

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON FISHERIES

April 25, 2019

10:02 a.m.

MEMBERS PRESENT

Representative Louise Stutes, Chair
Representative Bryce Edgmon
Representative Chuck Kopp
Representative Jonathan Kreiss-Tomkins
Representative Geran Tarr
Representative Sarah Vance
Representative Mark Neuman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 116

"An Act relating to the renewal or extension of site leases for aquatic farming and aquatic plant and shellfish hatchery operations."

- MOVED SSHB 116 OUT OF COMMITTEE

HOUSE BILL NO. 65

"An Act repealing the fisheries business tax allocation to municipalities; repealing the refunds to local governments of fisheries business taxes; repealing revenue sharing for the fishery resource landing tax; providing for an effective date by amending the effective date of sec. 36, ch. 61, SLA 2014; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 116

SHORT TITLE: AQUATIC FARM/HATCHERY SITE LEASES

SPONSOR(S): REPRESENTATIVE(S) STORY

03/27/19	(H)	READ THE FIRST TIME - REFERRALS
03/27/19	(H)	FSH, RES

04/12/19 (H) SPONSOR SUBSTITUTE INTRODUCED
04/12/19 (H) READ THE FIRST TIME - REFERRALS
04/12/19 (H) FSH, RES
04/16/19 (H) FSH AT 10:00 AM GRUENBERG 120
04/16/19 (H) -- MEETING CANCELED --
04/23/19 (H) FSH AT 10:00 AM GRUENBERG 120
04/23/19 (H) Heard & Held
04/23/19 (H) MINUTE(FSH)
04/25/19 (H) FSH AT 10:00 AM GRUENBERG 120

BILL: HB 65

SHORT TITLE: FISH TAX: REPEAL MUNI REFUNDS/REV. SHARE
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/20/19 (H) READ THE FIRST TIME - REFERRALS
02/20/19 (H) FSH, CRA, FIN
04/04/19 (H) FSH AT 10:00 AM GRUENBERG 120
04/04/19 (H) Heard & Held
04/04/19 (H) MINUTE(FSH)
04/25/19 (H) FSH AT 10:00 AM GRUENBERG 120

WITNESS REGISTER

REPRESENTATIVE ANDI STORY
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the sponsor, provided remarks regarding
SSHB 116.

NILS ANDREASSEN, Executive Director
Alaska Municipal League (AML)
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation titled
"Shared Fisheries Taxes and ~~Coastal~~ Alaska Communities"
regarding the effects that HB 65 would be cause.

PAT BRANSON, Mayor
City of Kodiak
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

GARY HENNIGH, City Administrator
City of King Cove
King Cove, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

FARHA KARIM, Assistant Administrator

City of Akutan
Akutan, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

CYNTHIA ROGERS, Planning Director
City of Dillingham
Dillingham, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

CLAY KOPLIN, Mayor
City of Cordova
Cordova, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

GARY PAXTON, Mayor
City and Borough of Sitka
Sitka, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

JON ERICKSON, EdD, City and Borough Manager
City and Borough of Yakutat
Yakutat, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

FRANK KELTY, Mayor
City of Unalaska
Unalaska, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

MARC CARREL
Cordova, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

ANNE BAILEY, Administrator
Aleutians East Borough
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

CHARLES MCKEE
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

JOHN MURRAY
Sitka, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

TANIA HARRISON

Cordova, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

MARY SWAIN, President
Bristol Bay Borough Assembly
King Salmon, Alaska

POSITION STATEMENT: Testified in opposition to HB 65.

ACTION NARRATIVE

[10:02:06 AM](#)

CHAIR LOUISE STUTES called the House Special Committee on Fisheries meeting to order at 10:02 a.m. Representatives Vance, Tarr, Kreiss-Tomkins, and Stutes were present at the call to order. Representatives Neuman, Kopp, and Edgmon arrived as the meeting was in progress.

HB 116-AQUATIC FARM/HATCHERY SITE LEASES

[10:02:52 AM](#)

CHAIR STUTES announced that the first order of business would be SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 116, "An Act relating to the renewal or extension of site leases for aquatic farming and aquatic plant and shellfish hatchery operations."

CHAIR STUTES noted that on 4/23/19 the committee heard public testimony and discussed the bill. She said no amendments were received and there was one letter of opposition. She invited the bill sponsor to provide remarks.

[10:03:20 AM](#)

REPRESENTATIVE ANDI STORY, Alaska State Legislature, as the sponsor, provided remarks regarding SSHB 116. She explained the bill would simplify the Department of Natural Resources (DNR) lease renewal process for aquatic farms. If enacted, the bill would help Alaska based aquaculture businesses succeed by reducing administrative burden, expediting the lease renewal process, and reducing risk for businesses that make significant capital investments. Further, the bill would reduce workload on an overstretched state agency while still adequately protecting the public interest.

[10:04:25 AM](#)

REPRESENTATIVE KREISS-TOMKINS stated his support for SSHB 116.

