

HOUSE FINANCE COMMITTEE
FOURTH SPECIAL SESSION
May 27, 2016
6:03 p.m.

6:03:31 PM

CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 6:03 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair
Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Frank Bergstrom, Self, Juneau; Mike Satre, President, Counsel of Alaska Producers, Juneau; Mark Vinsel, Executive Administrator, United Fishermen of Alaska, Juneau; Representative Liz Vasquez; Representative Lora Reinbold; Representative Louise Stutes; Representative Paul Seaton; Representative Gabrielle LeDoux.

PRESENT VIA TELECONFERENCE

Matt Moir, North Pacific Seafoods, Kodiak; Lorali Simon, Vice President, Usibelli Coal Mine, Homer; Helen Warner, Self, Fairbanks; Luke Lester, Fisherman, Kodiak; Dana Debel, Delta Airlines, Michigan; Aves Thompson, Alaska Trucking Association, Anchorage; Marlianna Hall, Resource Development Council, Willow; Paul Glavinovich, Self,

Anchorage; Jeff Wafford, UPS Airlines, Louisville, Kentucky; Don Stevens, Self, Anchorage; Deantha Crockett, Alaska Miners Association, Anchorage; Arni Thomson, Alaska Salmon Alliance, Anchorage; Matt Alward, Self, Homer; Tim Moore, Fisherman, Homer; Kris Norosz, Icicle Seafoods, Petersburg; Glenn Reed, Pacific Seafood Processors Association, Seattle, Washington; Chris Woodley, Groundfish Forum, Seattle, Washington; Stephanie Madsen, At-Sea Processors Association, Juneau; Nancy Hillstrand, Pioneer Alaskan Fisheries, Kachamek Bay; Thomas John Nelson, Self, Chugach; Vince O'Shea, Pacific Seafood Processors Association; William Reiner, Self, Anchorage; Karen Perry, Self, Chugach; Roy Lee, Self, Juneau; Clark Roger Milne, Self, Fairbanks; Curtis Thayer, Alaska State Chamber, Moose Pass; Ron Johnson, Self, Palmer; Neil Mackinnon, Hyak Mining Company, Taku River.

SUMMARY

HB 4003 MOTOR FUEL TAX

HB 4003 was HEARD and HELD in committee for further consideration.

HB 4005 MINING: LICENSE, TAX, FEES; EXPLOR. CREDIT

HB 4005 was HEARD and HELD in committee for further consideration.

HB 4006 FISHERIES: TAXES; PERMITS

HB 4006 was HEARD and HELD in committee for further consideration.

#hb4003

#hb4005

#hb4006

HOUSE BILL NO. 4003

"An Act relating to the motor fuel tax; and providing for an effective date."

#hb4005

HOUSE BILL NO. 4005

"An Act relating to the mining license tax; relating to the exploration incentive credit; relating to

mining license application, renewal, and fees; and providing for an effective date."

#hb4006

HOUSE BILL NO. 4006

"An Act relating to the fisheries business tax and fishery resource landing tax; removing the minimum and maximum restrictions on the annual base fee for the reissuance or renewal of an entry permit or an interim-use permit; relating to refunds of the fisheries business tax and the fishery resource landing tax to local governments; and providing for an effective date."

6:03:40 PM

Co-Chair Thompson discussed the meeting agenda. Public testimony would be taken and limited to 2 minutes per person. He informed the public that everyone wanting to testify needed to be in the que by 7:30pm.

Co-Chair Thompson announced that Representative Gattis and Vice-Chair Saddler had joined the meeting.

Co-Chair Thompson continued to give direction to testifiers. There was a bill on a motor fuel tax, a mining tax, and a fisheries tax. He asked testifiers to inform the committee as to which bill they were providing their testimony.

^PUBLIC TESTIMONY

6:04:46 PM

FRANK BERGSTROM, SELF, JUNEAU, stated that government always had a spending problem. He stated that the bill proposed to increase the tax rate on mines. He did not support HB 4005. He wondered how an increase of 2 percentage points, a 29 percent tax rate increase, affected mine tax revenue. He inquired about the effect of a marginal increase in future mine investment and the hundreds of jobs and salaries that would be created. He asked if any mining economists had been asked to assist in projecting the impacts on revenue from current mines, development properties and prospects. He stated that exploration was the future of mining. He asked about the

loss of resource recovery and mine life associated with higher operating costs. He thanked the committee.

