealth in the nation. This was the reason the estate tax was implemented. He supported increasing the limit and abolishing the tax for middle income and higher income Alaskans. He noted the value of farms, fishing permits, boats, small businesses and real estate is significant; however a cap should be imposed and the tax should be implemented for high value estates. Otherwise, the wealth of the nation would again become concentrated. Some extremely wealthy families, including the Bill Gates family, have brought this concern forward.

[9:11:51 AM](#)

Co-Chair Green asked if the extremely wealthy families support paying an estate tax.

[9:11:55 AM](#)

Senator Stedman understood those families oppose the permanent exemption of all residents because an estate of hundreds of millions of dollars or billions of dollars transferred from generation to generation is a different issue than the inheritance of a family business or property. It is not good public policy to

have a few people in control of the majority of the country's assets.

[9:13:00 AM](#)

Co-Chair Wilken told of the difficulties in paying taxes on the estates of his late parents. He must carry life insurance to prevent his heirs from having to liquidate his assets to pay estate taxes. He did not oppose estate taxes on significant estates, but opposed the tax on middle class estates.

[9:16:10 AM](#)

Co-Chair Wilken recalled a similar resolution was before the State Senate a few years prior, which did not pass because the question was raised about the impact of this repeal on the State general fund. No answer was provided at that time. He again posed the question.

[9:16:31 AM](#)

Ms. Grundmann responded that the permanent repeal of the estate tax would have zero fiscal impact on the State general fund.

[9:16:57 AM](#)

MIKE WILLIAMS, Auditor, Tax Division, Department of Revenue, testified via teleconference from an offnet location to affirm that the current federal structure provides that there would be no fiscal impact on the state of Alaska.

[9:18:13 AM](#)

Senator Stedman noted the limited time allowable for heirs to procure the funds necessary to pay the estate tax. Many families are forced to sell off assets to raise money for this tax.

[9:19:10 AM](#)

Senator Huggins gave an example of the state of Nebraska, where his wife was raised. A number of the small farms in that state have been passed down to family members over many generations. Often in these instances, acreage must be sold off to pay the estate tax and the farm becomes smaller. This is not conducive to successful family farming.

[9:20:35 AM](#)

Senator Olson understood that taxes have been paid on investments and other earnings. However, he cautioned against allowing "super monopolies" from controlling the nation's wealth. He exemplified the Carnegie and Rockefeller families, which controlled the nation's economy until estate taxes were created and other actions were taken.

[9:21:43 AM](#)

Senator Huggins remarked that those families have many attorneys structuring their assets in such a manner as to avoid estate taxes. The impact on these families is minimal. The average American families however are not protected.

[9:23:10 AM](#)

Senator Dyson appreciated this resolution. The federal government has enacted anti-trust legislation to prohibit monopolies. He opposed the concept that government should limit a family's ability to become rich.

[9:24:11 AM](#)

STEVE BOYD, Alaska Chapter of National Electrical Contractors Association, testified that this resolution represents the position the union has held for many years. He told of the hardship of the estate tax on second and third generation-owned businesses.

[9:25:21 AM](#)

Co-Chair Green pointed out that the US Congress is debating the matter this week.

[9:25:35 AM](#)

Senator Bunde supported the bill.

[9:25:54 AM](#)

Co-Chair Wilken offered a motion to report SJR 14 from Committee with individual recommendations and accompanying fiscal note.

Without objection SJR 14 MOVED from Committee with zero fiscal note #1 from the Department of Revenue.

AT EASE [9:27:03 AM](#)/[9:31:48 AM](#)
#SB 158

[9:31:50 AM](#)

SENATE BILL NO. 158

"An Act prohibiting the imposition of municipal sales and use taxes on state construction contracts and certain subcontracts; and providing for an effective date."

This was the first hearing for this bill in the Senate Finance Committee.

DEBBIE GRUNDMAN, Staff to Senator Charlie Huggins, read testimony into the record as follows.