REPRESENTATIVE VANCE said she supports SSHB 116 because reducing the regulatory and statutory burden on Alaska's small businesses will help them be successful in the long run. Regarding the concern expressed by one of her constituents about allowing for public process in the [proposed] renewal process, she related that DNR responded that, while it may be a condensed version of the process, there is a time that [members of the public] can appeal if they have concerns. So, she continued, the public's voice will be heard, but it won't be the lengthy public process as if [the farm owner] was applying for the first time. The committee has considered that there is still public process available in this [proposed] renewal process. Regarding the concern about the size of aquatic farms, she said that aquatic farms cannot be any larger than one-third of a bay. Any concerns about larger corporations can be addressed in the future. She supports SSHB 116 as it stands because it will allow Alaska's small farms to continue and become profitable.

REPRESENTATIVE NEUMAN noted he talked to the sponsor about the 10-year look back and said he thinks that adds a bit of surety into the system. Ten years provides a chance for the farm to get going and determine whether it will work.

[10:07:34 AM](#)

REPRESENTATIVE KREISS-TOMKINS moved to report SSHB 116 out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, SSHB 116 was reported from the House Special Committee on Fisheries.

[10:07:58 AM](#)

The committee took a brief at-ease.

HB 65-FISH TAX: REPEAL MUNI REFUNDS/REV. SHARE

[10:08:10 AM](#)

CHAIR STUTES announced that the next order of business would be HOUSE BILL NO. 65, "An Act repealing the fisheries business tax allocation to municipalities; repealing the refunds to local governments of fisheries business taxes; repealing revenue sharing for the fishery resource landing tax; providing for an effective date by amending the effective date of sec. 36, ch. 61, SLA 2014; and providing for an effective date."

CHAIR STUTES noted the committee would take invited and public testimony so that affected communities will have an opportunity to have their voices heard on the issue. She said the committee would then set the bill aside for further review.

CHAIR STUTES opened invited testimony. She said Mr. Nils Andreassen has been invited to provide testimony on behalf of all municipalities regarding what the repeal of the municipal share of the Raw Fish Tax [also known as the Fisheries Business Tax] would mean to coastal communities.

10:10:31 AM

NILS ANDREASSEN, Executive Director, Alaska Municipal League (AML), provided a PowerPoint presentation titled "Shared Fisheries Taxes and Coastal Alaska Communities" regarding the effects that would be caused by HB 65. He turned to slide 2 and pointed out that AML represents 165 cities and boroughs across Alaska. He said 50 of the municipalities would be affected by the loss of shared revenue from the Fisheries Business Tax and the Fishery Resource Landing Tax. These 50 municipalities represent one-third of all local governments in Alaska. Almost every House district would be affected to varying degrees, so it is a statewide issue that is relevant to all Alaska communities, not just coastal communities. He displayed slide 3 depicting a list of the communities that would be affected.

MR. ANDREASSEN moved to slide 4 and explained that revenue from these shared fish taxes are used by local governments to: maintain ports and harbors and keep them operational in support of the fishing industry; support local school districts for education; support public safety and municipal-owned hospitals; maintain public entities, such as water, sewer, sanitation, and solid waste; replace gaps in state capital investment; provide grants to local nonprofits and youth activities; offer quality of life programs that help give communities the sustainability to keep residents and industry; and improve the credit ratings of communities as they bond for debt related to school districts and other capital projects.

10:13:03 AM

MR. ANDREASSEN explained slide 5 lists the top 20 municipalities that would be hardest hit in terms of total dollars. For example, he noted, the impact to the City of Unalaska would be a total [of \$8,162,129 as listed in the column titled "Fish

total"], which is an impact to the city's tax revenue [of 37.21 percent]. The loss of this shared revenue means quite a bit to each municipality but is often a very small number for the state in terms of percent of the state's deficit. It wouldn't be a broad-based impact in terms of equitable or equal distribution of how these impacts will be felt. Rather, each community will feel the impact differently and each community's decision-making will be impacted differently.

MR. ANDREASSEN explained slide 6 lists the municipalities in terms of being hardest hit as a percentage of tax revenue. For example, he pointed out, to make up for the loss of shared fish taxes the City of Larsen Bay would have to increase its local taxes three times over and the City of Chignik would have to increase its local taxes by almost two times.

MR. ANDREASSEN turned to slide 7 and reported that the total impact to the top 37 impacted municipalities is \$27 million. He noted those 37 communities, not including Anchorage, represent 25 percent of Alaska. The average impact for those communities is \$615,000. The average impact as a percentage of tax revenue, or the amount that would have to be increased at the local level to make up the state's budget deficit would be almost 30 percent. The characteristics of the top 10 communities impacted by shared fish taxes include: a total population of almost 100,000; 100 percent of them participate in the state-managed pension system, which limits their ability to respond to cuts of this size; total employee base of almost 1,000 people; seven have property taxes and six have sales taxes; many currently have bond debt - \$455 million plus \$131 million in school bond debt that a loss of \$27 million each year would directly impact; combined they contribute \$72 million to school districts; and three of the communities have hospitals and six have police powers so they are directly responsible for law enforcement.