Co-Chair Thompson noted that Representative Liz Vasquez and Representative Louise Stutes had joined the audience. Representative Pruitt had joined members at the table.

[6:07:25 PM](#)

MIKE SATRE, PRESIDENT, COUNSEL OF ALASKA PRODUCERS, JUNEAU, testified against HB 4005. The council recommended strategic cuts to government, use of the Permanent Fund (PF), and then (and only then) broad-based revenue measures to fill the remaining gaps. He stated that it would increase the mining tax to 29 percent. It was a significant increase for the mines and not so significant to the overall budget. Increasing the tax rate would have the effect of shortening the life of existing mines and putting a large hurdle in place for new mines to come into production. He suggested Alaska's tax rate compared to other states, such as Arizona and Nevada, was the highest. The bill proposed to remove the only two tax incentives mines had: The exemption on the first few years of production, and portions of the exploration incentive credit. He stated that the bill discouraged investment. He asked the committee not to pass the bill.

[6:11:17 PM](#)

MATT MOIR, NORTH PACIFIC SEAFOODS, KODIAK (via teleconference), testified in opposition to HB 4006. He relayed that a 1 percent increase in the fisheries business tax was more like a 23 percent increase to what the processing sector was currently paying. He opined that it was a significant increase at an extremely difficult time for the seafood processing sector. He recommending the state develop a broad-based fiscal plan that identified meaningful new revenue sources prior to implementing targeted taxes. He thought there should also be a plan to close some of the existing loopholes in the fisheries tax structure before imposing additional taxes on the industry. He supported a prior plan. He appreciated the opportunity to provide his testimony.

[6:13:28 PM](#)

LORALI SIMON, VICE PRESIDENT, USIBELLI COAL MINE, HOMER (via teleconference), encouraged the legislature to make public comment more accessible, as the Homer Legislative Information Office (LIO) was closed for public testimony. She opposed HB 4005. Usibelli Coal Mine supported further reductions to state spending, adjusting how the earnings of the PF could be spent, and a broad-based tax. She thought the legislation was returning to an industry that was already paying. She reported that Usibelli had reduced its workforce by a third, as production had decreased by half. Increasing the mining license tax would not produce more coal or hire more Alaskans. She encouraged the legislature to do some financial analysis on the impacts of the proposed legislation. She concluded that it did very little to get to the end goal. She thanked the committee.

[6:16:04 PM](#)

HELEN WARNER, SELF, FAIRBANKS (via teleconference), spoke in opposition to HB 4005. She believed the bill was self-defeating and would not encourage exploration or development. More likely, it would discourage trust and investment. She relayed that 1 additional mine in operation would produce more revenue for the people of Alaska than the proposed tax increase. She believed new operations and new money was necessary because of the significant trickle-down effect they had. She spoke to the benefits of new operations. She believed HB 4005 was short-sighted and was not a strategy for resolving the state's problems.

[6:18:16 PM](#)

LUKE LESTER, FISHERMAN, KODIAK (via teleconference), spoke in strong opposition of raising the fisheries tax (HB 4006). He suggested an additional tax would only make things more difficult for Alaskans. He preferred the idea of raising taxes for out-of-state workers. He thanked committee members for their time.

Co-Chair Thompson noted that the Homer LIO was currently open.

[6:19:30 PM](#)

DANA DEBEL, DELTA AIRLINES, MICHIGAN (via teleconference), spoke in opposition to HB 4003, the motor fuel tax. Delta Airlines had been growing in Alaska over the previous few

years. The company employed 161 Alaskans and spent close to \$20 million per year within the state for goods and services exclusive of fuel. Delta Airlines was concerned that the larger commercial airports that the company operated out of were essentially self-sustaining. She opined that Delta paid its fair share at those airports. The concern was that the jet fuel tax increase would go to airports that Delta did not operate from, while the airline would be one of the majority payers of the tax. She urged members to consider fairness in looking at increasing the motor fuel taxes.

[6:21:34 PM](#)

AVES THOMPSON, ALASKA TRUCKING ASSOCIATION, ANCHORAGE (via teleconference), testified in opposition to HB 4003. He had sent a letter earlier in the week withdrawing their support for a motor fuel tax increase. The association supported a tax package increase across multiple industries, additional budget reductions, and the restructuring of the PF in the current session. He thanked members for their attention.