During the course of business in the last couple of years, subcontractors in the construction industry, who work in some areas of the state have experience negative financial impact due to the imposition of local sales taxes on State DOT/PT funded projects.

These taxes have been assessed on the value of the subcontract - we are not talking about the

1. purchase of incidental materials,
2. renting of equipment,
3. purchasing food or lodging

Those items would be taxed. Again, we are talking about the construction contract or subcontract.

1. The State cannot afford to have an increase in the cost of construction projects due to the levying of sales taxes on the State construction contracts and subcontracts awarded directly in connection with the project funded under the construction contract.

2. While all municipalities do not assess this sales tax, and many municipalities DO have tax caps - the policy needs to be consistent statewide.

Example: In one instance, on a Nome Airport Project, a construction contract was awarded to Quality Asphalt Paving (QAP). QAP and Diamond Electric entered into a subcontract directly in connection with the project funded under the construction contract. Dimond Electric was assessed a sales tax of over \$20,000 on the value of their subcontract. This tax was unexpected and not considered in their bid.

SB 158 will prohibit the imposition of municipal sales and use tax on State construction contracts and certain subcontracts and remedy the inequity that exists.

Co-Chair Green ordered the bill HELD in Committee until later in the meeting.

#SB 147

[9:34:26 AM](#)

SENATE BILL NO. 147

"An Act providing for a sport fishing facility surcharge on sport fishing licenses; providing for the construction and renovation of state sport fishing facilities and for other projects beneficial to the sport fish resources of the state as a public enterprise; and authorizing the issuance of revenue bonds to finance those projects."

This was the first hearing for this bill in the Senate Finance Committee.

SENATOR RALPH SEEKINS, sponsor of the bill, testified to the desire to catch fish while sport fishing and the practice of stocking water bodies with fish species for this purpose. Formally, three hatcheries supplied fish for sport fish activities; however, the Clear Hatchery was closed and likely another would close soon. Population has increased in the Interior region, particularly with the expansion of the military bases. Some areas of the State, primarily in Southcentral and Interior Alaska, are facing a crisis in providing the necessary biomass for sport fishing activities.

Senator Seekins detailed the process of certain Fairbanks residents to consider options to increase the biomass. The Aurora Energy power plant is situated along the Chena River and discharges heated water into the river. This heat could be captured and utilized for a hatchery. Interested parties began contacting State and federal agencies and US Senator Ted Stevens to request assistance. Senator Stevens secured \$10 million for the construction of a new hatchery facility located in Fairbanks, near the power plant.

Senator Seekins reported that no statewide plan exists to address sport fishing hatchery needs. The proposed Fairbanks facility would have the capability of meeting statewide needs.

Senator Seekins opined that the new facility would be "not cheap, but affordable." Federal funds and receipts from a revenue bond

package would be utilized. The bond would be repaid from a "moderate fisheries enhancement fee" added to the price of recreational fishing licenses. The cost of the license would be comparable to that of licenses in other states, especially given the better assurance of a successful catch. He detailed the consideration of the proposed fee amount and stated that \$8.50 per license would be adequate to repay the bond. Once the bond is paid, the fee would be eliminated.

Senator Seekins stated this proposal should alleviate the current shortages, sustain the need for 20 to 25 years, and be useful in planning for the future. Before a new hatchery could be completed, the biomass would be reduced and short-term impacts would be realized.

Senator Seekins cautioned that taking no action would delay the replacement of the biomass. He stressed the intent this program be a "statewide concept". Other efforts to enhance sport fishing in Southeast Alaska are under review.

[9:41:56 AM](#)

Senator Hoffman questioned the assertion that this is a statewide problem, as shortages were not occurring in Southwestern Alaska and the Bristol Bay area. He asked how this legislation would affect residents of Southwestern Alaska.

[9:42:25 AM](#)

Senator Seekins replied that residents would have the ability to stock lakes and areas in Southwestern Alaska. He understood this area currently has "world class" fisheries; however, increased demand on the resources would reduce the wild fish stocks.