[10:16:55 AM](#)

MR. ANDREASSEN moved to slide 8 and reviewed the total impact by Senate district. For example, he pointed out, Senate District S would be impacted by \$17 million.

REPRESENTATIVE EDGMON remarked that every Senate district could be included if it was wanted to spread the overall force multiplier impact of these budget cuts because a lot of commerce that originates in coastal Alaska finds its way through Anchorage, Fairbanks, Juneau, and all the urban centers of the

state. He said it is worthwhile to amplify the point that the economic impact is throughout the entire state.

MR. ANDREASSEN displayed slide 9 and resumed his presentation. He explained the scenarios that would develop if the fish taxes weren't shared. One scenario would be an increase in taxes and moorage fees. If seafood prices remained low or flat, the increase in taxes would quickly result in small vessel and business owners becoming unviable, which would result in a sell-off of local small vessels to larger fleets that often belong to outside owners. The benefits of fleet consolidation would then accrue outside of Alaska. These scenarios have been talked about by local governments and experienced historically. At the same time, maintenance and support of ports and harbors would be diminished. These are most often state-transferred assets that came to municipalities in need of repair and the shared fish taxes allow the municipalities to conduct that appropriately.

[10:19:42 AM](#)

REPRESENTATIVE NEUMAN asked what the effect would be on community taxation to replace the lost share of fisheries taxes.

MR. ANDREASSEN referred to the previous slides and the column that represents the impact as a percentage of tax revenue for each community. He explained that this column would have to increase by that amount, so local taxes would have to increase by 23 percent or 57 percent to make up the difference.

REPRESENTATIVE NEUMAN observed from slide 5 that the impact to tax revenue on the City and Borough of Yakutat would be 17.83 percent. He inquired whether Yakutat would have to increase its taxes 17.83 percent to cover the difference of the lost share of tax revenue from, say, the Fishery Resource Landing Tax.

MR. ANDREASSEN replied that HB 65 would preempt Yakutat's collection of that tax. Because boroughs are mandated under statute to tax, Yakutat would have to either use existing taxes or find a new tax to make up the difference.

REPRESENTATIVE NEUMAN surmised that would only be in organized areas. He asked whether unorganized areas can adjust their tax rates on landing taxes and fish business taxes.

MR. ANDREASSEN responded that incorporated cities within unorganized boroughs would have to increase their current tax bases.

10:21:52 AM

REPRESENTATIVE VANCE surmised Alaska's fishing industry would have to be double taxed because the state would maintain its tax to capture that. The local communities would then have to institute their own taxes to be able to maintain that portion of infrastructure in the localized area and they would take on that burden individually or by borough and therefore less money would be in the state's economy. She asked whether her understanding is correct.

MR. ANDREASSEN confirmed that that is accurate. He said the reality is based on the variation between municipalities. Industry would be driven to different locations. So, not only would there be the necessary tax increase in one community, but that tax increase in one community that is not felt in another community would mean that industry could shift between communities in ways to the detriment of where existing commerce takes place.

10:23:09 AM

REPRESENTATIVE TARR observed slide 8 includes an item for Senate district F-N. She inquired whether that means districts F-N as a group [would have a total fish impact of \$53,269] or whether each individual district F through N [would have a total fish impact of \$53,269].

MR. ANDREASSEN answered it is the combined total of those districts grouped together. He explained that when it comes to sorting out municipalities and who represents who, there is a lot of overlap in weird kinds of ways, especially between boroughs and cities and therefore it isn't straightforward.

10:24:25 AM

MR. ANDREASSEN resumed his presentation. He turned to slide 10 and noted that AML asked communities around the state to submit municipal impact statements. He said that while the communities submitted municipal impact statements in response to the overall budget, for the most part they apply specifically in relation to the shared fish taxes. Kodiak would lose 14 jobs, programs would be reduced or eliminated by 8 percent, and there would be a tax increase. Jobs in Dillingham would be reduced by 25 percent, programs would be reduced across the board, and there would be a tax increase. In Kenai the number of jobs lost was

not determined, quality of life programs would be eliminated, and tax on property would be increased. Atka would lose 4 jobs, public safety would be reduced by 100 percent and public works would be reduced by 40 percent, and there would be no tax possible. He explained that "no tax possible" is because in some smaller communities the application or implementation of a sales or property tax would not bring in enough to cover the cost of the implementation of that tax. Therefore, it would not make sense to add a tax at the local level because it wouldn't pay for itself let alone make up the difference at the same.

MR. ANDREASSEN continued reviewing slide 10. He related that in Petersburg moorage fees would increase, quality of life programs would be reduced, and property tax would increase by 1.7 to 4.35 mills. St. Paul would lose 3-4 jobs, public safety would be reduced by 7 percent, public works would be reduced by 19 percent, and there would be a tax increase of 90-95 percent. Yakutat would lose 17 percent of its jobs, public safety and public works would be reduced by 20 percent, and there would be a total budgetary impact of 300 percent. Seldovia would lose 2 jobs, public safety and public works would be reduced by 13 percent, and quality of life programs would be reduced or eliminated.