[6:22:54 PM](#)

MARLIANNA HALL, RESOURCE DEVELOPMENT COUNCIL, WILLOW (via teleconference), testified against HB 4005 and HB 4006. She stated that raising taxes on the natural resource industry would not encourage further development. She did not believe the legislature should be focusing on taxes until a budget was passed. She stated that the administration had not conducted an analysis on the impact of tax increases. The bill would not help Alaska be a place where companies wanted to invest. She thought the state should be incentivizing the private sector to invest more in Alaska, to create more wealth, provide more jobs, and provide more revenue to the state. She urged members to reject HB 4005 and HB 4006.

Co-Chair Thompson noted that Representative Paul Seaton was in the audience.

[6:25:44 PM](#)

PAUL GLAVINOVICH, SELF, ANCHORAGE (via teleconference), testified in opposition to HB 4005. He believed the bill could serve in a negative way and could prevent investment in mining. He did not believe the tax increases would make

a difference to the state's finances, but it would be a strong disincentive for further mineral exploration in the state. He recommended that the committee insist on a thorough review of the proposed taxes by the administration.

[6:28:10 PM](#)

JEFF WAFFORD, UPS AIRLINES, LOUISVILLE, KENTUCKY (via teleconference), spoke in opposition to HB 4003. He shared that the company currently spent more than \$13 million in taxes and fees annually. The company paid more than \$7 million in annual fees that went directly into Alaska's aviation infrastructure. The company paid landing fees that benefited others in the state including sites that did not have fees. He did not believe taxes were the right way to go. The company understood the difficult fiscal situation the state was facing. He thanked the committee for hearing his testimony.

[6:30:22 PM](#)

DON STEVENS, SELF, ANCHORAGE (via teleconference), testified against HB 4005. He discussed his career as a geologist in the industry over the past 45 years; it had become increasingly difficult to earn a living in the industry as a geologist. The average length of time between discovery and production was the worst in the Western hemisphere. He thought it had to do with the large and painfully slow regulatory framework for mining. He had been devastated that a tax increase and the elimination of the 3.5 year exemption for new mines were part of the bill proposal. It could not have been proposed at a worse time. He stated that mining paid its own way. Tax revenue to the state was 8 to 10 times the state's cost to regulate the industry. He stressed that his business was currently terrible. He asked for a decrease in the tax instead of an increase. He was opposed to the elimination of a 3.5 year exemption. He asked the committee to vote against HB 4005.

[6:34:33 PM](#)

DEANTHA CROCKETT, ALASKA MINERS ASSOCIATION, ANCHORAGE (via teleconference), spoke against HB 4005. Increasing taxes on existing tax payers, the development industries, and private businesses without a balanced budget was irresponsible. She stated that government spending had not

yet reached a sustainable level. She stated that the proposal had been thrown out without any analysis on what the tax increase might do. The proposal would negatively impact investment and would send investors outside of Alaska. She stated that the bill would not bring in additional revenue. She suggested that Alaska should focus on making a new producing mine a reality rather than chasing it away. She reemphasized her opposition to the bill. She thanked members for the opportunity to testify.

6:37:28 PM

ARNI THOMSON, ALASKA SALMON ALLIANCE, ANCHORAGE (via teleconference), spoke against HB 4006. He stated that the increase would stress salmon plants which in the previous year struggled with oversupply and had trouble profiting at the current 4.5 percent rate. The seafood industry brought in \$130 million in revenue for state and local governments. He reminded members that fishing was Alaska's largest private sector employer with about 60 thousand direct jobs. Fisheries business landing taxes directly benefited 65 Alaska cities, boroughs, and municipalities. A surplus of some species coupled with depressed currency against the US dollar had led to low ex-vessel value for Alaska seafood. He suggested that an increase in tax could not be passed on to the consumer like some had suggested. Recently, one of the member companies on the Kenai Peninsula filed bankruptcy due to the factors he had mentioned. He encouraged the legislature to do careful risk analysis before increasing tax rates. He thanked the committee for the opportunity to testify.

6:39:55 PM

MATT ALWARD, SELF, HOMER (via teleconference), testified in opposition to HB 4006. He believed there needed to be a comprehensive, broad-based solution before increasing taxes. He spoke to the lack of a risk analysis on the proposed tax increase. He discussed that when the tax had been proposed there had been a statement that the industry was not paying its way. He thought it appeared that the goal was to fund government over management costs. If the purpose was to fund management he saw no intent language in the bill that would direct funds to fisheries management. He recommended several changes to the bill prior to passage from committee. He opined that the tax on processors was

already high. He believed the Commercial Fisheries Entry Commission (CFEC) cap should remain in place.

