

HOUSE FINANCE COMMITTEE  
February 27, 2014  
1:45 p.m.

1:45:02 PM

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:45 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair  
Representative Bill Stoltze, Co-Chair  
Representative Mark Neuman, Vice-Chair  
Representative Mia Costello  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Lindsey Holmes  
Representative Cathy Munoz  
Representative Steve Thompson  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator John Coghill, Sponsor; Chad Hutchinson, Staff, Senator John Coghill; Daniel George, Staff, Representative Bill Stoltze; Jeff Backlund, North Pacific Seafoods; Sinclair Wilt, Vice President, Westward Seafoods; Vince O'Shea, Vice President, Pacific Seafood Processors Association; Anna Kim, Tax Division, Department of Revenue; Tim Cottongim, Fish Group, Tax Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

Tom Sunderland, Vice President of Marketing, Ocean Beauty Seafoods; Johanna Bales, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 204 SALMON & HERRING PRODUCT DEV'T TAX CREDIT

CSSSHB 204(FIN) was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN1 (REV).

[Note: The meeting was recessed until 9:30 a.m. on February 28, 2014 and CSSSHB 204(FIN) reported out of committee at that time. See February 28, 2014, 9:26 a.m. minutes for detail.]

HB 306 EVAL. INDIRECT EXPENDITURES; TAX CREDITS

HB 306 was HEARD and HELD in committee for further consideration.

SSSB 49(FIN)

MEDICAID PAYMENT FOR ABORTIONS; TERMS

HCS SSSB 49(FIN) was REPORTED out of committee with "no recommendation" and with two indeterminate fiscal notes and one fiscal impact note from the Department of Health and Social Services.

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Co-Chair Stoltze discussed the agenda for the day.

#sb49

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 49 am

"An Act relating to women's health services and defining 'medically necessary abortion' for purposes of making payments under the state Medicaid program."

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Representative Costello discussed the bill's three fiscal notes including two indeterminate notes from Department of Health and Social Services (DHSS) and one fiscal impact note from DHSS with a cost of \$55,200 in FY 15.

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Representative Gara MOVED to ADOPT Amendment 1:

Page 1, line 1, after "Act" insert "relating to women's health services and"

Page 1, line 4, insert a new section to read:

Section 1. AS 4 7.07 .030 is amended by adding a new subsection to read:

(g) The department shall make available to eligible recipients a program for women's health for the purpose of providing family planning services, health screening examinations, and related services.

Page 3, line 6, insert a new section to read:

Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to read:

WOMEN'S HEALTH PROGRAM UNDER STATE MEDICAID.  
The Department of Health and Social Services shall immediately prepare and submit to the United States Department of Health and Human Services, for approval in accordance with the provisions of 42. U.S.C. 1396a (Title XIX, Social Security Act), an amendment

Co-Chair Stoltze OBJECTED and ruled Amendment 1 out of order. He stated that the amendment was identical to a vote that had previously taken place on the adoption of the CS [the CS previously adopted by the House Finance Committee had removed language that Amendment 1 would reinsert].

Representative Gara replied that the topic had been fully debated before the committee had all of the information about the women's health program. He believed that the amendment should be discussed given the updated information the committee had received.

Vice-Chair Neuman MOVED to REPORT HCS SSSB 49(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Representative Guttenberg OBJECTED. He spoke to the contentious nature of the bill topic. He remarked that a

considerable portion of the bill had been removed following its passage from the Senate. He stated that if the goal was to reduce the number of abortions, the most immediate way was to prevent them from taking place. He stressed that the CS eliminated the consideration from the bill. He remarked that the constitutional issue would be played out in the Alaska courts. He believed that without a prevention component, the bill guaranteed the number of abortions would increase. He was equally bothered by the definition used in the legislation because it did not consider the health or well-being of the mother or who the responsible party would be for the unborn child. He believed that the legislation's definition treated the mother as the vessel carrying a child; that the mother had no responsibility and that government was responsible. He found it problematic that the bill did not honor a woman's decision about her own health, especially if the decision related to mental health. He believed the bill moved further away from a point where people could agree on a definition that would make things healthier for women and unborn children. He emphasized that the bill did not come near to resolving the issue. He noted that the courts had spoken on the issue; he knew no one liked making end-runs around the courts. He stated that the legislature was not getting closer to a definitive answer because it was refusing to acknowledge some of the more serious problems on the issue.

