

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

February 18, 2016
10:04 a.m.

MEMBERS PRESENT

Representative Louise Stutes, Chair
Representative Neal Foster
Representative Bob Herron
Representative Craig Johnson
Representative Charisse Millett
Representative Jonathan Kreiss-Tomkins
Representative Dan Ortiz

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 251

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to fisheries business tax and fishery resource landing tax; relating to refunds to local governments; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 251

SHORT TITLE: ELECTRONIC TAX RETURNS & FISHERIES TAXES

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	FSH, FIN
02/02/16	(H)	FSH AT 10:00 AM CAPITOL 120
02/02/16	(H)	Heard & Held
02/02/16	(H)	MINUTE (FSH)
02/11/16	(H)	FSH AT 10:00 AM CAPITOL 120
02/11/16	(H)	Heard & Held
02/11/16	(H)	MINUTE - HEARD AND HELD (FSH)
02/16/16	(H)	FSH AT 10:00 AM CAPITOL 120
02/16/16	(H)	-- MEETING CANCELED --
02/18/16	(H)	FSH AT 10:00 AM CAPITOL 120

WITNESS REGISTER

VINCE O'SHEA, Vice President
Pacific Seafood Processors Association
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 251.

BOB THORSTENSON, JR., Executive Director
Southeast Alaska Seiners Associations (SEAS)
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 251.

MALCOLM MILNE, President
North Pacific Fisheries Association (NPFA)
Homer, Alaska

POSITION STATEMENT: Testified in opposition to HB 251.

KEN ALPER, Director
Tax Division
Department of Revenue (DOR)
Juneau, Alaska

POSITION STATEMENT: Responded to questions during the hearing on HB 251.

RHONDA HUBBARD
Kruzof Fisheries, LLC
Seward, Alaska

POSITION STATEMENT: Testified in opposition to HB 251.

BOB KRUGER, Executive Director
Alaska Whitefish Trawlers Association
Kodiak, Alaska

POSITION STATEMENT: Testified with concern for HB 251.

ACTION NARRATIVE

[10:04:37 AM](#)

CHAIR LOUISE STUTES called the House Special Committee on Fisheries meeting to order at 10:04 a.m. Representatives Stutes, Ortiz, and Millett were present at the call to order. Representatives Foster, Herron, Johnson, and Kreiss-Tomkins arrived as the meeting was in progress.

HB 251-ELECTRONIC TAX RETURNS & FISHERIES TAXES

10:04:59 AM

CHAIR STUTES announced that the only order of business would be HOUSE BILL NO. 251 "An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to fisheries business tax and fishery resource landing tax; relating to refunds to local governments; and providing for an effective date."

10:05:30 AM

CHAIR STUTES directed attention to the committee packet and a letter from the North Pacific Fisheries Association (NPFA), dated 2/11/16. She said the comments expressed, appear to be representative of the responses that are being received by the committee, and she paraphrased the content, which read [original punctuation provided]:

The North Pacific Fisheries Association (NPFA) is commercial fishing industry group based out of Homer, Alaska. NPFA was founded in 1955 and today we have over fifty members, mainly owners of family oriented fishing operations that participate in a variety of fisheries throughout the State Of Alaska.

NPFA is keenly aware of the dire fiscal situation that the State of Alaska is facing. At our February 11, 2016 Board of Directors meeting our group recognized that all sectors of the Alaskan economy are going to have to be part of a solution. First and foremost we believe that all attempts to curtail budgets and find efficiencies within operations is imperative. As small business owners we understand first-hand the measures necessary when times get tough.

NPFA appreciates the fact that a plan has been put forward. While we do not oppose an increase to the fisheries landing tax we do oppose the piecemeal legislative approach that appears to be occurring. HB251 and SB135 are good starting points but we would much prefer a comprehensive bill that includes all resource industries excluding Oil and Gas which is its own animal. We want to contribute as an industry along with the other sectors of the economy.

Additionally we would like to see analysis of all the contributions commercial fishing makes to the economy including the community revenue sharing program and programs that go directly to management. We are the beneficiaries of the management and see efficient management as a priority for the revenue we create.

Finally, NPFA recognizes this is a process and as more analysis and information becomes available our position may evolve.