Co-Chair Thompson noted that Representative Gabrielle LeDoux was in the audience.

6:42:50 PM

TIM MOORE, FISHERMAN, HOMER (via teleconference), testified against HB 4006. He stressed that the only solution was a broad-based solution. He thought the bill was a band aid that would disproportionately tax small fishing families in Alaska. He asked committee members to consider that if they passed a fisheries landing tax to avoid passing an income tax. He did not believe the legislature had done its job.

6:44:52 PM

KRIS NOROSZ, ICICLE SEAFOODS, PETERSBURG (via teleconference), spoke against HB 4006. The company had been supportive of a comprehensive fiscal plan including budget cuts, the closure of loopholes in fisheries tax collection, and other broad-based tax measures. The commercial seafood industry harvested and processed sustainable seafood and had served as an economic engine for Alaska for more than a century. Good fisheries management was critical to industry operations. Canned salmon could not handle a cost increase, as it was already taxed at a higher rate than fresh or frozen. Canning operations were critical for handling large volumes of salmon and the industry did not have the cold storage and transportation capacity to handle all salmon as fresh and frozen. She spoke about the company believing equity was needed for its inshore floating processors operating in state waters. Currently Icicle Seafoods operated the only inshore floating processor handling Bering Sea Pollock. The company was taxed at a rate of 5 percent. Whereas, its competitors were taxed at a rate of 3 percent. The company was willing to be part of the solution provided it was a well thought out, comprehensive, and a rational plan. Any changes in fishery taxes needed to include revisiting the tax structure. The company asked for reassurance that the funds generated would cover the needs of the Department of Fish and Game to manage sustainable fisheries. In the current climate the state needed to increase economic opportunities to stimulate the economy. He thanked the committee for the opportunity to comment.

6:48:13 PM

GLENN REED, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, SEATTLE, WASHINGTON (via teleconference), spoke in opposition to HB 4006. He stated that the tax proposal had not been analyzed to determine impacts. The association first supported the legislature looking at broad-based taxes. Secondly, it supported closing tax loop-holes. The association would provide a proposal to tax the seafood industry as a third step. He reported that his association was also willing to help fill a funding gap of \$18 million for the Alaska Department of Fish and Game once other taxes were put into place. He thanked the committee for its work and for the opportunity to testify.

6:50:00 PM

CHRIS WOODLEY, GROUND FISH FORUM, SEATTLE, WASHINGTON (via teleconference), testified against HB 4006. He provided information about the organization. The group was aware of the financial difficulty facing the state at present. Their concern was the cumulative impacts. He asked that the legislature consider the impacts before imposing additional taxes. He thanked the committee.

6:51:51 PM

STEPHANIE MADSEN, AT-SEA PROCESSORS ASSOCIATION, JUNEAU (via teleconference), spoke against HB 4006. She encouraged members to review written and oral testimony provided to the Fisheries Committee on HB 251 (Legislation introduced in 2016 - Short Title: Electronic Tax Returns and Fisheries taxes) during the regular session. She stated that participating in fisheries with large vessels did not mean they were outsiders. She provided information about the member companies of the At-Sea Processors Association. She referred to passionate testimony from young captains in Kodiak that expressed concerns that lifting the cap on their CFEC license would delay their ability to move into the wheelhouse. The action would impact Alaskans. She did not support the tax without a thorough analysis. She thanked the committee.

6:53:50 PM

NANCY HILLSTRAND, PIONEER ALASKAN FISHERIES, KACHAMEK BAY (via teleconference), supported HB 4006. She wanted to pay the state of Alaska her share. She also supported HB 4003, the motor fuel tax. She thought the seafood industry would be able to thrive, as it had seen higher fuel prices in the past. She suggested that the state needed to get its fair share from corporations. She was aware that additional taxes would be painful, as her own business was down. The state could not help all of the corporations to be successful. She remarked that Alaska had hatcheries that were glutting the seafood industry and driving prices down. The state was also paying for the construction of hatchery buildings which she disagreed with. She also supported HB 2005, the mining tax, and an income tax.

[6:57:13 PM](#)

THOMAS JOHN NELSON, SELF, CHUGACH (via teleconference), believed it was irresponsible to increase taxes when more cuts to state government could be made. Private businesses had made the same hard choices facing the state. He opposed all taxes until spending was under control.

