HOUSE FINANCE COMMITTEE
April 1, 2010
1:40 p.m.

1:40:20 PM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:40 p.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Vice-Chair
Representative Allan Austerman
Representative Mike Doogan
Representative Anna Fairclough
Representative Neal Foster
Representative Les Gara
Representative Reggie Joule
Representative Mike Kelly
Representative Woodie Salmon

MEMBERS ABSENT

None

ALSO PRESENT

John Coan, Staff, Representative Bill Stoltze; Peter Ecklund, Staff, Representative Bill Thomas, Sponsor; Paul Dick, Chief of Operations, Tax Division, Department of Revenue; Mary McDowell, Vice President, Pacific Seafood Processors Association; Greg Fisk, Bristol Bay Economic Development Corporation.

PRESENT VIA TELECONFERENCE

Peter Macksey, Customer Relations, SteelFab, Anchorage; John Binkley, Chair, Board of Directors, Alaska Railroad Corporation, Fairbanks; Mark Stearns, Owner, Alaska Wood Moulding, Inc., Anchorage; Bonne Woldstad, Fairbanks; Terry Smith, Chief Financial Officer, Carlile Transportation Systems, Anchorage; Mark Palmer, President, Ocean Beauty

Seafoods; Bob Waldrop, Executive Director, Bristol Bay Regional Seafood Development Association. Kris Nororsz, Government Affairs, Icicle Seafoods, Petersburg.

SUMMARY

HB 344 SALMON PRODUCT DEVELOP. TAX CREDIT

HB 344 was HEARD and HELD in Committee for further consideration.

HB 357 AK RAILROAD CORP. LAND SALES

HB 357 was HEARD and HELD in Committee for further consideration.

#hb357
HOUSE BILL NO. 357

"An Act relating to the sale of land owned by the Alaska Railroad that is not needed for railroad purposes."

1:40:48 PM

JOHN COAN, STAFF, REPRESENTATIVE BILL STOLTZE explained the legislation. He explained that HB 357 is an act giving the Alaska Railroad Corporation the ability to sell land that is not used for railroad purposes. The bill does not establish a method for the railroad to liquidate land assets or force the railroad to dispose of any lease hold interests. The legislation creates flexibility to sell unneeded land. The bill received numerous letters of support from unhappy leaseholders that do not have the ability to purchase the property they have improved. The letters were unsolicited and the lease holders are reluctant to make new or additional improvements for fear that they will not be able to adjust their lease or purchase the property. The bill was designed to give a voice to the lease holders.

Representative Austerman understood that the legislation indicated that the railroad cannot sell land. Co-Chair Stoltze concurred, but stated that a more precise definition will be available during testimony from the Alaska Railroad Corporation.

Representative Salmon asked if the legislation affected the land surrounding Nenana. Co-Chair Stoltze responded that the legislation might affect the mentioned area, but a designated area is not mandated. The intent was not geocentric, but instead affects the landholding of the whole Alaska Railroad.

Representative Salmon commented that the Alaska Railroad owns the land surrounding the loading dock in Nenana. He referenced reports of the steep prices charged to maintain and lease the land. He opined that the action constituted a disadvantage to the barge company. Much of the high lease rate is passed on to inhabitants of villages.

Representative Salmon stated concerns. He referenced that other village entities having difficulty with the high lease payments.

1:46:32 PM

Co-Chair Stoltze referred to other concerns raised regarding the Alaska Railroad. The legislation spurred many similar comments.

Representative Gara reported many questions about railroad issues. He was concerned that the state allows the railroad to control the land that they own. He expressed concern about allowing the railroad to sell state land and keep the money. He opined that the railroad might take what belongs to the people and use the money for internal operations that the legislature may or may not agree with.

Co-Chair Stoltze opined that funds would not be eligible for use without legislative intervention. He agreed that problems existed. He reported that the testimony would provide answers.

Representative Austerman viewed that the scenario is such that the railroad has the ability to lease the land at the chosen rate. Co-Chair Stoltze concurred.

Representative Austerman pointed out that the railroad already has the ability to use lease money for salaries.

Representative Gara communicated the limitation of short term leases as an advantage. Another benefit of the limited lease was that the state will eventually reclaim the land.

With the legislation, the railroad receives the money and the state never sees the land again.

Co-Chair Stoltze acknowledged the many questions associated with the legislation.