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Representative Gara discussed that there were many individuals in Alaska who were pro-choice and many others who were not. However, constituents expected legislators to come together where they agreed. He stated that there was an opportunity to reduce the number of abortions by adopting a women's family planning program that would have covered 90 percent of the cost for contraception. He believed the number of abortions should be reduced through family planning. He believed it was a mistake to remove the provision from the bill. He thought the bill may increase the number of abortions and may also make them more dangerous for women who could not afford to go to a medical provider. He stated that women who had no children and were not pregnant would be covered by a women's health program. He stressed that contraception would result in fewer unintended pregnancies and fewer abortions. He believed it was a win-win for people on both sides of the pro-choice pro-life debate. He addressed former comments by a bill

sponsor related to public health clinics. He discussed that many public health clinics provided some family planning services; however, women should have the right to go to their personal doctor. He did not believe there should be a law preventing women from going to their doctor when they wanted family planning services. He noted there were no public health clinics in Denali Park, Arctic Village, Barrow, Kotzebue, Togiak, Naknek, or King Salmon. He stressed that there had been an easy way for the bill to limit the number of abortions; he intended to have the discussion on the House floor.

Representative Gara addressed the bill as a whole. He discussed that he was pro-choice, but that the topic of abortion made him uncomfortable. He did not like having fights in the legislature related to the divisive issue. The system created by the bill allowed middle class and wealthy woman to choose to have an abortion; however, it did not cover lower class women. He stated that a similar system had existed sometime in the past; unsafe abortions had led to the death and serious injury of mothers. He opined that states should each have a robust debate on the right to choose; he believed the right should exist. He did not believe in creating two classes of women; those who could afford a safe abortion and those who could not.

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Representative Gara continued to discuss his objection to the legislation. He reiterated that the bill would increase the number of abortions for women due to a lack in family planning services and would also make abortions less safe. He did not support the legislation.

Representative Munoz observed that federal law limited public funds for abortions. She noted that 547 abortions had been performed the past year. She believed it was clear that more abortions were happening than were medically necessary. She wondered why the bill's definition did not include diagnosed mental disabilities.

Co-Chair Stoltze relayed his intent to allow the sponsor to provide clarity on the specific point.

Representative Guttenberg remarked that the committee was in the middle of a motion and the sponsor was providing comments on the legislation.

Co-Chair Stoltze explained his intent to have the sponsor address the topic as part of the committee deliberation.

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Senator Coghill replied that the Alaska Mental Health Trust Authority talked about the need for commitment. The sponsor felt that the bill language left the issue well within the purview of a doctor. He stated that if a mental condition created a question [about the safety of a pregnancy] the doctor would have every right to make the decision.

Representative Wilson spoke to her question from the prior day. She pointed to occurrences in 2012 and who paid for the service; she listed Medicaid, cash, insurance, and other. She did not know if the "other" category was the possibility for women to have the procedure who did not have insurance or Medicaid. She stated that if the "other" was another group taking care of women who did not qualify under other insurance then the question became who paid for the procedure. She was concerned about not knowing what the other was. She was hoping to have the question answered before it went to the House floor. She was bothered by the difference between items that were paid for by state insurance compared to Medicaid; she noted that state insurance paid only for medically necessary abortions. She stated that if a person did not qualify for a procedure under state insurance they were on their own to determine how to pay for it. She remarked on a definition used by private insurance that appeared to work given that there had been no legal suits. She was concerned that the state may get sued in the future because regulations already existed. She wondered why the state did not use the proven method used by other insurances versus going in the direction the bill went. She stressed that the state would get sued under the current method. She continued that if the state lost on the definition it cost money and meant the legislature would be required to discuss the issue again. She stressed that the term medically necessary was used for all medical procedures. She believed the issue should not have been made a "women's issue." She was willing to let the bill out of committee, but reiterated her hope for answers prior to hearing it on the House floor.

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Co-Chair Austerman stated that he had always been pro-choice. He acknowledged the efforts of the sponsors to create a definition. He recognized that the debate was not about pro-choice or pro-life. His concern was about pro-life efforts to cumulatively move towards the pro-life goal. He believed any movement down a cumulative path to stop pro-choice created a long-term problem. He opposed the legislation.