[10:26:45 AM](#)

MR. ANDREASSEN presented slide 11 and explained that what would be seen at the local level would end up being a feedback loop. All these choices combined, compounded by other proposals within the fiscal year 2020 budget such as capital project reimbursements for ports and harbors, harbor matching grants gone away, and cuts to the Alaska Marine Highway System directly impact these communities in a tangible way. If residents depart then there will be fewer businesses, which results in fewer jobs, which will result in fewer families staying in the community. While it is known what this looks like at the local [micro] level, it is very hard to do at a macro level.

MR. ANDREASSEN moved to slide 12 and closed his presentation by stating that the outcome of HB 65 would be less sustainable communities, less predictable economies, and less affordable services.

[10:28:04 AM](#)

CHAIR STUTES [closed invited testimony] and opened public testimony on HB 65.

PAT BRANSON, Mayor, City of Kodiak, testified in opposition to HB 65. She stated that the City of Kodiak faces a dire threat from the governor's proposal to grab the shared Fisheries Business Tax and shared Fishery Resource Landing Tax. This tax amounts to \$859,000 to the City of Kodiak budget or 4.5 percent of the city's general fund revenue. These funds are used to maintain infrastructure which support the city's and the state's economic engine - the seafood industry. Kodiak is the third in pounds landed and fourth in product value in all U.S. ports.

MAYOR BRANSON pointed out that the state no longer owns this infrastructure that supports this important industry. Without these funds, municipalities will have to look at raising taxes, cutting services, and, for some municipalities, continuing to remain as viable government entities.

MAYOR BRANSON emphasized the definition of shared: distributed between members of a group; used or enjoyed jointly. She said she would take this definition further in that the state budget, including this proposed state budget, affects every municipality and Alaskan. An in-depth research and analysis should be done before turning to a quick fix of making major cuts as the solution to a long-term problem of the state budget deficit. Local municipalities, and even household budgets, are not approached in this manner without dangerous effects. This budget approach lacks the understanding and awareness of the realities of living in a resource economy in a geographically remote location.

MAYOR BRANSON urged that all legislators, as the state budget appropriators, carefully research, review, discuss with local municipalities, and consider the effects of the governor's budget. She cautioned that cost-shifting and revenue grabbing is not budget solving.

[10:30:35 AM](#)

GARY HENNIGH, City Administrator, City of King Cove, testified in opposition to HB 65. He said this is his 29th year and King Cove's economy is all about fishing. During his time the city has experienced almost nonstop changes in its fisheries, which is the revenue cornerstone of its economy and its local government operations. Unequivocally, the prospect of HB 65 becoming law is the most daunting of all these fishery related revenue changes during his time.

MR. HENNIGH related that since at least the mid-1970s when King Cove became a first-class city, state shared fish taxes have been an important part of the city's general fund budget. In 1975 more than 21 percent of the city's general fund budget came from shared fish taxes, 29 percent in 1992, and 20 percent in 2005. Currently, about 24 percent of the city's general fund budget of \$2.6 million is made up of about \$616,000 in shared fisheries taxes. At the same time the city has had a 2 percent local fish tax since the late 1980s. The city has increased its local sales and use tax from 2 percent to 4 percent and about 10 years ago to 6 percent. The city also implemented the Fisheries Business Impact Tax about 15 years ago, a one-of-a-kind tax that requires the local processor to pay \$100,000 annually.

MR. HENNIGH stated King Cove has always been a responsible and forward-thinking community. It was the second municipality in Alaska to accept an ownership transfer of the state-built harbor in King Cove in the mid-1990s. Later, the city agreed to accept ownership of a state road connecting its airport to the harbor. These ownership transfers have obviously obligated the city to be responsible for maintaining these facilities. Over the last 20-25 years the city has taken on a significant debt of about \$8 million for several community projects, including two hydro facilities, a new water system, rebuilding of the old state harbor, and soon a new landfill plus a sewer lift station replacement. These projects have been essential and are in response to the residential, commercial, and industrial growth in King Cove. Some of these projects require significant subsidy from the city's general fund, or the city's state and local fish taxes are the primary source of revenue.

MR. HENNIGH noted the City of King Cove has also been increasing user fees in its enterprise funds - 70 percent for water over the last four years, 50 percent for the solid waste fund, and 10 percent recently in harbor and port fees. Now, the possibility of needing to reduce the city's general fund budget is very daunting; clearly major program and employee reductions would be necessary. This would be a very challenging time for the City of King Cove if the governor succeeds in getting HB 65 passed. The City of King Cove does not support the bill and urges the committee to not pass the bill.

[10:34:22 AM](#)

REPRESENTATIVE VANCE inquired whether the \$100,000 from the city's Fisheries Business Impact Tax goes directly to the general fund or goes to specific projects.

MR. HENNIGH replied that the \$100,000 in tax comes in annually to the city's general fund to help pay for all the city's day-to-day activities such as the police, fire, and public works departments.