1:51:04 PM

PETER MACKSEY, CUSTOMER RELATIONS, STEELFAB, ANCHORAGE (via teleconference), addressed Representative Gara's comment and opined that the investment made by some people would be difficult if the state took the land back. He stated that he felt confined by the railroad periodically raising the rent. He commented that the mentioned property is without rail and he believed that the railroad has no further use for the land. A piece of property in Anchorage leased under the railroad is heavily taxed. He opined that with private ownership, the investment and sense of worth would be greater. He announced that the railroad increases stress levels with the steep lease prices.

Representative Doogan requested more detail on the statement "taxed as if own the land." Mr. Macksey responded that he paid property taxes in addition to taxes for the City of Anchorage.

Co-Chair Stoltze commented that the municipal of Anchorage taxed airport property in a similar manner.

Representative Doogan asked where the land was located. Mr. Macksey replied Railroad Avenue.

1:55:51 PM

Representative Gara asked if Mr. Macksey realized that the land was owned by the railroad when he agreed to lease it. Mr. Macksey responded that many of the leases were 100 year leases and the original intent was to provide an industrial base for Anchorage. He believed that the length of time that his company existed on the land warranted the option to buy.

JOHN BINKLEY, CHAIR, BOARD OF DIRECTORS, ALASKA RAILROAD CORPORATION, FAIRBANKS (via teleconference), commented that the legislation highlighted the importance of the relationship between the lessees and the Alaska Railroad Corporation. The real estate division of the Alaska

Railroad Corporation is critical to the corporation's success. The real estate division relies completely on the revenue from the lessees. The steady revenue provided by the lessees allows the corporation to succeed throughout varying business cycles.

Mr. Binkley shared that the board understands the need to renew efforts to communicate well with the tenants. He mentioned the railroad's fiduciary responsibility to the shareholders of Alaska to treat lessees in an equal manner and to receive a fair return on the asset value. He stressed the importance of ensuring that the people of Alaska receive a fair return for the asset made on the leased land.

2:00:22 PM

Mr. Binkley referred to a mechanism already in place to release Alaska Railroad Corporation land utilizing a procedure to determine public purpose and report to the legislature for advice. He believed the legislation would refine the process.

Representative Austerman asked Mr. Binkley's stand on the bill. Mr. Binkley reported that the railroad was "not necessarily supportive" of the legislation. The board believed that the mechanisms were already in place in terms of discharging land with the appropriate role of the legislature. He repeated that the opinions of the lessees were important to him.

Representative Doogan asked how many lessees the railroad had under contract. Mr. Binkley responded approximately 250.

Representative Doogan asked for the annual basis income. Mr. Binkley replied approximately $9 million.

Representative Doogan queried the annual budget. Mr. Binkley replied that the corporation had operating revenues of $143 million or approximately 7 percent.

Representative Gara referred to years of net income for railroad from leaseholds not operations; if that were true he expressed concern about the lessening of leasehold rental potential. He asked how long the corporation's net income has been attributable to its leasehold interest. Mr.

Binkley responded that the income goes up and down; in some years the real estate is necessary to carry the corporation through, in other years the corporation creates a return on the operations of the railroad plus the real estate. The railroad was experiencing tough times because of less fuel availability leading to a reduction in the bottom line.

2:05:26 PM

Representative Gara asked what the railroad was doing to accommodate lessees. He asked about any changes made by the corporation regarding the treatment and communication with lessees. Mr. Binkley responded that an important issue was sound communication with lessees to enable businesses to succeed. He referred to the extension of leases from 35 years to 55 years for increased stability.

Representative Gara asked if companies like SteelFab would lose their improvements. Mr. Binkley hoped SteelFab would not; he wanted them to succeed and commended their achievements.

Co-Chair Stoltze noted that the purpose of the legislation was not to sell the land but instead to function like a permanent fund within the railroad. The corporation would use the earnings for their operations.

2:09:06 PM

Representative Salmon asked about the lease situation in Nenana with the cost passed on to the village people. He believed the legislation would change nothing. He wanted action and not just talk.

Co-Chair Stoltze advocated for the bill, which will lead to discussion and potentially change.

Mr. Binkley stated that the railroad is working with Nenana to renew the lease. He discussed the history of the railroad as part of the overall transportation system. He mentioned the process of renegotiating a lease for the dock properties. He reiterated promises to communicate better with lessees and support their success.