[9:43:06 AM](#)

Senator Hoffman asked who would determine the allocation of the new fish.

[9:43:17 AM](#)

Senator Seekins answered that the Division of Sport Fish in the Department of Fish and Game would administer the program. The Department is "very excited to be able to use enhancement" opportunities.

[9:43:39 AM](#)

ROB BENTZ, Deputy Director, Division of Sport Fish, Department of Fish and Game, outlined the annual process of updating a five-year stocking plan. This plan details the fish species allocated to certain lakes and rivers. He told of the public process involving local fish and game advisory committees and sport fishing organizations.

[9:44:42 AM](#)

Senator Hoffman asked if the infrastructure for operation and maintenance of the new facility and this program are in place. If not, he asked whether funds for these efforts are included in this legislation.

[9:45:10 AM](#)

Senator Seekins responded that funds for infrastructure are not included in this bill. The bonds are intended for construction costs only. He stated that funds for operation and maintenance "are there". He spoke about the current practice in which hatchery fish are flown into areas to be stocked.

[9:45:49 AM](#)

Senator Hoffman pointed out that this legislation would impose an additional \$8.50 charge for all sport fishing licenses in the State. The largest concentration of sport fishing activity occurs in Southcentral Alaska and fishers in that area would contribute the largest share to this endeavor. He wanted to understand what benefit these fishers would receive.

[9:46:41 AM](#)

Senator Seekins responded that as demand increases and enhancement is needed, supplies would be made available. The majority of the funds would be generated from nonresident licenses, most of which are sold in the Interior, Southcentral and Southeastern Alaska. In some respects, anglers in Southeast may not benefit as much from this bond issue as they would from "some of the other commitments that we've made to be able to help them enhance their fisheries."

[9:47:35 AM](#)

Senator Hoffman requested a detail of the locations throughout the State in which sport fishing licenses are utilized. This would demonstrate who would be paying the additional fee and the benefits they would receive.

[9:48:14 AM](#)

Senator Seekins did not have the information. He opined that most Alaskans consider the State as a "statewide organization", although some would receive more benefits than others.

[9:48:37 AM](#)

Senator Hoffman requested this information.

[9:48:47 AM](#)

Mr. Bentz did not have a detail of license sales by region. Twenty-five percent of sport fishing licenses are sold in Southeastern Alaska and the majority of the licenses are sold in the Southcentral region. Large areas of Southwestern Alaska are designated as subsistence areas where rod and reel fishing is prohibited. Sport fishing licenses are not required to fish these areas and many area residents do not purchase licenses. Nonresidents would pay most of the fees generated from this enhancement fee.

Mr. Bentz continued that this program would benefit areas that currently are not stocked with fish. Approximately 20 percent of the Sport Fish Division spending is done in stocked areas. When the number of fish declines in a stocked area, those anglers begin fishing other areas, i.e. areas with wild stocks. Most wild stocks are either fully allocated or an increased harvest would result in stricter regulations.

[9:51:07 AM](#)

Senator Hoffman requested information on sport fish license purchases delineated by postal zip code.

[9:51:29 AM](#)

Mr. Bentz indicated he would provide the information.

[9:51:34 AM](#)

Co-Chair Wilken asked the percent of sport fish licenses are nonresident licenses.

[9:51:54 AM](#)

Senator Seekins listed the categories of license purchasers: 115,000 resident sport fishing, which contributes approximately \$1

million annually; 44,000 resident sport fishing and hunting; 6,000 sport fishing, hunting and trapping; 4,200 nonresident military, 110,000 nonresident one-day sport fishing, and etc. He cited the fiscal note for additional information. Residents would pay approximately \$1.4 million and nonresidents would pay approximately \$5.1 million for this surcharge.