Representative Holmes was disappointed that the bill did not include a family planning program. She believed that working to avoid unwanted pregnancies was the area that everyone came together on. She urged the sponsors and committee members to include family planning. She spoke to the underlying language of the bill. She understood that the topic pertained to funding and was not about pro-life or pro-choice. The discussion related to who paid and under what circumstances. She pointed to the list included in the bill. She did not want to continue debating the issue, but did not know if the nail had been hit on the head. She believed the definition equated to the legislature telling a doctor what was and was not medically necessary. She agreed that under current laws Medicaid was only supposed to pay for medically necessary abortions; she was okay with that, but was uncomfortable with the list.

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Representative Costello commented on the family planning portion that would not move forward with the legislation. She believed there was a place for a discussion about family planning, but she did not believe the language belonged in the current bill. She noted that adoption was not mentioned in the bill; she hoped that adoption would be discussed when family planning was addressed at some point. She shared personal information related to adoption.

Representative Edgmon had hoped to be given the opportunity to vote on the family planning element. He discussed the cause and effect relationship of family planning services related to cost savings. He highlighted the lack of facilities in his rural district. He believed that in the current social environment (where there was an increased need for Village Public Safety Officers) there were many things occurring that family planning would enhance. He believed the objective supported by all was fewer unwanted pregnancies and abortions. He stated that without the

family planning element it was difficult for him to support the legislation. He respected the sponsor, but he could not support the legislation.

Vice-Chair Neuman spoke for the life of an unborn child. He believed the definition represented a good effort to find a scope of what medically necessary abortion meant. He believed there were some issues related to family planning that needed to be addressed. He supported bringing babies to full term so they could be adopted into families. He addressed Representative Wilson's concern related to private insurance. He thought insurance companies may choose to pay for an abortion even if a procedure was not medically necessary if it may save the insurance company money. He supported the bill and believed it was necessary to include descriptive language in statute.

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Representative Costello MOVED to RESCIND previous motion on the fiscal notes. There being NO OBJECTION, it was so ordered. She moved two indeterminate and one fiscal impact fiscal notes from the Department of Health and Social Services.

A roll call vote was taken on the motion to report the bill from committee.

IN FAVOR: Costello, Neuman, Thompson, Munoz, Wilson, Stoltze

OPPOSED: Guttenberg, Gara, Holmes, Edgmon, Austerman

The MOTION PASSED (6/5).

There being NO further OBJECTION, HCS SSSB 49(FIN) was REPORTED out of committee with "no recommendation" and with two indeterminate fiscal notes and one fiscal impact note from the Department of Health and Social Services.

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AT EASE

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RECONVENED

#hb204

HOUSE BILL NO. 204

"An Act relating to a product development tax credit for certain salmon and herring products; and providing for an effective date."

Representative Costello MOVED to ADOPT the proposed committee substitute for HB 204, Work Draft 28-LS0463\P (Bullard, 2/24/14).

Co-Chair Stoltze OBJECTED for discussion.

DANIEL GEORGE, STAFF, REPRESENTATIVE BILL STOLTZE, discussed the two changes included in the CS. Prior to the word "herring" on pages 1 and 2, line 12 the word "or" was replaced with "and."

There being NO further OBJECTION, the CS was ADOPTED.

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REPRESENTATIVE ALAN AUSTERMAN, SPONSOR, discussed that the credit for salmon would sunset in 2015. He stated that a number of changes within the industry had precipitated action in the current year; an issue related to herring was a part of the change. The tax credit had been in place for 10 years and had enabled the salmon industry to market new products to compete in the marketplace. He shared that 10 years earlier the cost of pink salmon had been dire at prices of \$0.05 to \$0.07 per pound. The tax credits had done their job and prices had improved for fishermen; markets had increased providing more places to sell product. Additionally, there were different products to sell. He detailed that to expand the commercial seafood industry in Alaska the bill would add herring and would add value-added products that could be created from the waste stream currently going into the ocean, dumps or other. The concept was that by adding the two items new markets would be created.

Co-Chair Austerman explained that the bill would expand the salmon credit to include herring and the underutilized fisheries where significant waste occurred. He discussed that in the past couple of years there had been money in the state budget for the Alaska Seafood Marketing Institute (ASMI) to market herring. He pointed to a can of herring canned by ASMI. The organization had been able to show that the world food aid market was buying protein in the U.S.

for global distribution. When efforts began in 2004 to determine how new markets could be created, the tax credit was one step and the other had been to hire someone to look at the different marketplaces where no salmon existed. There had been zero cases of salmon in the world food aid market.