REPRESENTATIVE VANCE asked whether it is common for processors to be taxed annually at this level. She further asked whether the tax was met with ease or with great resistance.

MR. HENNIGH responded it is not common and was met with great resistance. He explained that because there is no property tax in King Cove it was one of the taxing measures available to the city. It was very controversial but has now been in place for at least 15 years and he doesn't see it changing.

[10:36:30 AM](#)

FARHA KARIM, Assistant Administrator, City of Akutan, testified in opposition to HB 65. She stated that the Eastern Aleutian community of Akutan is heavily dependent on fish tax. In 2018 the city's 1.5 percent raw fish tax from the sale of raw seafood provided 52 percent of the city's total revenue and the shared Fisheries Business Tax and Fishery Resource Landing Tax provided 36 percent of the city's revenue. Last year these added up to 88 percent of the city's total revenue.

MS. KARIM pointed out that while Akutan is a small community, it is busy with a lot of projects. For example, the city built an airport for easier public transportation, made improvements to the city dock system, replaced and improved the city's drinking water system and a hydro-electric facility. The harbor is not yet fully functional, but the city is in the process of bringing in lights and electricity to get the harbor up and running soon.

MS. KARIM related that these infrastructure projects provide social and economic benefits to the community and that these services are some of the most essential living needs for rural Alaska. For these projects to become a reality the shared fish tax revenue is indispensable for the City of Akutan and the city would be hard hit by any cut in this program.

[10:38:12 AM](#)

CYNTHIA ROGERS, Planning Director, City of Dillingham, testified in opposition to HB 65. She stated that repealing the shared revenue would unfairly disadvantage small local municipalities

like Dillingham, a first-class city in Bristol Bay with a population of nearly 2,400 residents. Dillingham's fishing industry contributes a great deal of direct and indirect revenue to the state given that over 40 percent of the permits participating in the Bristol Bay fishery are owned by Alaska residents who reside in other parts of the state. During fiscal year 2019 the City of Dillingham received approximately \$400,000 in fish tax revenue. As a municipality with a small tax base, great hardship would be caused to the city if HB 65 was passed and the tax allocation refund and revenue sharing were repealed.

MS. ROGERS pointed out that the City of Dillingham is already under great fiscal strain with a reduction to business revenues of over \$8 million between fiscal years 2014 and 2018. The city struggles to maintain basic city services after multiple years of cutting service levels and employee positions. Now more than ever, the city really relies on the fish tax revenue to keep the city functioning at a basic level and to help support required upgrades at city facilities, including the city dock and harbor.

MS. ROGERS noted Dillingham is already heavily taxed; it ranks 17th on the per capita taxable list in the state's Alaska Taxable report. The city levies a real and personal property tax of 13 mills, a 6 percent sales tax, a 10 percent bed and alcohol tax, as well as tobacco and gaming taxes. In addition, the city charges fees for all its basic services. As a first-class city Dillingham contributes annually \$1.3 million to its schools. Dillingham does not have the tax base to support increases to property taxes to make up the difference if it were to lose the fish tax revenue. She urged the committee to not support HB 65.

[10:40:48 AM](#)

CLAY KOPLIN, Mayor, City of Cordova, testified in opposition to HB 65. He said Cordova's story is very much like Dillingham's. He noted Cordova is a city, not a borough. The city's fish tax revenues last year were just over \$1.4 million, which made up 15 percent of the city's general fund revenues. Cordova funds its schools at about \$1.5 million, a figure that is down sharply over the last two or three years of budget cuts from nearly the maximum allowable levels from the state. There is no way that Cordova can cut beyond the \$2 million that it has already cut from its budget over the last two years and continue to keep its hospital, which is hanging on by a thread, and its schools, which have consumed all of their reserves over the last two years to try to maintain a quality education program without

severe taxes of the city's own that would cripple the local economy. Also affected would be Cordova's Chamber of Commerce, its Resource and Crisis Center, public safety, library, and museum.

MAYOR KOPLIN pointed out that very little would not be impacted by the kind of budget cuts and/or taxes the City of Cordova would have to put in place to keep afloat. The tragedy is Cordova's position to grow into one of those top five seafood ports in the country next to Kodiak and Dutch Harbor. To that effect, Cordova has strategically passed bonds to renovate the harbor that was formerly owned by the state, implemented a local 0.5 percent fish tax, and increased wharfage fees to help pay for that so Cordova could position itself for growth. The efforts Cordova put into doubling its raw fish tax revenues over the last 10 years would be severely undermined by the state robbing all the fruits of that effort. If the state elbowed Cordova out the revenue picture as a partner, Cordova would have to seek other business models and the full fish tax that the state would continue to collect very likely would drop to lower levels than the current 50 percent share. It has taken Cordova 10 years to double those revenues to the state and he would think the state would want to keep Cordova as that partner.

MAYOR KOPLIN said there are many exciting ways to grow the economies of communities and the state together rather than cannibalizing revenues as adversaries. The only way to build a strong Alaska is to build and maintain strong communities and HB 65 would move that backward instead of forward. At this time, Alaska's largest sustainable industry should be invested in, not gutted. He urged the committee to oppose HB 65.