[9:53:16 AM](#)

Senator Bunde recalled research he conducted eight years prior on the statewide distribution of residents who purchase hunting and fishing licenses. He discovered that less than one percent of residents living in unorganized areas purchased licenses. He therefore concluded that this legislation would not likely concern those rural residents.

[9:54:11 AM](#)

Co-Chair Wilken calculated that nonresident anglers would pay 82 percent of this bond obligation.

Senator Seekins affirmed.

[9:54:34 AM](#)

Senator Stedman surmised the proposed rate structure burden would "fall" on nonresident anglers.

Senator Stedman understood that as more visitors fish in certain concentrated areas, such as near Fairbanks, wild stocks would diminish to a point that the area would be closed to fishing until restocking could be done.

[9:55:35 AM](#)

Senator Seekins asserted this is already occurring, noting some areas are limited to catch and release fishing.

[9:55:44 AM](#)

Senator Stedman expressed concern about the proposed hatchery construction. He surmised that a privately managed nonprofit agency operating a hatchery would be more viable than a State operated system. He asked about an analysis to determine whether reactivation of a "non-utilized" or "under-utilized" hatchery should be done with fish stock shipped to various locations as necessary.

[9:56:51 AM](#)

Senator Seekins told of a clear distinction between production for sport fisheries and commercial fisheries that involve "turf wars" and different constituencies served. The two should remain separated for targeted markets.

[9:58:32 AM](#)

Mr. Bentz was not involved in portions of analysis involving underutilized hatcheries. There are major differences between sport fish hatcheries and private nonprofit hatcheries. Sport fisheries hatcheries must retain brood stock to be raised on an annual basis, which is not done in commercial fisheries hatcheries. Each species must have separate waters with separate temperatures, etc.

[9:59:52 AM](#)

Senator Olson asked the origins of the brood stock for commercial fisheries.

[9:59:55 AM](#)

Mr. Bentz replied that the brood stock is taken each year from returning salmon.

[10:00:05 AM](#)

Senator Stedman assumed the Department has contacted hatcheries currently in operation on this matter and that none have expressed interest in participating in this program.

[10:00:47 AM](#)

Senator Seekins did not consult with existing hatcheries. Central locations were considered to meet the biomass demand. The Department already has control of two sport fisheries hatcheries and a municipal government is "eager" to help provide property for location of a third hatchery facility.

[10:01:16 AM](#)

Senator Stedman remarked on the prudence of the Finance Committee to secure a cost analysis on this project before tens of millions of dollars are spend. If the need is identified, the project should commence, but not before research confirms this need.

[10:01:48 AM](#)

Senator Stedman expressed concerns about implementation of this program. He understood efforts to revitalize areas of Fairbanks were planned and that this hatchery would be integrated into those plans. He asked if the proposed facility would be an "industrialized fish growing plant", or an "architectural complex" that would attract visitors.

[10:02:58 AM](#)

Senator Seekins had heard rumors that the hatchery would be the "kingpin to development". He produced a map [copy on provided] and pointed to the location of the proposed hatchery near Pioneer Park and the Carlson Center. He detailed the municipality mayor's plans for improving and developing this area with better access, condominiums, etc. The primary reason this location was selected was proximity to the Aurora Power Plant. The project has received a commitment from the power company to provide hot water for a minimum of 15 years.

Senator Seekins stated the hatchery would have a visitor component as well as an education component for the University of Alaska, which would be constructed with federal funds. The facility is meant to be a functioning building, although somewhat attractive. The proposed hatchery is not the cornerstone to future development of the area, but rather a functioning hatchery with good access.

[10:06:30 AM](#)

Senator Stedman did not disagree with the concept of integrating tourism with the hatchery, although stressed the greater importance to integrate the hatchery activities with education. He asked for further explanation of the heated water issue, noting that hatcheries located in Southeast Alaska did not change water temperatures.

[10:07:30 AM](#)

Senator Seekins responded that fish "grow faster" in warm water.

[10:07:40 AM](#)

Senator Stedman surmised that hot water is therefore necessary for hatchery activities.