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Co-Chair Austerman continued that the U.S. had been purchasing soy and corn [back in 2004], but no protein had been included. He shared that in recent years there were over 400,000 cases of salmon going into the food aid marketplace, which created a place for pricing salmon and improved things for the fishermen and processors involved. He believed the same could be done for herring. He detailed that in the past couple of years ASMI staff had been selling the product. The reception had been strong and it looked like the demand existed. He addressed the underutilized waste of salmon and herring. He communicated that ASMI had been purchasing wasted fish product and turning it into a high grade food protein powder that could be used to mix with rice, soybeans, and other. The product could help around shipping cost issues.

Co-Chair Austerman addressed other reasons to get into the dried protein powder business. He anticipated that at some point 100 percent of retention would be required of all fisheries in Alaska (similar to the current occurrence in the European Union). He detailed that it would be necessary to have a way of handling the waste stream that came ashore instead of throwing the product away or turning it into pet food; a higher value to the product was anticipated that could allow the industry to grow. He had learned that within the next few years the Environmental Protection Agency (EPA) would no longer allow grinding of product and dumping into the ocean. He detailed that given the change it would become expensive for the industry to handle the waste product; if a higher value for the product could be determined it would become less costly to the industry.

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Representative Edgmon asked to hear public testimony.

Co-Chair Stoltze asked for a definition of cans.

Co-Chair Austerman deferred the question to the department for detail on a definition. The bill would also give the industry the option to change the size of its cans. In the past the legislation had allowed the industry to begin using pop-tops; however, the industry did not like pop-tops due to the shelf-life. The goal was to allow the industry to be able to change the size of the can.

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JEFF BACKLUND, VICE PRESIDENT, NORTH PACIFIC SEAFOODS, spoke in support of the bill. He shared that the company had five facilities in salmon producing areas in Alaska including Alaska Pacific Seafoods in Kodiak; Sitka Sound Seafoods; and three plants in Bristol Bay including Togiak Fisheries, Peterson Point, and Red Salmon Cannery. He discussed that in 2013 the company had processed over 50 million pounds of salmon. Since the program's inception it had used the salmon tax credit for production changes that had allowed the business to reach new markets and increase the quality of the salmon items it produced. The company had added vacuum packed fillet capacity to two operations and was in the process of adding it to a third. He communicated that ice-making capacity was an important component to maintain product quality and was a needed addition to the past reauthorization of the program. He relayed that the tax credits had helped the company meet changing market demands and to maintain high-quality salmon products to benefit all segments of the value chain including harvesters, processors, and coastal communities. He shared that the continuation of the program provided the company with the certainty needed for planning major projects and the flexibility to respond to market changes. The company planned to utilize the worthwhile program. He urged the legislature to extend the salmon product development tax credit.

Representative Gara wondered why pre-spiced frozen salmon products were not available in stores. He believed there would be a demand for the products. Mr. Backlund answered that there were many changes occurring in the marketplace pertaining to how companies were approaching the issue. He noted that there had been a big shift from headed and gutted and some canned to fillet production. He thought it may be the next shift.

Representative Gara offered it as a suggestion.

Vice-Chair Neuman asked if the company used the credits to reduce its corporate tax credits to the state. Mr. Backlund responded that the credits offset capital investment in changing product forms. For example, part of the tax paid by a company could be used as a credit toward investing in processing fish beyond headed and gutted in a fillet line.

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Vice-Chair Neuman pointed to Section 5 of the legislation and wondered how the credits were claimed each year. He observed that the credits changed from year to year. He discussed claiming credits for capital investments and noted that the bill offered incentive to purchase equipment. He wondered whether there would be a point where doubling up could occur. For example, new equipment could be used for processing herring and other items as well. He asked about paying revenue.

Mr. Backlund replied that the administration of the tax credit went through the company's accounting department. He understood that there was a pre-application process with the Department of Revenue (DOR); the department provided an indication of which items would qualify based on the submitted project. He believed it was for new production, not for replacement of existing equipment.

Co-Chair Stoltze asked if the company was involved in financially supporting a law suit involving the United Cook Inlet Drift Association and the Cook Inlet Fishermen's Fund.

Mr. Backlund did not know.

