

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON FISHERIES**

February 18, 2010

10:18 a.m.

**MEMBERS PRESENT**

Representative Bryce Edgmon, Chair  
Representative Wes Keller, Vice Chair  
Representative Cathy Engstrom Munoz  
Representative Robert L. "Bob" Buch  
Representative Scott Kawasaki

**MEMBERS ABSENT**

Representative Craig Johnson  
Representative Charisse Millett

**COMMITTEE CALENDAR**

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."

- HEARD & HELD

HOUSE CONCURRENT RESOLUTION NO. 15

Directing the Legislative Council to contract for an assessment of environmental and socioeconomic consequences of large-scale mineral extraction in the Bristol Bay area watershed.

- HEARING POSTPONED

**PREVIOUS COMMITTEE ACTION**

BILL: HB 344

SHORT TITLE: SALMON PRODUCT DEVELOP. TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) THOMAS

02/12/10	(H)	READ THE FIRST TIME - REFERRALS
02/12/10	(H)	FSH, FIN
02/18/10	(H)	FSH AT 10:15 AM BARNES 124

**WITNESS REGISTER**

PETER ECKLUND, Staff  
Representative William "Bill" Thomas, Jr.  
Alaska State Legislature  
Juneau, Alaska

**POSITION STATEMENT:** Presented HB 344, on behalf of Representative Thomas, prime sponsor.

S. GREGORY FISK, Representative  
Bristol Bay Economic Development Corporation (BBEDC)  
Juneau, Alaska

**POSITION STATEMENT:** Testified in support of HB 344.

TIM COTTONGIM, Fish Group Manager  
Juneau Office  
Tax Division  
Department of Revenue (DOR)  
Juneau, Alaska

**POSITION STATEMENT:** Responded to questions, during the hearing on HB 344.

MARK PALMER, President  
Ocean Beauty Seafoods  
(No address provided)

**POSITION STATEMENT:** Testified in support of HB 344.

MARY MCDOWELL, Vice President  
Pacific Seafood Processors Association  
(No address provided)

**POSITION STATEMENT:** Testified in support of HB 344.

BOB WALDROP, Executive Director  
Bristol Bay Seafood Development Association  
Anchorage, Alaska

**POSITION STATEMENT:** Testified in support of HB 344.

#### **ACTION NARRATIVE**

[10:18:08 AM](#)

**CHAIR BRYCE EDGMON** called the House Special Committee on Fisheries meeting to order at 10:18 a.m. Representatives Edgmon, Keller, Munoz, and Buch were present at the call to order. Representative Kawasaki arrived while the meeting was in progress.

#### **HB 344-SALMON PRODUCT DEVELOP. TAX CREDIT**

10:19:18 AM

CHAIR EDGMON announced that the only order of business would be 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."

10:19:24 AM

PETER ECKLUND, Staff, Representative William "Bill" Thomas, Jr., Alaska State Legislature, presented HB 344, paraphrasing from the sponsor statement, which read [original punctuation provided]:

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, resulting in improved quality. Increased investment in Alaskan equipment encourages in-state processing of our salmon resource which is critical to job creation and retention in fishing communities.

The House Fisheries and Finance Committees added ice machines to the list of investments that qualify for the tax credit. Having a top quality base product delivered to processors is a prerequisite to further value adding processing of salmon.

Alaska's salmon industry is beginning to recover from years of low values caused by competition from fish farming, 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 through passage of HB 344.

[10:22:20 AM](#)

MR. ECKLUND directed attention to the committee packet, and the Department of Revenue (DOR) handout titled: Alaska Tax Division 2009 Annual Report, Figure 3 - Revenue Collections Detail. The fiscal year (FY) 2009 total receipts, collected from fisheries business tax, shows just over \$42 million, up from \$23 million in 2003. He opined that a major reason for this increase is the tax credit that the bill provides.

[10:23:15 AM](#)

CHAIR EDGMON acknowledged the intent to extend the sunset of the tax credit, and noted that there may also be interest in adding other components.

MR. ECKLUND said the addition of ice machines has been requested, and is being considered by the sponsor.

[10:24:11 AM](#)

REPRESENTATIVE BUCH referred to the handout titled "Prepared by Department of Revenue - Tax Division, Salmon Product Development Credit Expenditures, Qualified Expenditures and Non-Qualified Expenditures, dated 2/17/2010," and asked about the differentiation of the items included, or excluded.

MR. ECKLUND indicated that the legislation was first drafted in 2003, but has been modified with two amendments, and extensions, since enactment of the original bill. He surmised that the parcels on the list were part of the initial committee debates.

[10:25:44 AM](#)

CHAIR EDGMON said the question is pertinent, and a full response will be requested for the committees benefit.

[10:26:18 AM](#)

S. GREGORY FISK, Representative, Bristol Bay Economic Development Corporation (BBEDC), stated support for HB 344, paraphrasing from a prepared statement, which read [original punctuation provided]:

Bristol Bay Economic Development Corporation (BBEDC) supports passage of HB 344 and the renewal of the Salmon Product Development Tax Credit.

The Tax Credit has helped stimulate investment in new value added processing equipment across the State. Probably most important are the many salmon fillet lines now operating. In Bristol Bay increasing fillet production is truly transforming the fishery.