[10:08:01 AM](#)

Senator Seekins indicated the location of the power plant along the

Chena River on the aforementioned map. The river water near the power plant does not freeze in the winter, given the BTUs of the water discharged from the plant. The hatchery would utilize the hot water otherwise cycled back into the river, thus alleviating an environmental issue.

[10:08:56 AM](#)

Senator Stedman assumed the commitment for the supply of hot water was less than an actual guarantee.

[10:09:11 AM](#)

Senator Seekins replied that Usibelli Coal Mine owns the power plant and has given a 15-year commitment.

[10:09:28 AM](#)

Senator Stedman commented that, generally speaking, commitments should be tied to the life expectancy of the bonds and debt of projects.

[10:09:56 AM](#)

Senator Seekins distributed a letter from Aurora Energy, indicating this commitment [copy on file].

[10:10:19 AM](#)

BUKI WRIGHT, General Manager, Aurora Energy Company, testified via teleconference from Fairbanks about the process of utilizing water from the Chena River to cool the plant systems. Some of the heat is returned to the river, although the temperature increase is approximately 55 degrees and not significant. This excess heat is not suitable for hot water heating systems, but would be suitable for hatchery operations. The water would be made available to the hatchery "almost free". He clarified that Aurora Energy did not intend to incur the costs of installing, operating or maintaining the pipes. The hatchery would require additional heat for the offices and other public areas, which the company would supply at the usual assessed rate. That expense would be a moderate portion of the total operating costs of the hatchery.

Mr. Wright reported that the power plant has been in operation many years and would continue much longer. The company has plans for business expansion. If this legislation is passed and the hatchery is constructed, Aurora Energy intends to enter into a long-term contract to provide the heated water. The minimum term of the

contract would be 15 years, although the terms could be longer.

[10:14:25 AM](#)

Senator Seekins reported this would result in an annual savings of approximately \$750,000.

[10:14:44 AM](#)

Senator Stedman understood that the residents of Fairbanks would continue to require electricity and therefore the power plant would likely continue to operate.

Senator Stedman repeated that the Committee should undertake an analysis of existing infrastructure to determine how these facilities are inferior to a new facility.

[10:15:31 AM](#)

Senator Seekins responded that in communicating with Department representatives, he learned that the available infrastructure is not adequate to produce the sport fishery stocks.

[10:16:15 AM](#)

Co-Chair Wilken spoke to the timing of this project. Utilizing the aforementioned map, he told of a major upgrade to a road system near the proposed facility. The intent is to lay the water pipes necessary for the hatchery operation at the time the road is under construction. This digging is planned for the upcoming summer season. Therefore, this legislation should not be delayed.

[10:17:36 AM](#)

GORDON GARCIA, Department of Fish and Game, addressed the issue of whether existing hatcheries could perform this function. The Department reviewed the conditions of other facilities and determined that the complexities of the different fish species necessary for sport fishing activities require that a specific hatchery be constructed. Commercial fisheries hatcheries produce andronomous fish. However, in dispersing fish across the State, water quality is important. The intent is to construct a "bullet proof" facility to raise a range of fish species for planting in over 400 lakes and rivers.

[10:19:32 AM](#)

Senator Stedman countered the witness' testimony differs from

information he has received from hatchery operators.

Senator Stedman wanted to know the architectural elements of the proposed Fairbanks hatchery. He understood the feasibility of installing water pipes at a time when the road is under construction. He did not support re-digging and re-paving of streets. However, the matter is larger than the road construction aspect.

[10:20:51 AM](#)

Senator Seekins informed that he has invested five years to this project, starting before he became a legislature. He worked with the Department of Fish and Game, the Fairbanks municipality and user groups to develop a plan that did not "overstep" the "peoples' money" to produce biomass. He has never seen a project with greater community support than this. People identify the need, especially with an expanded military presence. Those people spend time enjoying outdoor activities. This proposal is intended to reach the broadest number of people possible in the State with an enhanced fisheries program. The people who harvest the fish would pay for the project. Further delay would ensure the demand would not be met.