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SINCLAIR WILT, VICE PRESIDENT, WESTWARD SEAFOODS and GENERAL MANAGER, ALYESKA SEAFOODS, spoke in support of the legislation. The companies had two plants in Dutch Harbor and one in Kodiak; the Kodiak plant was the one involved in the salmon business. He shared that the companies were members of the Pacific Seafood Processors' Association. He referred to a letter of support he had provided to the committee (copy on file). He communicated that the Kodiak plant had been a beneficiary of the program in prior years. He relayed that the program was a valuable incentive to

encourage innovation and new product opportunities and in dealing with waste products. He shared that one of the Dutch Harbor plants had been working with an alternative use of Pollock skins by converting it into collagen.

Co-Chair Stoltze asked if the company was involved in financially supporting a law suit involving the United Cook Inlet Drift Association and the Cook Inlet Fishermen's Fund. Mr. Wilt replied that the company had not provided any funds to the organizations.

Representative Gara asked about the law suit referenced by Co-Chair Stoltze. Co-Chair Stoltze explained that the law suit was seeking to bring federal management into the Cook Inlet region. The suit had been brought forward by the United Cook Inlet Drift Association and the Cook Inlet Fishermen's Fund. He stated that the groups had previously attempted to eliminate dip net fisheries.

Representative Gara asked if the company sold canned salmon. Mr. Wilt replied in the negative.

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VINCE O'SHEA, VICE PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION (PSPA), spoke in support of the legislation. He shared that PSPA members operated 18 plants that processed salmon throughout the state from Ketchikan to Bristol Bay. He believed the bill had a proven track record of increasing the value of the salmon pack in Alaska. He remarked that great progress had been made since the early 2000s when salmon prices had been in the single digits. He communicated that the program had evolved over time; the current bill added provisions for centrifuges to make food-grade fish oil, which was currently a significant market. Ice machines had been added to the legislation in 2010, which had gone far to improve the quality of fish in Bristol Bay. He believed the program benefited harvesters, processors, fishermen, communities, and Alaskans in general. The program expired in 2015, but it would be beneficial to renew it in the current year to allow for budget planning. He believed the five-year period provided assurance that the state was encouraging the industry to respond quickly to market and technology developments that may evolve.

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Co-Chair Stoltze asked if the company was involved in financially supporting a law suit involving the United Cook Inlet Drift Association and the Cook Inlet Fishermen's Fund. Mr. O'Shea replied that the company did not provide any funds to the law suit.

Representative Gara wanted to see Alaska's salmon make as much money for the state's fishermen as possible. He remarked that fresh pink salmon was less expensive than red or king; he wondered why it was not sold in Alaska supermarkets. He asked why salmon was not marketed as pre-spiced. He discussed that New Zealand sold a variety of spiced tuna (e.g. curry, lemon, garlic, and other) that was easy and convenient to eat. He wondered about doing something similar with canned salmon. He wondered if the issues were worth looking into. He noted that canned pink and red salmon would bring in a limited amount of money.

Mr. O'Shea answered that he was not a marketing or promotional person. He pointed to frozen salmon burgers sold at a local retail store that were made with spiced pink and keta salmon. He believed the product was cheaper than hamburgers. He would be happy to get back with the committee about the food ready pouch products the company was making. He stated that an overall trend existed to move from canned products to fresh/frozen fillets. The shelf-life of canned salmon was terrific. He believed the advice to look for a variety of product forms was good.

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Representative Guttenberg had traveled to Japan in the past and had visited a fish market in Tokyo. He recalled that all parts of the fish were marketed there. He asked if the association was receiving any pushback on wild Alaska salmon related to the Fukushima nuclear disaster. Mr. O'Shea replied in the negative. He believed the issue was on ASMI's radar related to protecting the Alaska brand. He remarked on the difficulty of the question because it related to how hard to push back or how much to continue the story depending on credibility. He detailed that from a science standpoint the evidence was clear that the disaster did not have an effect on Alaskan products. He was confident that ASMI was watching Japanese and other foreign markets to ensure the Alaska brand remained respected for its high quality.

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Co-Chair Austerman believed some Alaskan salmon fishing industry 101 was needed to ensure everyone was on the same page. He discussed various ways salmon had been handled historically. He detailed that in 2003 and 2004 the industry had been bleak in Alaska; the state had been doing nothing but cans due to the marketplace. He stated that many different products existed. There was significant research underway by major processors to find the right niche for salmon products. He listed various products including salmon burgers, pouched spiced salmon, and dried salmon.