[10:43:44 AM](#)

GARY PAXTON, Mayor, City and Borough of Sitka, testified in opposition to HB 65. He stated that Sitka has been increasing the rates for its port and harbor system by about 6 percent a year because, like all communities, Sitka has an aging infrastructure problem. Sitka has an aggressive program for maintaining its harbor system, which has caused that rate increase. Fishing is part Sitka's ethos and community.

MAYOR PAXTON said the uncertainty of the fishing industry, especially in the chinook and pink salmon runs, also causes uncertainty and stress for Sitka's fishermen. The budget for Sitka's ports and harbors is just over \$4 million, with \$1.2 million of that budget coming from the shared fish tax, [the

loss of which] would require a one-third increase in rates. Sitka is constrained in its bonding capacity because of the wisdom and the cost of increasing the capacity of Sitka's Blue Lake dam. Sitka has a bond indebtedness of \$120 million that affects its residents and causes significant impact on continuing increases of other fees and rates.

MAYOR PAXTON stated that the City and Borough of Sitka is categorically opposed to HB 65. He said cost shifting and revenue grabbing is not the kind of state that Alaska is. He urged the committee to provide support in Sitka's opposition.

REPRESENTATIVE KREISS-TOMKINS commented that Mayor Paxton has a saying that "brevity is godliness." He offered his appreciation for Mayor Paxton's testimony.

[10:46:20 AM](#)

JON ERICKSON, EdD, City and Borough Manager, City and Borough of Yakutat, testified in opposition to HB 65. Dr. Erickson explained that Yakutat is a small borough of about 540 people. The city and borough receive about \$260,000 or \$270,000 in revenue from the fish tax, about \$300,000 from property tax, and about \$280,000 in revenue sharing, with \$502,000 to be contributed to the school this year. Taking away the fish tax revenue would be a big burden given the city and borough's small size. The seafood dock and facility are owned by the city and borough. The money received from leasing them out is plowed back in and comes to a net \$0 because of repairs to the dock which was built in the early 1900s. When revenue is taken from a small community the community must make that up and it is impossible to make up. Property tax cannot be doubled, and a 5 percent sales tax is already being charged. Dr. Erickson urged that other ways be considered to balance the state's budget.

[10:48:27 AM](#)

FRANK KELTY, Mayor, City of Unalaska, testified in opposition to HB 65. He said HB 65 is a terrible bill. He requested the bill be held by the committee because it would have tremendous negative impacts on revenues for every fishing community in Alaska. He explained that the 3 percent Fisheries Business Tax is paid to the state by the shore-based processors and shared back to the communities at a 50 percent rate. This revenue in many of the smaller fishery communities is their largest revenue source. Unalaska's shared fish taxes of a little over \$8 million annually makes up 26 percent of the city's \$31 million

general fund budget. If Unalaska were to lose that amount of revenue it would be devastating.

MAYOR KELTY noted the City of Unalaska is the nation's number one commercial fishing port. The port is highly dependent on shared and local fishery taxes that the city uses to support the seafood industry, both onshore and offshore processors that work in Unalaska. The fishing industry of the Bering Sea is Unalaska's only industry and if the shared fish tax revenues are impacted it will be felt in all sectors of the community. Almost all fishery dependent communities have local sales taxes, high mill rates, and local fisheries landing taxes. All these taxes would have to be raised if the communities lost their share of fisheries tax revenues.

MAYOR KELTY said HB 65 would just put a tax on communities across the state and is a bad way to do business. Unalaska uses tax revenues to pay its own way - the city funds port and harbor upgrades, utility improvements, road maintenance, and the school district is funded at the cap amount annually. Further, local nonprofits are funded at over \$1 million annually and the local medical clinic is supported.

MAYOR KELTY pointed out that most city projects are done with city dollars from bonding or using the city's reserves. For example, the \$40 million city dock extension was just completed and was completely bonded by the city. This dock is used for container shipping, seafood, support services such as fueling, crew changes, and processing supplies. If the State of Alaska takes all the state's shared fish tax revenues, who will step up to assist fishery dependent communities on projects that are needed to support the seafood industry that is the largest in the nation?

MAYOR KELTY advised the committee members to remember that fishery dependent communities across Alaska produce 56 percent of the nation's seafood - over 5 billion pounds at a value over \$2 billion. Alaska's fishery dependent communities need to be kept strong and not be hurt by taking away the state shared fish tax dollars.

[10:52:40 AM](#)

MARC CARREL testified in opposition to HB 65. He said he is a commercial fisherman for salmon and halibut and a year-round resident of Cordova. Coastal municipalities provide the essential infrastructure for the seafood industry to be able to

succeed. The commercial fishing industry needs good harbor facilities and shipyards, as well as all the necessary infrastructure for the canneries to be able to process and ship the fish to market. The cost of this is mostly carried by the municipalities and it is therefore crucial that revenue sharing from the Fishery Resource Landing Tax continues. Rather than being absorbed in the state's general fund, this tax money is directly being invested in the projects that support the fishing industry, thereby creating more jobs and more tax revenue in the long run. If the revenue sharing is repealed, the resulting increased local taxes and fees as well as poorer city infrastructure, will directly hurt local small boat fishing businesses such as his and decrease the money fishermen can spend in their local community. He urged the committee to oppose HB 65.