Representative Austerman asked about a standard year renegotiated contract or yearly fee. Mr. Binkley responded that the corporation re-evaluates every five years and a reappraisal is presented with a ceiling no greater than 35 percent.

Representative Kelly queried the concerns of the railroad.

Mr. Binkley replied that the railroad does not want to sell the real estate. He expressed concern regarding the importance of the railroad's success being tied to the real estate. He mentioned that the railroad has operated as a state owned entity for 25 years without annual requests for operating funds. He pointed out that the state would suffer the loss of the real estate even if the proceeds were reinvested. He noted that real estate is a great investment. He commented on the wisdom of the Alaska Legislature in establishing the Alaska Railroad Corporation.

2:15:27 PM

Co-Chair Stoltze commented that additional testimony for the railroad would be organized by Mr. Binkley.

MARK STEARNS, OWNER, ALASKA WOOD MOULDING, INC., ANCHORAGE (via teleconference) informed that he has been a lease holder for ten years. He provided the history of increasing lease prices for his company. He discussed his experience with changes in lease terms without notice or discussion. He understood that the railroad has a fiduciary responsibility to maximize the benefit of their assets for the shareholders. He understood the need to utilize the property as a revenue source.

Mr. Stearns referred to other buildings in the area that have been taken over by the railroad. He understood that the money earned from the sale of the land could be used as a permanent fund; the railroad did not lose the value. He was concerned with a long-term ability to control expenses for his business. The lease has gone up dramatically, which hurts the ability to reinvest in the business.

Representative Kelly pointed out that HB 357 would only permit the railroad to sell the land if they chose to. He asked how the bill would help.

Mr. Stearns explained that the mentioned property was not used by the railroad. He believed that the property that he leases is not essential to the railroad's operations. He argued that if the railroad does not require land as an essential part of their operation, then the sale of land would only strengthen the business climate.

2:23:10 PM

Co-Chair Stoltze pointed out that Mr. Binkley was responsive to the needs of the lessees.

Representative Doogan asked about the municipality of Anchorage's decision to tax lessees. Mr. Stearns confirmed that he was taxed by the Municipality of Anchorage for an additional $6 thousand per year. He pointed out that his company pays an additional $26 thousand in taxes each year as a result of the changes instituted by the railroad.

Representative Doogan asked about the lease rate increases. He asked about the communication with the railroad following the rate increase notices. Mr. Stearns responded that he received the information "just because" and listed problems that the railroad responded to by requesting a letter. He stated that the damage has been done.

2:28:16 PM

Representative Kelly asked if property was sold during a lease expiration time, would improvement costs be required. Mr. Stearns replied that the improvements on the property belong to his business "from the ground up."

Representative Kelly verified that the answer provided was no. He asked if the corporation would own the improvements if he did not renew his lease. Mr. Stearns replied that the corporation could own the improvements or they could request or require that the improvements were removed.

BONNE WOLDSTAD, FAIRBANKS (via teleconference), had concerns about the legislation. She expressed that the bill might solidify the inverse take that the railroad created on her property in 2003 by repealing Sections 1208 and 1209 of the Alaska Railroad Transfer Act (ARTA). She explained that she owned a homestead that predates the railroad. The railroad received an exclusive use easement on her property. She expressed concern that the corporation might sell her land.

Co-Chair Stoltze expressed a lack of understanding regarding the railroad transfer. Ms. Woldstad pointed out that ARTA stated that if railroad track was unused for 18 years, then it would be declared vacant and revert back to the adjacent property owner.

2:33:48 PM

Representative Kelly asked if a change in language would help to ensure that the bill did not negatively affect the property. Ms. Woldstad responded that language might be inserted to recognize that if the railroad was to vacate their easement with a prior existing right, then the land would revert back to the adjacent property owner.

Representative Kelly commented that a language change might be difficult to achieve, as he was not the bill sponsor. Ms. Woldstad thought that a language change would alleviate concerns that the bill is not intended to prejudice those ownership rights.

Representative Fairclough asked if the easement was passed, was the homestead compensated by the railroad. Ms. Woldstad stated that she had not found record of compensation under the original 1914 law. Following changes in the original Homestead Act of 1862, any future homestead had a clause into patent for construction of railroad, telegraph, and telephone lines. The territory had the right to traverse by the Homestead Act, but not to own.