TOM SUNDERLAND, VICE PRESIDENT OF MARKETING, OCEAN BEAUTY SEAFOODS (via teleconference), provided a market perspective on the legislation. He believed the most important measure was the gauge of effectiveness. He discussed the success of the tax credit program and pointed to testimony related to the much improved price of fish. He discussed that the fishing industry in Alaska needed to determine a way to defend its gains. Currently the industry products were facing severe market price pressure. The pressure was distressing because maximum value should be returned to Alaska; however, some customers were relaying that the product price points were not sustainable. He addressed different ways to approach the problem. For example, the bill gave the ability to reduce the size of the can. He noted that other industries used the strategy when prices rose. He continued that consumers bought packaged goods by shelf price, not by the pound as they did a side of salmon or other commodities. He provided cereal boxes as an example. He detailed that the tuna industry had reduced the size of cans almost exclusively to 5 ounces; other locations such as Australia sold tuna in 3.3 ounce cans. He continued that it was more difficult for Alaska fisheries due to the seasonal and remote nature of the processing.

Mr. Sunderland continued that the reduction in can size would enable the industry to respond to the issue of absolute price. He stated that it was unreasonable to expect consumers to always accept a higher price for a product. He shared that a tall Bumblebee tuna can cost \$10.39 in a Seattle, Washington supermarket (\$11.28 per pound). He believed a can of tuna that size for the cost

would not sell easily. He stressed that without the ability to reduce can size the company would have a severe problem maintaining the value of its product. He discussed fishery byproduct utilization. Currently when product was canned or filleted much of the fish was ground and dumped for no value.

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Mr. Sunderland communicated that value would increase by turning the portion of the fish that was not used into saleable product. There were some small operations running related to fish oil; however, there was a tremendous untapped resource. Both of the items [reduction in can size and byproduct usage] had a significant impact on the ability to protect gains made over the past 10 years. He discussed the EPA's plan to change regulations related to remote discharge of fish waste. He believed it could be beneficial to show the EPA that the industry in Alaska was working to eliminate waste. He summarized that the company was facing severe market pressure to act on the items he had discussed. He relayed that the bill would enable the company to act on the items in ways that were responsible to the fishermen and coastal communities of Alaska while maintaining product value.

Co-Chair Stoltze recognized that Ocean Beauty Seafoods was a great Alaskan company.

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Representative Edgmon thanked Mr. Sunderland for hosting a seafood event in Juneau over recent years. He believed the event helped to educate legislators on the commercial fishing industry and its contributions. He asked about value-added products including sauces, spices, and other.

Mr. Sunderland answered that there had been considerable growth of the sauces and spices product type. Most of the products were done by retailers under their own private label products. He listed various retailers with their own brand including Whole Foods, Trader Joe's, Kroger, Safeway, and other. He added that Ocean Beauty Seafoods made many of the products. However, plain portioned product always sold better than flavored product. He communicated that globally the bestselling products tended to include sauces, pasta, or vegetables; however, the products almost universally

failed to succeed in the U.S. He noted that there had been some successes including a pouched product from Thailand. He pointed to more success related to flavored and sauced frozen products.

Co-Chair Stoltze asked if the company was involved in financially supporting a law suit involving the United Cook Inlet Drift Association and the Cook Inlet Fishermen's Fund. Mr. Sunderland did not believe so but would double check.

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Vice-Chair Neuman rephrased his prior question. He pointed to Section 5 of the legislation and wondered how the credits were claimed each year. He observed that the credits decreased from year to year. He thought the bill would enable a processing facility to replace almost all of its equipment. He mentioned the inclusion of both salmon and herring.

TIM COTTONGIM, FISH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, replied that the credit would allow a facility to replace old equipment as long as the qualifications were met.

Vice-Chair Neuman asked if the state would pay up to 50 percent of the costs or 100 percent in the first year. Mr. Cottongim explained that 50 percent of an investment qualified for a credit. Under the legislation the credit was limited annually to 50 percent of the tax on salmon and herring. The remaining credit could be carried forward three additional years to be offset against the taxes on salmon and herring.

Vice-Chair Neuman asked for verification that the credits were not transferrable. Mr. Cottongim replied in the affirmative.

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Representative Gara was supportive of the concept. He was interested in the state's total gross tax on fish and what the state was left with after tax credits were factored in for the prior fiscal year. He surmised that if every industry got to use its industry tax there would be no funding left for education and other state services.

Co-Chair Stoltze asked for the FY 14 and FY 15 fisheries business and fisheries resource landing taxes.

Co-Chair Austerman remarked that the Department of Commerce, Community and Economic Development could provide the answers.