Unfortunately, basic salmon quality issues continue to limit the full positive economic impact of the investments in value added equipment. This is particularly acute in Bristol Bay, but is certainly not limited to the Bay. It's an old problem - lack of fish chilling capacity. This results in a high incidence of No. 2 fish that are unacceptable for filleting. The big problems are gaping and bruising.

Increasing the percentage of No. 1 grade fish is vital to getting full benefit from other investments under the Salmon Product Development Tax Credit. Proper chilling in slush ice has been demonstrated to increase the percentage of No. 1 fish from 45%-50% range to 80%-85% in Bristol Bay.

Accordingly, BBEDC would like to suggest that, as HB 344 works its way through the process, you consider adding ice production and delivery equipment to the

list of qualified investments eligible for the tax credit. Doing so will directly contribute to achieving the original intent of the Salmon Product Development Tax Credit, by helping to ensure that we have the quality salmon needed for effective value added processing in Alaska.

Ice Production and Delivery Equipment should include: the actual ice makers themselves, and the refrigeration systems required; ice storage systems - conventional insulated ice houses, tanks for slurry systems, etc.; delivery systems - ice rakes, augers, pneumatic systems, chutes, etc.

[10:29:15 AM](#)

REPRESENTATIVE BUCH pondered why the request for having specific equipment included has come recently to the fore and late in the session. He questioned whether it's a shift in needs.

MR. FISK responded that what has changed is the emphasis for value-added processing.

[10:31:52 AM](#)

TIM COTTONGIM, Fish Group Manager, Tax Division, Department of Revenue (DOR), said that the list was generated by the language in statute, which describes the qualifying functions of equipment allowed for credit under the program. He referenced AS 43.75.035(j)(3), used to generate the list, and paraphrased the statute, which read [original punctuation provided]:

(3) "qualified investment" means the investment cost in depreciable tangible personal property with a useful life of three years or more to be used predominantly to perform a processing, packaging, or product finishing function that is a significant component in producing value-added salmon products beyond gutting of the salmon; in this paragraph, "property"

(A) includes

(i) filleting, skinning, portioning, mincing, forming, extruding, stuffing, injecting, mixing, marinating, preserving, drying, smoking, brining, packaging, blast freezing, or pin bone removal equipment;

(ii) new parts to convert an existing can seamer to pop-top can production; and

(iii) conveyors used specifically in the act of producing a value-added salmon product;

(B) does not include

(i) vehicles, forklifts, conveyors not used specifically in the act of producing a value-added salmon product, cranes, pumps, or other equipment used to transport salmon or salmon products, knives, gloves, tools, supplies and materials, equipment that is not processing, packaging, or product finishing equipment, or other equipment the use of which is incidental to the production, packaging, or finishing of value-added salmon products; or

(ii) the overhaul, retooling, or modification of new or existing property, except for new parts to convert an existing can seamer to pop-top can production;

[10:32:51 AM](#)

REPRESENTATIVE MUNOZ opined that the statute could be interpreted to permit icing.

MR. COTTONGIM highlighted the statutory language "processing function," and said that this term does not include icing. Because icing is considered a task that a fisherman can manage, it is not considered a processing function.

REPRESENTATIVE MUNOZ disagreed with that reasoning. She pointed out that the inclusionary language names blast freezing and preserving. Icing, she opined, is a method of preserving. The exclusionary language identifies knives, tools, gloves, and ancillary products. Although she opined that the language allows for the ability to include ice machines, she acknowledged the department's very narrow interpretation of the statute.

[10:34:39 AM](#)

CHAIR EDGMON opened public testimony.

[10:34:50 AM](#)

MARK PALMER, President, Ocean Beauty Seafoods, stated support for HB 344, naming the Bristol Bay fishery as an example of why this bill is important, and an indicator for how well it has worked. He described the processing operations that have

increased the value-added product coming out of the Bristol Bay area. If the freezing capacity is the limitation of a facility, only a certain number of pounds can be handled, but filleting a fish takes up less freezer space. The program has worked exactly in the way that it was intended, he opined. Ocean Beauty has invested in fillet and value-added capacity in four of their seven Alaskan locations. This has allowed increased market prices and promoted the addition of new product lines. He stressed that the bill has worked very well and fostered investment in many areas of the industry.

[10:38:55 AM](#)

MARY MCDOWELL, Vice President, Pacific Seafood Processors Association, stated support for HB 344, and concurred with the previous speakers statements, regarding the benefits and need for the legislation. She added that investing in the equipment up front, pays for itself many times over. The bill serves to improve the situation for the seafood industry, the coastal communities, and the state revenues; it is an excellent investment.

[10:41:19 AM](#)

BOB WALDROP, Executive Director, Bristol Bay Seafood Development Association (BBSDA), sated vigorous support for HB 344, and said the bill represents a direct benefit to Bristol Bay fishermen. He pointed out that in response to the tax credit, value-added production in Bristol Bay is rising sharply: fillet production continues to increase, and value-added products are in high demand on the world market. The Bristol Bay fishery is fully productive, while fish farms are in crisis. During the plight of the farms, it is important for Alaska to fill the void and maintain the leadership position, as the farms work to regain production levels. Investments in equipment upgrades, made possible by the tax credit, are investments that will pay big dividends for the entire industry. Additionally, a higher tax base will be gained and the state will recoup costs of the program through the product and business tax structure.

[10:43:49 AM](#)

CHAIR EDGMON stated that HB 344 would be held for continued public testimony and committee consideration.

[10:44:15 AM](#)

## **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 10:45 a.m.