Co-Chair Stoltze promised to follow up on the issue.

TERRY SMITH, CHIEF FINANCIAL OFFICER, CARLILE TRANSPORTATION SYSTEMS, ANCHORAGE (via teleconference) stated that the railroad has been a good partner, but his personal standpoint was that the amount of road controlled by the railroad leads to scarcity. He added that leased land is not favored as collateral in lending situations. He understood the value of land ownership for the railroad, but for investors the preference is to reduce risk and gain ownership to control destiny.

2:39:18 PM

Ms. Woldstad commented on the fiduciary rights of the state. She wished to communicate the maximum benefit by considering the jobs provided by the lessees.

2:40:36 PM AT EASE
2:42:33 PM RECONVENED

Representative Austerman asked how the railroad arrived at 8 percent. Mr. Binkley responded that 8 percent is the corporation's policy with a couple of exceptions including waterfront land.

Representative Austerman clarified that the action was determined via board policy. Mr. Binkley concurred and stated that the action was consistent for leases around the state. Many leases were initiated under the federal government and rather than terminating the leases, the state allowed federal leases to lapse under the terms and conditions of the federal government. Many of the leases were a better deal for leaseholders than state system. He understood the shock when the federal leases expired placing them under the state system.

Representative Austerman asked when municipalities of Anchorage and Fairbanks initiated any adjustment on leases from the railroad. Mr. Binkley replied that there was not an adjustment by the railroad when the lessees paid the additional amount for property taxes. Some lessees express that the cost of the lease can be expensed over a period of time; from a tax standpoint, there is sometimes an advantage to leasing.

2:46:21 PM

Co-Chair Stoltze suggested that this was the permissive nature to be discussed between the government owner and the lease holder. He appreciated the discussion and the testimony from the Alaska Railroad Corporation.

Representative Austerman commented that he understood that the leasing agreement presents a good deal for the railroad.

Co-Chair Stoltze agreed that the legislation provided a permissive route for the Alaska Railroad Corporation.

HB 357 was HEARD and HELD in Committee for further consideration.

2:49:10 PM AT EASE

2:56:55 PM RECONVENED

#hb344
HOUSE BILL NO. 344

"An Act relating to the salmon product development tax credit; and providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, and by sec. 4, ch. 8, SLA 2008."

2:57:05 PM

PETER ECKLUND, STAFF, REPRESENTATIVE BILL THOMAS, SPONSOR, Vice-Chair Thomas delivered the sponsor statement.

House Bill 344 extends the deadline for salmon processors in Alaska to receive a salmon product development tax credit. The program allows applicants to claim a credit on their annual fisheries business tax for 50% of the purchase costs of eligible equipment. Credits received may not exceed 50% of a taxpayer's annual tax liability. Under current law, processors can claim the credit for the property first placed into service by December 31, 2011. This bill would extend the program's sunset date to December 31, 2015, allowing processors ample time to continue their long-range investment planning.

The salmon product development tax credit was a key recommendation of the Joint Legislative Salmon Industry Task Force. First enacted in 2003, the credit was part of an effort by Alaska's elected leaders and the fishing industry to develop innovative value-added salmon products. Since then it has stimulated some important changes in Alaska's commercial fishing industry. New processing equipment eligible for the tax credit enables businesses to offer a more diverse complement of Alaska salmon products which helps increase overall customer acceptance. Modern equipment also helps increase efficiency of processing operations and improves output, meaning that quality has improved. This tax credit also encourages in-state processing of our salmon resource which is critical to job creation and retention in fishing communities.

> Although Alaska's salmon industry is beginning to recover from years of low values caused by factors such as competition from fish farming, the industry continues to be challenged by the recent economic depression, changes in the marketplace, and increasing labor and energy costs. Extending the tax credit beyond its current sunset date of December 31, 2011 will allow the industry to continue the progress that is being made in developing and producing salmon products that will keep Alaska's fisheries competitive in world markets. The state should continue to support one of our most important basic industries by extending the salmon product development tax credit thought passage of HB 344.

Vice-Chair Thomas MOVED to ADOPT Work Draft (26-LS1473\E, Kane, 3/11/10) as a working document. Co-Chair Stoltze OBJECTED.