Co-Chair Stoltze communicated that for FY 14 the fisheries business and fisheries resource landing taxes totaled \$27.4 million. He remarked that there was a better chance of receiving revenue from tobacco taxes, insurance, and mining; the items were substantially bigger than money available for items mentioned by Representative Gara. He believed there was a façade that fisheries fueled the state treasury. He stressed that the amount was de minimis in the state's budget. He stated that far more was spent on commercial fisheries research; the state was funding \$30 million over the next three years for salmon research. The industry did provide jobs, but commercial fishing taxes were not a part of the state's economic future.

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Representative Thompson referred to the bill's provision that would enable eligible parties to replace their freezers and equipment. He shared that he had received a new business tax credit to purchase a \$96,000 crank grinder for his machine shop business. He was expected to profit from the crank grinder so he could purchase one on his own in 10 years' time. He believed profitable businesses should have a replacement plan for aging equipment. He wondered why the state would buy the company replacement equipment if the business was profitable.

Mr. Cottongim replied that he did not have the expertise to answer the question.

Co-Chair Austerman asked for verification that there were certain criteria a business had to meet in order to replace equipment. He pointed to a recent Ocean Beauty Seafoods can; less than 50 percent of its new equipment had been used to produce cans and had not met the department's criteria. He explained that the credit did not provide a blank check to businesses; a set of criteria existed.

ANNA KIM, TAX DIVISION, DEPARTMENT OF REVENUE, agreed.

JOHANNA BALES, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), agreed with Co-Chair Austerman's statement. She explained that the salmon product development tax credit was for equipment that would produce value added salmon or herring. The concept was that the credit would enable the production of potentially new types of products to allow Alaska's seafood industry to compete worldwide. She noted that the credit was 50 percent; therefore businesses were required to come up with money for the equipment as well. The intent was to make Alaskan seafood products (specifically salmon and herring) more marketable.

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Vice-Chair Neuman asked for verification that the credit only applied to production of new product that was not currently on the market. Ms. Bales answered that the credit was directed at new products in addition to existing value-added product. She detailed that the processing would need to enhance the product value. Over time there had been an increase in the price of Alaskan salmon due to the types of activities undertaken by the seafood industry and in which the state had offered a credit to assist.

Vice-Chair Neuman surmised that filleting or canning salmon alone added value. Ms. Bales replied that the bill was more specific; in order to qualify for the credit further processing was required beyond heading or gutting a salmon.

Vice-Chair Neuman asked about the creation of a powdered product. He asked whether a company could continue to get credit for equipment used on an unsuccessful product. He provided an example about deboning equipment that had failed.

Ms. Bales answered that it would be possible; however, she found it hard to imagine that a company would be willing to pay 50 percent of the equipment price if there was absolutely no market for the product.

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Vice-Chair Neuman clarified that he was referring to unsuccessful equipment, not unsuccessful product.

Ms. Bales answered that he was correct; however, a provision included on page 2 (lines 24 through 31) required that a company recapture the credit. She explained that a business would be required to repay the state if it stopped using the new equipment; if the equipment was taken out of service in the first year the company would have to pay back the entire credit; if the equipment was used for two years the company would be required to repay 75 percent of the credit; and if the equipment was used for three years it would be required to repay 50 percent. The company would be required to keep the equipment in service for a minimum of three years to receive the credit in its entirety.

Co-Chair Austerman directed attention to Section 8 of the legislation that included a program definition. He pointed to a list of qualified and disqualified equipment from Department of Revenue titled "SPDC Equipment" (copy on file).

Representative Guttenberg asked if the credits were stackable with any other incentive or tax credit program. Mr. Cottongim replied in the affirmative. He elaborated that other credits could be claimed against the fisheries business tax including education credits (e.g. Winn Brindle scholarship).

Representative Guttenberg asked for a list of the available credits and asked if credits were currently stackable. Mr. Cottongim replied in the affirmative.

Ms. Bales asked for clarification on stackable. Representative Guttenberg wondered if there were additional tax credits that could be used for one piece of equipment.

Ms. Bales replied in the negative. She expounded that it was not possible to use expenses for the equipment to claim a credit in any other tax program.

HB 204 was HEARD and HELD in committee for further consideration. [Note: This meeting was recessed at 3:30 p.m. until 9:30 a.m. on February 28, 2014; CSSSHB 204(FIN) reported out of committee at that time. See February 28, 2014, 9:26 a.m. minutes for detail.]