[10:07:18 AM](#)

CHAIR STUTES summarized her understanding of public opinion on HB 251 thus far: the fishermen and fishing industry don't object unequivocally to the bill, they are willing to pay their fair share, and they would like to have assurance that all resource entities are united in the effort to balance the state budget.

CHAIR STUTES opened public testimony.

[10:08:07 AM](#)

VINCE O'SHEA, Vice President, Pacific Seafood Processors Association, stated opposition to HB 251, paraphrasing from a prepared statement, which read [original punctuation provided]:

The Pacific Seafood Processors Association is a trade association formed in 1914. Our nine member companies own and operate more than 26 shore side plants throughout Alaska and three motherships that operate in the Bering Sea. Collectively our members participate in all of Alaska's fisheries. As such they will be directly impacted by HB251.

We are reviewing and discussing HB251 and do not support it in its current form at this time.

Deciding how and where to implement increased taxes on the Seafood Industry is a complicated issue. HB251 approach is over-simplified. Some have said it is a 1% tax increase; in fact it increases our taxes on different fisheries from 20% to 33%. For example it raises the costs on value added products (including canned and frozen salmon) when there is significant unsold inventory due to market conditions raises the

question of should products with value added in Alaska be taxed at the same rate as products without value added here?

Alaskan seafood processors sell into global markets where our customers have many choices of products and suppliers. As such, we are price takers, with little or no ability to pass on additional costs.

New costs from HB251 are being contemplated while the Alaska seafood industry faces significant production and marketing challenges, including:

26% increase in the Alaska minimum wage over the past two years

20-30% U.S. currency disadvantage for us selling to our major foreign markets;

20%+ currency advantage to foreign suppliers (e.g., farmed salmon) selling into the U.S.

Lack of access to Russian and Ukrainian markets, especially for salmon roe.

It has been said the revenue goal for HB251 is to close the gap between the revenue collected from commercial fisheries and the costs of managing those fisheries. However with the proposed new revenue from increased fisheries taxes there is no assurance that continued cuts to ADF&G would not result in diminishment of its fisheries science and management capacity. The resultant precautionary guideline harvests would pose significant opportunity costs (decreased revenue) to harvesters, processors, and coastal communities.

We recognize Alaska's fiscal situation means we all will have to pay more. But new or increased taxes must be balanced and equitable to all of Alaska's industries, and must consider the total contribution they make including taxes paid, total employment, sustainability, and economic opportunity. Moreover they must consider the impacts on the economic viability of the industries being taxed.

We would like to continue to work with you, the Legislature, and the Governor to find a path forward on proposed increases in revenue from the seafood industry.

[10:12:24 AM](#)

REPRESENTATIVE FOSTER asked what other options the association would like to see considered.

MR. O'SHEA said understanding the impacts of any tax is important, and taxing a commodity producer versus a consumer paying tax means different things. Corporate income tax comes from top profits, raw fish tax begins at the bottom. He declined to make a specific suggestion, at this time, but cautioned the committee to scrutinize proposals and ensure the result does not produce more harm than good.

[10:15:53 AM](#)

BOB THORSTENSON, JR., Executive Director, Southeast Alaska Seiners Associations (SEAS), stated opposition to HB 251 and pointed out that an Institute of Social and Economic Research (ISER) study has not yet been completed. Being well acquainted with tax structures, he said a 1 percent increase on the processors would actually result in a 10 percent tax on the entire sector; representing a large burden. He offered a number of scenarios, conjecturing on what the future may look like for the state. A tax scheme must be appropriately vetted, he said. Unintended consequences may be far reaching, he opined, and offered further predictions of the possible ramifications. A major consideration from association members has been the municipal share structure. Many communities in Alaska do not benefit from the tax that the fishing grounds they support produce, he pointed out. A local fisherman, such as himself, may participate in fishery openings in Angoon, Juneau, or Hoonah, but land the catch in Petersburg or Ketchikan, which become the municipalities receiving the share benefit.

[10:24:22 AM](#)

REPRESENTATIVE ORTIZ noted that there could be an issue regarding foregone harvest. He asked for comment on the surplus fish that can exist following fishery openings and escapement goal targets.

MR. THORSTENSON concurred that there is no doubt a percentage, perhaps seven percent, of any catch are left in the water. Adequate management is sometimes lacking in capturing all harvestable fish, but in general ADF&G does a laudable job of ensuring maximum harvests.