Mr. Ecklund noted that the fisheries committee added qualified ice-making systems to the initial legislation. He stated that he worked with Department of Revenue (DOR) who administers the program to clarify that ice-making machines would qualify for the tax credit.

3:01:32 PM

Co-Chair Stoltze queried how ice machines fit into technological advances. Mr. Ecklund responded that chilled fish are required to produce a quality product. The fisheries committee believed that encouraging investment in ice machines would help preserve the value of the base product.

Co-Chair Stoltze commented on the necessity of the legislation.

Vice-Chair Thomas responded that ice-making products are lacking in the state. The demand for quality fish demands additional ice. He added that Bristol Bay has been behind the times in this area. The need to keep the fish chilled for value-added products is high. Co-Chair Stoltze clarified that he did not feel negatively about the legislation, but encouraged open-mindedness.

Representative Doogan clarified that the state would cover a portion of the cost through tax credits, with the theory that better fish would be the result. He asked who benefits from the higher quality fish. Vice-Chair Thomas responded that the ice machines are located at the cannery or on a barge. The boats visit the cannery or barge to collect the ice, two tons at a time. He stated that everyone benefits from the ice and the higher quality fish.

3:07:54 PM

Representative Doogan asked about the size of the ice machines. Vice-Chair Thomas responded that the ice machines create 25-30 tons of ice per day. Many canneries require a large amount of ice. Representative Doogan guessed that the commercial ice machines were much larger than those needed for personal use. Vice-Chair Thomas agreed.

Representative Austerman clarified that the fishing boat does not receive credit for the ice machine. The incentive was for the processing industry to allow the fishermen to get a better price for the fish and allows for greater flow of money through the state. The processing industry paid the fishery business tax that received the credit.

Co-Chair Stoltze asked if an industry standard exists for the cost of the ice.

Vice-Chair Thomas responded that the policy depends on whether the boats are employed by the processing company. He added that the ice is normally given away. Language in the bill prohibits the industry from selling ice for three years.

Co-Chair Stoltze requested further clarification. Mr. Ecklund responded that the issue of selling the ice was not as important as tracking of the value of the fish processed with the ice from the said ice machines. If a processor receives a credit from an ice machine, the ice can only be given or sold to employed fishermen.

Vice-Chair Thomas pointed out that two pounds of ice are required to chill one pound of fish.

3:11:28 PM

Mr. Ecklund opined that the current tax credit is working. He commented on the Alaska Tax Division Report (copy on file) for FY 2007-2009 showing that the total tax received by the state has increased from $29 to $42 million. The tax credit is not responsible for the entire increase, but it helped.

Representative Salmon asked why the ice contributes to the added-value label for the fish. Mr. Ecklund responded that there is a list of qualified and non qualified expenditures that explain changes in the industry, primarily with incentivizing value-added products.

Vice-Chair Thomas added the incentive of retaining jobs in Alaska versus exporting them.

Co-Chair Stoltze pointed out that the discussion is based on a policy issue and the CS has yet to be adopted. Mr. Ecklund agreed and noted that the prior committee felt strongly about ice machines.

Representative Fairclough pointed out that the revenue book does not match the provided data.

Mr. Ecklund requested testimony from DOR.

3:15:05 PM

PAUL DICK, CHIEF OF OPERATIONS, TAX DIVISION, DEPARTMENT OF REVENUE addressed the technical question.

Representative Fairclough restated her question from page 51 of the 2009 Revenue Sources Book which illustrates numbers that vary from the document provided in the committee packet.

Mr. Dick explained that the Revenue Source Book lists all taxes on fisheries, including salmon enhancement tax revenue, diving, and other types of seafood marketing. He offered to provide the required breakdown from the Revenue Sources Book.

Representative Fairclough explained her process in finding the information and asked if the percentage was proportional to the municipal share. Vice-Chair Thomas stated that the municipal share was 50 percent. Mr. Dick Figure added that the Revenue Sources Book does show 50 percent of the tax.

Representative Fairclough agreed to review the data later with Mr. Dick.

Representative Doogan asked about the inclusion of ice machines. Mr. Dick responded that the ice machines would provide benefits to industry, but he was unable to comment on the policy call.

3:19:23 PM

Representative Doogan added that ice machines used to be specifically excluded and he wondered about the change in circumstances that altered the decision. Mr. Dick believed that the fisheries committee suggested adding the ice machines.