[10:23:41 AM](#)

Senator Hoffman commented he should probably support this legislation because it would limit fishing pressure in rural Alaska. The Anchorage hatchery is expected to cost \$45 million and generate approximately \$6.4 million in fish, \$4 million of that in salmon and the proposed Fairbanks hatchery is expected cost \$25 million and produce less than one-third of a million dollars. He questioned the economics. There is nothing "mystical or magical" about hatcheries. They utilize incubators and other equipment. Existing hatcheries should be considered. He requested additional information about retrofitting existing hatcheries versus constructing new facilities.

[10:26:32 AM](#)

DOUG VINCENT-LANG, Assistant Director, Division of Sport Fish, Department of Fish and Game, testified that hatcheries located in Southeast Alaska could be used for stocking waters in Southeast, but would not be viable for Southcentral and Interior Alaska. Building new facilities in Anchorage and Fairbanks would be most cost effective.

[10:27:47 AM](#)

Senator Olson asked the field source of the power that would be provided to the Fairbanks facility.

[10:27:58 AM](#)

Mr. Wright responded that coal from the Usibelli Mine is used to fuel the power plant.

[10:28:08 AM](#)

Senator Olson asked the impact to the power plant of a natural gas supply provided to the community.

Mr. Wright replied that natural gas would likely be used for some uses such as space heat. However, switching from coal to natural gas would not be economical for other power uses in the short term.

[10:29:33 AM](#)

Senator Olson asked how the hatchery would operate if the hot water were not supplied from the power plant.

[10:29:40 AM](#)

Senator Seekins responded that boilers would be needed to heat the water.

[10:29:50 AM](#)

Co-Chair Wilken asserted that "nobody is contemplating taking down Chena five power", Fairbanks' major power source.

[10:30:11 AM](#)

Mr. Wright affirmed and reported that Aurora Power has a long-term contract with Golden Valley Electric Association and provides heat to almost every building located in downtown Fairbanks. Those buildings have no other heat source method.

[10:30:50 AM](#)

Senator Olson asked about the ability to air transport fish fry across the State.

[10:31:06 AM](#)

Senator Seekins had seen it done in roadless areas.

[10:31:22 AM](#)

Senator Olson asked if successful air transport is possible to locations in Western Alaska.

[10:31:39 AM](#)

Mr. Garcia replied that the Department has "fish flying down to a science" and that it is possible to transport fish fry over distances. The issue is cost.

[10:32:09 AM](#)

Mr. Vincent-Lang reiterated that stocking of areas is determined based on a five year stocking plan with a public process. If a need is identified in a certain area, the public has the ability to petition for inclusion in the plan.

[10:32:56 AM](#)

Senator Olson asked the plan in the event disease was to become rampant in an area, possibly through the introduction of Canadian stocks.

[10:33:33 AM](#)

Mr. Vincent-Lang responded that the Department could do nothing about fish from Canada introducing diseases. The Department has invasive species policies and efforts would be made to prevent disease from entering the system or stop it from spreading if it did occur. The Department stocking policy dictates that stock fish are disease free and are raised from local areas. For example, fish would not be taken from waters in Southeast Alaska and transferred to Southwestern waters.

[10:34:43 AM](#)

Senator Bunde shared that he has caught hatchery fish. If this bill were before the Committee and proposed utilizing State general funds to construct the new facilities, he would join in the scrutiny and likely vote against its passage. However, this legislation provides that the program would be user paid. Although all who purchase a sport fishing license in Alaska would contribute, the majority of residents who purchase a license live along the Alaska Railbelt and would be direct beneficiaries.

[10:37:29 AM](#)

Senator Hoffman emphasized the intent that this program be user paid. While general funds would not be utilized, he could not identify the benefit to Western Alaska residents required to pay the additional charge. He then asked the percentage of hatchery Coho salmon that would be caught by commercial fishers who would not pay this fee.