[10:54:14 AM](#)

ANNE BAILEY, Administrator, Aleutians East Borough, testified in opposition to HB 65. She stated that the borough is responsible for six communities - Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon, and Sand Point, with a total population of 3,141 residents and a large transient fishing fleet. She said the borough assembly recently passed a resolution opposing HB 65.

MS. BAILEY pointed out that the Shared Fisheries Business Tax Program reflects a partnership between the state and municipalities. Municipalities rely on significant general fund revenues as part of their tax base to provide borough and municipal services benefitting residents and the fishing industry. Some of these services include education, boat harbors, docks, road maintenance, fire protection, police, emergency medical services, electricity, and water. The borough has a strong record of taking the lead on many capital projects and it provides funds to support the link between Akutan and the airport on Akun Island and King Cove's Cold Bay Road, which are necessary to transfer patients out of both communities.

MS. BAILEY related that the Shared Fisheries Business Tax Program represents 28 percent of the borough's operating budget, amounting to approximately \$2.2 million, and is a tax base that has allowed the borough to be economically viable. She said that availability of these revenues was a critical consideration by the local boundary commission when it approved the borough's petition to incorporate. Cuts to the Shared Fisheries Business Tax Program would also negatively impact the borough communities of Akutan, Cold Bay, False Pass, King Cove, and Sand Point.

Cuts would range from 36 percent to 2.7 percent of their operating budgets and the communities could not sustain reductions like this. This bill would greatly shift more cost for services on to boroughs and municipalities while at the same time reducing the general tax revenue.

MS. BAILEY further noted that the package of reductions proposed by the governor threatens the borough's viability. The borough and the municipalities could not simply cut their way out of this or raise taxes in a matter of a few months to compensate for the impacts. She said the borough asks that committee members take these severe impacts into consideration as the legislature goes through its budget process.

[10:56:40 AM](#)

CHARLES MCKEE testified in opposition to HB 65. He stated that the administration wants to become the beneficiary to the trust that dispenses this tax. Responding to Chair Stutes, he confirmed he is talking to the Raw Fish Tax and specifically referenced page 6 of an 18-page document that he said he submitted to the committee. Responding further to Chair Stutes, he confirmed he is in opposition to the state taking the Raw Fish Tax.

[11:00:13 AM](#)

JOHN MURRAY testified in opposition to HB 65. He stated he has been a small-boat commercial fisherman out of Sitka since 1978. He said Sitka has the largest small-boat harbor system in Alaska for both commercial and recreational boats and would be hard pressed to backfill the loss of the Raw Fish Tax, which in 2018 was at about \$1.2 million. He noted his current moorage fees are \$740 and he foresees a doubling of that moorage rate if the proposed repeal goes through. This would make it difficult for him and other small-boat commercial fishermen to thrive and to contribute to Sitka's local economy and the State of Alaska.

[11:01:26 AM](#)

TANIA HARRISON testified in opposition to HB 65. She noted she is a commercial fisherman and pointed out that fishing is an important industry for coastal communities as well as for the economy of the whole state. She pointed out that the seafood industry directly employs more workers than any other private sector industry and is the third largest basic sector job created in Alaska. It is in the best interest of the state to

support the fishing communities that make this industry possible. Revenue sharing of the Fishery Resource Landing Tax enables fishing towns to maintain infrastructure that supports this industry and the community. This kind of investment has helped fisheries flourish and the increased value of fish has greatly increased the funds generated by fish taxes.

MS. HARRISON said HB 65 would severely hurt the economies of fishing towns and burden residents with drastically higher local taxes. A financially struggling community will not be able to support the large landings and high fish values that are currently enjoyed today. She urged committee members to oppose the bill.

[11:02:50 AM](#)

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

CHAIR STUTES offered her appreciation to the witnesses who testified and stated HB 65 would certainly have a very negative impact on the communities she represents, along with fishing communities across the state. Aside from there being no justification for the bill, she continued, there is also no upside to residents. The bill would simply shift state burdens to local governments that would in turn be forced to tax residents or reduce services. Fishing communities bring a lot of money and economic activity to the state, both in the form of large processing companies and mom-and-pop commercial fishing operations. She sees no rationale as to why municipalities are not entitled to a share of the tax revenue that they generate so they can reinvest in the infrastructure that makes them viable and attractive places to do business. This revenue sharing is a part of what keeps coastal Alaska open for business.

REPRESENTATIVE TARR commented that the testimony reminds her about how fragile Alaska's overall economy is, in that coastal communities are so reliant on fisheries and what is created from revenue for fisheries. Interior Alaska is probably a little different, she noted, and the further north the more dependent on resource development. Coastal communities are dependent on this source of revenue and there aren't other options. Any adjustments must be done in ways that won't have such adverse impacts on those local communities. The legislature must make it a priority to not just cost shift to local communities in a way that hides the true finances of the situation.