[10:26:12 AM](#)

REPRESENTATIVE HERRON referred to the bill, Sec. 2, and asked for comment regarding the electronic reporting requirement.

MR. THORSTENSON deferred.

REPRESENTATIVE HERRON referred to the bill, Sec. 3 and Sec. 4, which delineates the new tax rates, and asked if it is clear to SEAS how the rates were chosen, and what rationale was applied in the decision process.

MR. THORSTENSON said he was not present at the meetings when determinations were made, but attended a presentation luncheon. Certainly the fishermen are willing to pay a fair share to support the state coffers, along with the other industries, he said.

[10:30:36 AM](#)

MALCOLM MILNE, President, North Pacific Fisheries Association (NPFA), stated opposition to HB 251, and thanked the chair for reading the NPFA letter. He reiterated that the commercial fishermen expect to contribute to the budget shortfall. Items, such as the fuel tax, multiply the fishing industries burden. A comprehensive bill, that incorporates all fishing resource industries, could be supported.

[10:32:35 AM](#)

REPRESENTATIVE FOSTER offered that the aviation industry may only have effects from the proposed fuel tax, the bar owners association will be effected by the liquor tax, but the fishermen will be effected by compounded taxes.

[10:33:09 AM](#)

REPRESENTATIVE HERRON asked whether the decision for setting the tax at 1 percent, has been explained.

MR. MILNE responded, no.

[10:34:17 AM](#)

KEN ALPER, Director, Tax Division, Department of Revenue, explained the process for arriving at the proposed 1 percent tax raise. Formulas were considered and various fisheries were scrutinized. The intent was to generate \$18-20 million for the state budget. On request from the Chair, he agreed to provide the working documents, including the working model.

[A brief discussion regarding the availability of departmental information ensued.]

[10:40:39 AM](#)

REPRESENTATIVE JOHNSON pointed out that the administration took the right approach in not creating an omnibus bill, but breaking it out to each department, which in turn allows the various committees to hold open hearings and bring a deeper understanding to bare.

MR. ALPER agreed, noting that the approach allows the legislative committees to bring expertise and focus to the different target areas.

[10:42:38 AM](#)

RHONDA HUBBARD, Kruzof Fisheries, LLC, testified in opposition to HB 251, and said additional time is necessary to identify an equitable way to tax the industry, due to its complexity. The taxes do need to be updated, she agreed, but it should happen in consultation with the stakeholders. She suggested several areas that could be reformed to eliminate inconsistencies and provide fiscal efficiencies including reporting processes for harvest volume, federal fisheries, and landing information. Regarding equal tax distribution, she said the charter catch has been considered and in Sitka proven viable, generating about \$500,000 in a box assessment. The charter and sport fishing fleets benefits from the management data that is collected on, and paid for by, the commercial fleet. She stressed the need to for further consider taxing the charter catch industry.

[10:46:15 AM](#)

REPRESENTATIVE KREISS-TOMKINS asked whether there have been deliberations in the department to raise revenue across all sectors of the fishing industry.

MR. ALPER responded that informal discussions take place on an on-going basis. However, it would be difficult to morph the existing commercial fish tax statutes to include charter fishing.

[10:48:58 AM](#)

REPRESENTATIVE KREISS-TOMKINS reasoned that raw fish represent a taxable resource. The commercial fishermen are paying for the privilege of extracting that resource, and charter operators are also making a living from persecuting the same resource. An equitability consideration appears to be within reason, he said.

MR. ALPER offered that fees could be built into the charter licensing structure to apply to an operator's volume of catch. The department would be open for discussion, he invited.

[10:50:49 AM](#)

REPRESENTATIVE JOHNSON offered that a bill has been introduced which affects sport fish licensing, and big game guides. It's being presented as an increase in fees, rather than a tax, he said.

[10:51:40 AM](#)

BOB KRUGER, Executive Director, Alaska Whitefish Trawlers Association, stated concern for HB 251, and said for the large, trawl vessels, the suite of taxes being proposed invokes trepidation. The profit margin inherent to the fleet is narrow, and once imposed a tax may never be withdrawn. He said including a date for annual review or possible sunset would be helpful. The fishing industry is difficult to enter and this may represent a disincentive to young fishermen, he opined.

[10:55:07 AM](#)

CHAIR STUTES closed public testimony after ascertaining no one further wished to testify.

[HB 251 was held over.]

[10:56:00 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 10:56 a.m.