Co-Chair Stoltze asked about departmental concerns regarding the ice machines. Mr. Dick replied that the concerns were with the technical changes regarding the definition of qualified investment. The ice machines were included with processing equipment and the ice machine does not in fact "process."

Representative Salmon asked if the committee was including "added-value" products to the list. Co-Chair Stoltze opined that the committee is "doing it because we can."

Vice-Chair Thomas suggested that the list is an older one. He repeated that covering the fish with ice increases the value and allows Alaska to compete on an international level. He stated that he did not know why the ice machines were not a priority before. The trend in Bristol Bay is moving toward iced fish.

3:23:32 PM

Co-Chair Stoltze suggested that the processors in Cook Inlet and in Southeast Alaska already had ice machines.

Representative Austerman added that farmed fish entered the market place a few years ago. Icing allowed the farmed fish to arrive with a longer shelf life. If fish is not iced, then one to two days of shelf life are lost. He pointed out that the value is in the freshness of the fish. As Alaska began to compete with farmed fish the ice helped. Ten years ago, ice machines were not the issue. He agreed that

Bristol Bay was a difficult place to fish and ice machines were necessary.

Representative Fairclough agreed that the case was well made for ice machines; she supported the underlying issue. She wished to ensure that the fiscal note reflects the added ice machines. Mr. Dick responded that DOR had not considered the work draft in the creation of the fiscal note.

Co-Chair Stoltze asked if the change in the fiscal note will be substantive. Mr. Dick did not believe so. He explained that the department observed the last three years of credits to create an average of $2.4 million. He was unaware of the exact fluctuation of investments. He anticipated a continued $2.4 million.

Co-Chair Stoltze asked if the ice machines will then compete with the other technological investments. Mr. Dick responded yes.

Representative Fairclough asked for the average cost and life expectancy of an ice machine intended for heavy-production.

3:27:27 PM

MARY MCDOWELL, VICE PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION spoke strongly in support of HB 344. She stressed that the tax credit will allow the industry to keep pace with consumer demands on tough world markets. She referred to letters in the packet regarding the targeted program. She stated that companies are faced with challenges and those in rural areas are faced with high energy and transportation costs. She declared that this was an important time for Alaska to support the investment with the additional economic incentive. The tax credit pays for a small portion of the required product investment.

Ms. McDowell continued that fine market niches raise the value of the salmon which benefit the fishermen, communities, the processors and the state coffers.

Co-Chair Stoltze asked if there was concern about the amendment and the ice machines. Ms. McDowell answered no. She thought the amendment served as a good addition to the bill. She agreed that icing fish allows for a high quality item to smoke or can.

Co-Chair Stoltze asked about ice machines and the cost of diesel to power the machine. He asked if the fuel was covered in the tax credit. Ms. McDowell responded no.

Representative Doogan asked why companies are not investing in ice machines if they are a good deal both in terms of product and income derived.

3:32:58 PM

GREG FISK, BRISTOL BAY ECONOMIC DEVELOPMENT CORPORATION stated that the installed cost per production ton of ice machines is approximately $12,000 to $18,000. A ten-ton ice machine costs approximately $180 thousand. He responded to the question about the timing of policy change. He explained that the tax credit was helpful for those wishing to make investments in value-added equipment. The findings were that high quality fish are not available particularly in Bristol Bay. The state incentivized the purchases, but full value is not achieved without enough number one quality fish.

MARK PALMER, PRESIDENT, OCEAN BEAUTY SEAFOODS (via teleconference), spoke in support of the legislation. He explained that Ocean Beauty Seafoods has added a value-added line, increasing employment and production capacity as a result of the legislation. Often the freezing capacity of a facility can act as a bottleneck. The legislation has accelerated investment due to the tax incentive.

Representative Fairclough asked the amount of fish tax paid by Ocean Beauty Seafoods.

Mr. Palmer responded that the company's fish tax totals an average around $1.2 million. The company has taken advantage of $600 thousand of the value added processing tax credit. He offered to provide more detail.

Representative Fairclough stated that she was interested in the percentage of the credit that the company utilized. She understood that 50 percent of the company's liability to the state is returned in the form of credits. Mr. Palmer replied that 50 percent is the maximum amount available. The bill allows for carry-over of the credit.