CHAIR STUTES re-opened invited testimony.

[11:06:20 AM](#)

MARY SWAIN, President, Bristol Bay Borough Assembly, testified in opposition to HB 65. She paraphrased from the following written statement:

Thank you for this opportunity to speak on proposed legislation that will greatly and negatively impact the Bristol Bay Borough. On behalf of the Assembly, the Borough does not support repealing the shared fisheries business tax as proposed in HB65.

The Borough was formed in October 1962. We are Alaska's first borough formed but 3 short years after statehood. We are accessible only by air, commercial boat or barge. We provide a full array of services to our residents, the fish processing industry and the thousands of commercial fishers that base operations in the Borough. Indeed, the Borough is the heart of the largest red salmon fishing industry in the world, estimated to be valued at approximately \$1 billion per year. In that regard, [our] Naknek port is the number three commercial fishing port in the US, based on commercial fishery landings ranked by dollar value. (NOAA 2017 - most recent year for which data is available).

In support of the fishing industry, we provide police and fire services, water & sewer and landfill operations as well as contributing for Emergency Services and clinic operations.

This all comes at a cost greater than the residents of the Borough can absorb. The Borough population spikes from a winter population of 900 to an astounding 13,000+ during the five-month fishing season. Loss of the shared fisheries tax would place an unbearable burden on our local residents that could force the Assembly to eliminate vital services to, or raise taxes on, the fishing industry.

The Borough assesses a number of local taxes and shares benefits from State-revenue sharing. By far, the largest component of shared state taxes is the fisheries business tax at issue here.

The value to the Borough of the state shared fisheries tax is a function of the size of the salmon run and the price of salmon. In FY18 it was \$3.8 million, about 26% of our annual operating budget.

Options the Borough would be forced to consider if deprived of the shared fisheries tax, would certainly include raising taxes on the processing industry. Alternatively, the Borough could consider reducing operations of some of the systems we currently operate, including but not limited to sewer and landfill, again, handing that cost back to the processing industry.

Nevertheless, as we speak, the Borough is strenuously working on a significant sewer capacity-expansion project to favorably accommodate the growing fish processing industry. Eliminating the shared fishery tax could directly harm this capacity-building effort.

In closing, over the past 57 [years] the Borough and the State have been longstanding partners in supporting the Bristol Bay \$1 billion per year fishing industry. We pray the State works closely with us as a durable, not disposable, partner. Thank you.

[11:09:27 AM](#)

CHAIR STUTES closed invited testimony.

REPRESENTATIVE VANCE commented that the sharing of the fish tax is Alaska's fisheries resource development. Like oil and mining, fisheries are a shared resource that is vital. The fishing industry is the largest private sector employer in the state. Making this shift would have very detrimental effects to Alaska's economy and to the number of jobs that are generated by this industry and the sharing of this resource. She is for resource development in Alaska, she said, especially the wise resource development of the fisheries in the coastal communities, and therefore she will not support HB 65.

REPRESENTATIVE KOPP said he is an active participant in the state fisheries and is in Bristol Bay every summer. He has seen the cyclical swing of the population going from 1,000 to 13,000 and the load that that is on the borough. The borough's current \$10 million sewer system upgrade is for the processors, cannery

workers, and fishermen. Some of Alaska's small communities are just holding on by a thread, which was clear in the testimony. This type of cost shift to them could push many of them over the brink. The state bears a duty to share the load in its partnerships with these communities that provide the infrastructure and support for fisheries.

REPRESENTATIVE KREISS-TOMKINS commented that HB 65 and the sum of other policies from the administration feels like the public policy form of violence towards coastal Alaska, and he takes exception to that. The amount of uncertainty that this creates has very real effects on people's lives and it is painful to see and hear that in communities. Cities and school districts are trying to pass budgets, people don't know whether they have jobs, and families are moving out of state; and this makes him angry. He advised that even if HB 65 ends in this committee, it is not the end of the tunnel because it is a line item in the budget and the commissioner in his testimony was unable to offer any assurance to municipalities that that line item in the budget would survive line item veto. This bill almost doesn't matter, it is what the governor does with that veto pen and what the legislature does to back up the interests of Alaskans in potentially protecting that revenue. All this money is subject to appropriation even though it is written in law and even if that law isn't changed the governor can unilaterally nix all that money, and this creates incredible uncertainty for municipalities.

[11:14:47 AM](#)

CHAIR STUTES addressed Commissioner Bruce Tangeman, Department of Revenue. She pointed out that not one person testified in favor of HB 65 and offered her belief that this was the same when the bill was heard in the other body. She requested Commissioner Tangeman to carry this message back to the governor. She said this unpopular bill would severely cripple rural and coastal communities by taking those dollars that they depend on for their infrastructure and to support the families that live there.

CHAIR STUTES held over HB 65.

[11:16:00 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Fisheries meeting was adjourned at 11:16 p.m.