[6:58:17 PM](#)

VINCE O'SHEA, PACIFIC SEAFOOD PROCESSORS ASSOCIATION, (via teleconference), was opposed to HB 4006. He testified about the need to develop a sustainable operating budget and then a comprehensive tax policy. The association did not support additional taxes on the seafood industry until other steps were taken. The fishing industry did not want to be the first or only industry to be taxed. He asked for existing loopholes to be closed on existing tax laws - the association estimated it could be between \$2 million to \$4 million in revenue. He discussed the goal of the fisheries tax - association members were concerned about the importance of maintaining the fiscal capacity for DFG to manage the seafood industry.

[7:01:37 PM](#)

MARK VINSEL, EXECUTIVE ADMINISTRATOR, UNITED FISHERMEN OF ALASKA, JUNEAU, spoke in opposition to HB 4006. He stated that the total taxes on the fishing industry added up to \$250 million. The organization opposed the increase unless it was a part of a comprehensive solution to solve the state's budget crisis. He stated that the businesses were

all tenuous in their ability to finance and buy fish. He opined that increased taxes put those affected closer to being out of business. The association opposed an increase to canned salmon tax and the removal of permits from CFEC. He noted that there were a number of people from Kodiak that had called in their testimony at an earlier meeting. He thanked the committee.

[7:05:55 PM](#)

AT EASE

[7:20:23 PM](#)

RECONVENED

WILLIAM REINER, SELF, ANCHORAGE (via teleconference), testified in support of all three bills. He thought it would be appropriate for the "pain" to be shared across industries. He reiterated his support for HB 4003, HB 4005, and HB 4006 as written.

[7:21:45 PM](#)

KAREN PERRY, SELF, CHUGACH (via teleconference), testified against all three bills. She stressed the need for additional cuts to government spending. She also urged members to keep their hands off the PFD's. She specifically directed a comment to Representative Saddler.

ROY LEE, SELF, JUNEAU (via teleconference), testified in opposition to all three bills.

[7:24:25 PM](#)

AT EASE

[7:32:30 PM](#)

RECONVENED

CLARK ROGER MILNE, SELF, FAIRBANKS (via teleconference), spoke to HB 4003 and HB 4005. He supported HB 4003. He believed the increase to the motor fuel tax was rational and should be accomplished; it would bring the state closer to the national average. He was opposed to HB 4005. He thought specific industries should not be targeted, but rather a broad-based tax should be considered.

[7:34:54 PM](#)

CURTIS THAYER, ALASKA STATE CHAMBER, MOOSE PASS (via teleconference), testified in opposition to all three bills. One of the chamber's largest concerns was a lack of analysis by the administration on the potential impacts of the legislation being considered. He stated that the fishing and mining proposals would almost double taxes to both industries. He indicated that Anchorage was considered to be an air cargo hub in the world. One of the chamber's members had reported that with additional fuel taxes it would be marginal to operate out of Anchorage and could result in over 1,100 lost jobs and 400 pilots. All of the taxes combined that were being proposed by the governor totaled \$855 million which funded Alaska's government for one month. He thought taxes should be discussed across the board.

[7:36:57 PM](#)

RON JOHNSON, SELF, Palmer (via teleconference), testified in opposition to the three bills. He was not in favor of any tax increases. He did not believe that a tax increase was in order. He thought the state should be doing things to promote commerce. He could not support any of the proposed taxes. He thanked the committee for its time.

[7:38:26 PM](#)

NEIL MACKINNON, HYAK MINING COMPANY, TAKU RIVER (via teleconference), spoke in opposition to HB 4005. He strongly objected to the elimination of the 3.5 year mining holiday. He had worked for 43 years on putting a mining package together to find minerals which would begin producing in the following year. The company had been operating for the entire time period based on the 3.5 year holiday, the only deduction the company would be able to take. They paid off the top. It was a payday he had been waiting for 40 years and he did not want to see it disappear. He was scared if the reason for the tax was that the state needed money. He did not think the tax and the elimination of the holiday were fair.

Co-Chair Thompson CLOSED public testimony. He asked members to submit their amendments to Legislative Legal Services by noon the following day. He addressed the agenda for the next meeting.

He recessed the meeting to a call of the chair [Note: the meeting never reconvened].

#

ADJOURNMENT

7:43:30 PM

The meeting was adjourned at 7:43 p.m.