[10:38:34 AM](#)

Senator Hoffman contended that salmon from the Anchorage hatchery must go to sea then return to area rivers and streams. He understood that the king salmon would likely be caught by sport fishers, but again asked the percentage of Coho salmon that would be caught in commercial fisheries.

[10:39:22 AM](#)

Mr. Vincent-Lang responded that hatchery fish are tagged. In past surveys it has been determined that 85 to 90 percent of hatchery salmon are caught by sport fishers, with the remainder caught by commercial fishers.

[10:39:57 AM](#)

Senator Hoffman concluded that the catchers of 15 percent of the hatchery fish are not paying anything to this program.

[10:40:42 AM](#)

Senator Bunde clarified he is not necessarily against this bill.

[10:41:18 AM](#)

Senator Stedman announced intent to review the funding "mechanism" further. He qualified that he does not oppose the concept of hatchery sport fish activities and that part of the program is located in Senate District A, which he represents.

Co-Chair Green ordered the bill HELD in Committee.

#SB158

[10:42:02 AM](#)

SENATE BILL NO. 158

"An Act prohibiting the imposition of municipal sales and use taxes on state construction contracts and certain

subcontracts; and providing for an effective date."

This bill was heard earlier in the meeting.

STEVE BOYD, Alaska Chapter of National Electrical Contractors Association read his testimony into the record as follows.

We feel that the scope of the State projects logically links the subcontractors to the general contractor and therefore subcontract values should be exempt from local taxes. Bids on projects are generally solicited from a general contractor for a total project including subcontractor work and the coordination of their work thereof. Subcontractors can therefore only work for the State via this "conduit" established by the State and the general contractor and language that binds the subcontractor to the State as much like the general contractor is bound to the State.

It has come to our attention that subcontractors have been charged local sales taxes and in particular the City of Nome assessed Diamond Electric (\$20,000), Alaska Industrial Insulation and Fireproofing(\$6,100), Midnight Sun Services, Northland Tile, Arctic Striping and Premier Construction on an airport project in Nome, While AirTek from Soldotna was assessed a tax of \$1,800 by the City of Sand Point on an airport project.

This is not just an electrical contractor issue, but one that impacts any subcontractor. For example a painting contractor...

Negative financial impact to the State. For example a tax of \$20,000 assessed on a subcontractor would probably result in a mark-up of, for discussion sake, of ten percent, or \$22,000 included in the bid to the general contractor, which perhaps marks up the value of the subcontract by ten percent, so the State would see \$24,200 increase in project cost.

As an industry association it is our goal to create a consistent and equitable practice statewide so everyone knows the rules. This is why we are here today after evaluating the steps the contractor took in seeking relief. We feel clarification of the statute would be in the best interest of the State and our industry.

[10:45:51 AM](#)

Senator Olson asked the amount of the subcontract with Diamond

Electric.

Mr. Boyd replied the amount was approximately \$419,000.

[10:46:26 AM](#)

SENATOR HUGGINS, sponsor of the bill told of three elements instigating this legislation. The first was the experience of Diamond Electric and others in Nome. It was determined that State agencies had no established guidelines to address the taxation of subcontractors in Alaskan communities. Secondly, this practice created an "unstable, cloudy business environment". Finally, the practice "wasn't right." In talking with parties across the State, this was agreed upon.

Senator Huggins read an e-mail message addressed to the director of the Alaska Municipal League demonstrating this was not "just a community that stumbled on an isolated practice" and would expand to other communities if allowed to continue. He noted that identifying information is omitted.

"I think most communities that use as their legal firm, [name of firm], have a policy of collecting sales tax from subcontractors doing business in the community regardless of the funding source."

Senator Huggins restated the communication that communities that are clients of certain legal firms would adopt this taxation and the practice would spread.

[10:48:37 AM](#)

Co-Chair Green asked the number of communities already involved.