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RECONVENED

#hb306

HOUSE BILL NO. 306

"An Act relating to tax credits and administration of tax credit programs; requiring the Department of Revenue to report indirect expenditures; relating to the duties of state agencies; requiring the legislative finance division to analyze certain indirect expenditures; relating to lapse dates for appropriations for capital projects; repealing certain statutes authorizing indirect expenditures; and providing for an effective date."

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REPRESENTATIVE STEVE THOMPSON, SPONSOR, spoke to the bill's goal pertaining to fiscal responsibility. The bill would create a process by which lost revenue through indirect spending was reviewed by the legislature. The bill would enable the legislature to make sound policy decisions on whether certain indirect spending should continue. He read from a prepared statement:

House Bill 306 creates the process which lost revenue through indirect spending is reviewed by the legislature and enables them to make sound policy decisions on whether certain indirect spending should continue. With our future budget declining, this legislature must have a mechanism established that routinely brings indirect spending under legislative scrutiny. Indirect spending in the State of Alaska is authorized through provisions in law that confers preferential treatment through credits, exemptions, deductions, deferrals, discounts, exclusions, and differential allowances. Like direct spending, indirect spendings are designed to encourage certain kinds of activities for public benefit or to aid tax payers. Unlike direct spending programs, indirect expenditures are not itemized and do not go through the scrutiny of any budget process that we have. An indirect expenditure provision may continue indefinitely without any fiscal oversight. [Discounts] were designed to encourage benefit for taxpayers and encourage business.

What this bill does is require that the Department of Revenue prepare and deliver a report to include the name of the indirect expenditure, a brief description, statutory authority, sunset date, date of repeal if applicable, legislative intent, public purpose, estimated annual effect for the past five years, cost to administer the indirect expenditure, and the number of beneficiaries. The report would be prepared by November 1, before the first regular session of each new legislature.

All the department agents and agencies and public corporations are directed to work with the Department of Revenue commissioner to complete this information. This requires Legislative Finance to prepare and deliver a report to the legislature that includes the estimate of the lost revenue from the indirect expenditure, the estimate of the monetary benefit of the indirect expenditure to the recipients, a determination if legislative intent was met or not and why the intent was not met if applicable, a recommendation whether this indirect expenditure should continue, and an explanation of the methodology and the assumptions used to create the report.

Representative Thompson explained that the report would analyze all departments, agencies, and public corporations beginning with the FY 15 legislative two-year session and including: Department of Fish and Game, Department of Health and Social Services, Department of Labor and Workforce Development, and Department of Revenue. The legislative session beginning in 2017 would include the Alaska Court System and the Department of Administration. All remaining agencies would be reviewed in 2019. After initial review, reviews would be conducted every 6 years. The report would be delivered on the first day of the first regular session of each new legislature. The legislature would have two years to review the reports.

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Representative Thompson continued to read a statement.

Sunset the following credits on the day after the last day of the regular session of the 29th Legislature. First up would be education tax credits,

film tax credits, veteran employment tax credits, Winn Brindle scholarship tax credits, salmon production tax credits, salmon utilization tax credits, CDQ tax credits.

Representative Thompson acknowledged that many of the credits were important and created jobs; therefore, the vast majority of the items would most likely be renewed. He pointed to an extensive study that compiled the list of credit programs over the prior interim. He stated that the bill would not place a significant burden on the Department of Revenue. He believed it was important for the legislature to review credits it had created years earlier and to determine their effectiveness. Additionally, the bill included a claw-back provision that would lapse unused appropriations when substantial and ongoing work on capital projects failed to begin within five years of the appropriation; including named recipients, unincorporated communities, and state agencies. Currently municipalities and boroughs were the only entities required to use or loose within five years. Entities would either be granted a reappropriation or the funds would be returned to the state. He thanked the committee for its time.

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Co-Chair Stoltze disclosed that he was co-sponsoring the legislation. He discussed that the bill would address the state's general fund expenditures. He relayed that the bill included much more than the film industry credit. He believed the bill reflected substantial change in the way business was done.

Representative Thompson replied that every piece of legislation representing an indirect expenditure to the state had been included. He spoke to the importance of providing equal scrutiny to all programs.

HB 306 was HEARD and HELD in committee for further consideration.

Co-Chair Stoltze discussed his intent to recess the meeting until the following morning.

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RECESSED UNTIL 9:30 A.M. FEBRUARY 28, 2014.

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