Representative Fairclough asked if the carry-over option was a new addition to the bill.

3:39:26 PM

Mr. Palmer responded no, the company has a certain period of time following the investment to carry-over.

Mr. Palmer pointed out that shore plants are not the only ones that lack ice capacity. The fleet is widespread in Bristol Bay. Some of the ice capacity would exist on tenders. Ice is occasionally transported a great distance. A thousand permits exist in Bristol Bay without refrigeration capacity on board their vessels. Local fishermen can only participate in premium programs if they have the ability to chill the fish.

3:42:19 PM

Representative Austerman asked for an estimate of the amount invested in value-added fisheries over past five years and how much was based on tax credit ability. Mr. Palmer responded that the company invested in excess of $2 million each season in increasing capabilities for value-added products.

Co-Chair Stoltze disclosed that he served with Mr. Palmer as a member of the Alaska Seafood Marketing Institute helping to advance the marketing of Alaska Seafood products.

BOB WALDROP, EXECUTIVE DIRECTOR, BRISTOL BAY REGIONAL SEAFOOD DEVELOPMENT ASSOCIATION (via teleconference), spoke strongly in support of HB 344. He stated that the most valuable salmon fishery in the world is rising sharply. Filet production in Bristol Bay increased by over 18 percent between 2008 and 2009 to 21 million pounds. He expected to see the trend continue as a result of the tax credit. He expressed hope that the committee would approve the modest expansion of the tax credit to include ice making. Ice is a necessary condition for higher value products. Higher value products lead to higher prices upon which the fishery's business tax and fishermen's income is based. He mentioned the suffering market in Chile.

3:47:20 PM

Representative Doogan asked about the change in philosophy regarding the qualification of ice machines as expenditures when in the past they were considered non-qualified expenditures. Mr. Waldrop believed that the tax credit stimulated the growth of value-added equipment.

Representative Doogan referred to long list of non-qualified expenditures including ice machines. He asked how many other things not currently listed as qualified expenditures will get moved to qualified list as time goes on.

Representative Doogan asked whether additional pieces of equipment will be moved over to the list of qualified expenditures, which will ultimately increase the expense to the state. Mr. Waldrop did not believe that the inclusion of the ice machines qualified as "mission creep" but that the original mission of the legislation was too narrow. The Bristol Bay Regional Seafood Development Association has invested $300,000 to $400,000 into ice making equipment.

3:51:51 PM

Representative Austerman noted that the equipment list is ten years old and he did not think one change in ten years signaled danger. He emphasized that the benefits of ice machines had been discussed in committee for years.

KRIS NORORSZ, GOVERNMENT AFFAIRS, ICICLE SEAFOODS, PETERSBURG (via teleconference), testified in support of the bill. She explained that her company purchased and processed salmon throughout Alaska. Icicle Seafoods has utilized the tax credit to purchase equipment, further diversify the product line, improve quality and prolong product viability. She described the various equipment purchased that prolong the shelf life of the salmon.

Vice-Chair Thomas closed public testimony. He asked DOR about the fiscal note. Mr. Dick responded that the fiscal note would not change with the added amendments.

Representative Fairclough asked if the credits carry forward. Mr. Dick answered that the provision to carry-over for three years after the tax year has always existed in the legislation. He added that HB 344 simply extends the carry over provision end-date.

Representative Fairclough asked for more information about the carry-over. She asked how the carry-over functions if a person purchases a piece of equipment for $1 million and is able to declare up to $500 thousand. Mr. Dick responded that the with a $100,000 tax liability, a company could use $50,000 and carry over the remainder of the investment to the subsequent tax years, for four years.

Representative Fairclough clarified that the provision existed in the current legislation. Mr. Dick responded yes.

Representative Fairclough asked about the life-cycle of new equipment provided for as a credit. She requested a cost analysis regarding the payment schedule for the equipment. Mr. Dick deferred to the industry for an answer.

Mr. Fisk answered that the typical life expectancy for an ice plant was approximately 20-30 years.

3:58:20 PM

Representative Foster stated support for the legislation. He believed that help for the rural, western, and impoverished communities was always a step in the right direction.

HB 344 was HEARD and HELD in Committee for further consideration.

3:59:37 PM

#
ADJOURNMENT

The meeting was adjourned at 3:59 PM