Senator Huggins told of at least three. Each community is a client of the unnamed legal firm.

[10:48:57 AM](#)

Co-Chair Green asked if this practice continues whether it would impact the State capital budget.

Senator Huggins answered "absolutely" and noted the State currently has appropriated approximately \$500 million for capital projects and an assessment of five percent for subcontract taxes added to this amount would be "staggering". He added that the taxation would be assessed at the local sales tax rate, and the amount could be higher.

[10:49:30 AM](#)

Co-Chair Green asked if the community that has chosen to do this did so to offset the loss of other funds.

[10:49:42 AM](#)

Senator Huggins replied that the rational varies.

[10:50:02 AM](#)

Senator Olson asserted that the Murkowski Administration supports local control and local self-funding. The practice outlined in this legislation has occurred for a number of years and cities have established a history of such; he knew of other projects.

[10:51:05 AM](#)

Co-Chair Green remarked that the Committee should be aware of this practice in drafting the annual capital budget.

[10:51:13 AM](#)

Senator Huggins noted the difficulty in that the City of Nome has been very inconsistent in applying this local tax. This creates a "sketchy business environment."

[10:51:41 AM](#)

Senator Bunde commented that he appreciated local control. However in some areas, local support is defined in "spending other peoples' money" in lieu of local contributions. He characterized this practice as "double dipping" in that a community secures a State-funded improvement, then attempts to receive funding from that project.

[10:52:43 AM](#)

Senator Hoffman commented on the need for uniformity. This matter was brought forward by a subcontractor unaware of the sales tax. The practice of other communities should be reviewed and a determination should be made whether those communities assess a tax on subcontractor activities or provide an exemption. Many contractors operate in small communities in which they are not based. The community must accommodate for these activities, for example through the repair and maintenance of roads damaged by the use of heavy equipment.

[10:54:42 AM](#)

Senator Huggins agreed that the issue is uniformity. Other communities do not tax subcontractors.

[10:55:06 AM](#)

Co-Chair Green understood that subcontractor employees would pay a sales tax on goods purchased in the community.

Senator Huggins affirmed.

[10:55:21 AM](#)

DAVID LANTZ, Owner and General Manager, Diamond Electric, testified via teleconference from Anchorage, that halfway through completion of the project, the City of Nome notified the subcontractor of the sales tax that would be levied. The amount of the tax was therefore not included in the bid. This tax is a retail tax and the subcontract was not a retail purchase. He attempted to work with the City to rectify the situation and also hired attorneys; however, the company was eventually presented with a tax lien and was forced to pay the tax. The tax and attorney fees totaled over \$30,000. He noted the company and workers also paid sales tax on groceries, housing, concrete and rental of equipment. As a result, the company was double-taxed on almost 25 percent of the contract.

[10:58:06 AM](#)

Senator Olson asked if the company purchased a permit or other licenses from the City.

Mr. Lantz answered the company did not.

[10:58:41 AM](#)

DENISE MICHELS, Mayor, City of Nome, testified via teleconference from Nome in opposition to the bill. The City views this sales tax as an option to generate local revenue. The City increased its sales tax to offset increased costs of insurance and other expenses. Unlike other communities, Nome does not have a large tax base. Subcontractors utilize City services, including roads, ambulances and police, who arrest workers acting unruly. This tax is fair to the City of Nome. She informed she is a contractor and understands the need to ensure that all fees are known; this tax should not have been a surprise for Diamond Electric.

11:01:34 AM

Senator Huggins spoke highly of Mayor Michels. Senator Huggins explained that the Department of Transportation and Public Facilities imposes an administration fee on capital projects because it must provide staff to oversee the project. The City of Nome should benefit from the influx of subcontractors through revenue generated from hotels, restaurants, etc.

Co-Chair Green ordered the bill HELD in Committee.

#

ADJOURNMENT

Co-Chair Green adjourned the meeting at 11:03 AM