

HOUSE FINANCE COMMITTEE

May 4, 2021

9:05 a.m.

9:05:05 AM

CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 9:05 a.m.

MEMBERS PRESENT

Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

Representative Neal Foster, Co-Chair
Representative Ben Carpenter

ALSO PRESENT

Joe Hardenbrook, Staff, Representative Grier Hopkins;
Crystal Koeneman, Staff, Representative Sara Rasmussen;
Seth Whitten, Staff, Representative Bryce Edgmon.

PRESENT VIA TELECONFERENCE

Ed Martin, Self, Sterling; Dave Schade, Director, Division of Agriculture, Department of Natural Resources; Heather Hebdon, Executive Director, Alaska Public Office Commission; Nicole Reynolds, Deputy Director, Tax Division, Department of Revenue.

SUMMARY

HB 156 INDUSTRIAL HEMP PROGRAM; MANUFACTURING

CSHB 156 (RES) was REPORTED out of committee with four "do pass" recommendations and five "no recommendation" recommendations and with one new fiscal impact note by the Department of Natural Resources.

HB 157 APOC; REPORT REFERENDA/RECALL CONTRIBUTOR

HB 157 was HEARD and HELD in committee for further consideration.

HB 182 EXTEND FISHERY RESOURCE LAND. TAX CREDIT

HB 182 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the morning.

#hb156

HOUSE BILL NO. 156

"An Act relating to industrial hemp; and providing for an effective date."

[9:05:40 AM](#)

Co-Chair Merrick reported that the committee last heard the bill on April 30, 2021.

[9:06:03 AM](#)

Co-Chair Merrick OPENED Public Testimony.

[9:06:24 AM](#)

ED MARTIN, SELF, STERLING (via teleconference), was in support of HB 156. He believed that the legislation would benefit the state. He voiced that the legislation would benefit Alaskan farming families and he felt that much state and municipal land was available to enhance the program. He thought the bill would directly and indirectly benefit the state's revenues. He urged for passage of the bill.

[9:08:32 AM](#)

Co-Chair Merrick CLOSED public testimony.

Co-Chair Merrick requested a review of the new fiscal note for the Department of Natural Resources, Division of Agriculture.

DAVE SCHADE, DIRECTOR, DIVISION OF AGRICULTURE, DEPARTMENT OF NATURAL RESOURCES (via teleconference), reported that the new industry was expected to pay for the program and the fiscal note reflected the cost of the program in program receipts.

Representative Thompson recalled a state or federal regulation mandating the distance between a licensed marijuana grow and an industrial hemp crop to avoid cross pollination. He wondered what the distance was.

[9:10:54 AM](#)

JOE HARDENBROOK, STAFF, REPRESENTATIVE GRIER HOPKINS, responded that the distance was maintained in the regulations. He deferred to Mr. Schade to speak to the specifics.

[9:11:19 AM](#)

Mr. Schade responded that the separation distance was 1000 meters for cannabis to avoid cross pollination and would continue to be in regulation. He delineated that it was a state rather than a federal regulation since the federal government did not recognize recreational marijuana use. He furthered that the distance would be maintained even under a USDA industrial hemp program so the state could internally ensure it avoided problems between both industries. Representative Thompson asked who would be monitoring compliance and what it would cost. Mr. Schade replied that the Division of Agriculture would be responsible for making sure farmers complied with statute. The division had access to the Alcohol and Marijuana Control Office (AMCO) database. He stated that the enforcement cost would be minimal because maintaining the distance was a provision in the application. Representative Thompson thanked Mr. Schade for the clarification.

[9:13:44 AM](#)

Representative Wool thought that the taxing structures were different for marijuana versus hemp growing. He did not think there was a production tax for hemp. He wondered about the licensures and whether they were different from each other and if someone could cultivate both varieties. Mr. Schade replied that there were no restrictions for growing both varieties. He expected entrepreneurs would grow both and that typically cannabis was grown indoors. He deduced that because industrial hemp was an agricultural crop, farmers could write off expenses therefore, growing both could become complicated. He restated that the division did not restrict someone from registering to grow both crops. Representative Wool asked if families could work on an industrial hemp farm. He was aware that there were age restrictions for family members to be around marijuana grow facilities. He assumed the restriction did not apply for industrial hemp. Mr. Schade answered in the affirmative that the restrictions did not apply to industrial hemp. He added that the bill increased the felony provision.

Representative Wool asked for clarifications regarding felonies.

Mr. Hardenbrook replied that the Federal Farm Act of 2018 mandated that state licensed industrial hemp programs prohibited the participation of an individual found guilty of a felony of a controlled substance in the last 10 years. Representative Wool viewed the provision as a federal mandate and felt the federal government was treating it as a drug related crop. Mr. Hardenbrook responded that the 2018 farm bill transitioned industrial hemp away from a Schedule 1 narcotic to an agricultural commodity. The inclusion of the felony provision was a result of negotiations to pass the bill in Congress.

[9:18:59 AM](#)

Representative Johnson asked if the bill added two positions. Mr. Hardenbrook deferred to Mr. Schade for the answer.

Mr. Schade responded in the affirmative and furthered that as the program grew it would require additional staffing. He noted that he initially requested up to four additional inspectors.

[9:19:49 AM](#)

Mr. Hardenbrook interjected that AS 03.05.010 mandated that the industrial hemp program be self-sustaining through fees charged to program participants. In the future if additional staff was required the division would adjust their scheduled fees.

[9:20:21 AM](#)

Representative Johnson asked how many people were currently employed to oversee the industrial hemp program.

Mr. Schade replied that one person had been hired and another position was authorized but not yet hired due to funding. He needed additional inspectors and would hire up to three more as money became available. Representative Johnson asked about the funding for the current position. Mr. Schade replied that the current position was funded from industrial hemp. He qualified that due to timing of the inception of the program, he had to use general funds (GF) to implement the program. He detailed that because the fees were December and January based there was a period in July when the position had to be covered by GF until the division collected enough revenue from the industrial hemp program to cover the costs.

[9:22:00 AM](#)

Representative Johnson asked for a fiscal note that reflected the amount of GF spend. Mr. Hardenbrook explained that the industrial hemp pilot program's fees were assessed on the calendar year, rather than a fiscal year that ended on June 30 of each year when all the program receipts were swept into the general fund. Beginning on July 1, until the division had enough fees, it relied on GF to pay the salary and operating costs. Representative Johnson guessed that the GF would be replaced by program receipts. Mr. Hardenbrook answered in the affirmative. He emphasized that the statute clearly stated that the program had to be fully supported through participants' fees.

Representative Johnson asked if the second position was authorized because there were additional fees collected through the program.

Mr. Schade relayed that as part of the pilot program the legislature authorized two positions. He indicated that he assured the legislature that he would not hire staff until there were sufficient registration fees. He did not hire the second position because he was unsure there was enough carryover money cover the cost. He deduced that he would ultimately, need 6 positions to run the program but wanted the program to build up enough funding in a set aside account without worrying about the sweep.

[9:25:35 AM](#)

Representative Thompson cited the amount of \$106.9 thousand in the fiscal note for travel per year. He asked for more detail. Mr. Schade replied that the department had to inspect product in retail stores located in almost every village and town in the state. He elaborated that as part of tracking and registration the division carried out inspections. He declared that in order to run a good, solid program, significant travel was necessary, which was costly.

[9:26:54 AM](#)

Representative Thompson assumed that the inspectors also inspected other areas of agriculture aside from industrial hemp. Mr. Schade answered in the affirmative. He offered that over time the division's industrial hemp inspectors would be trained to do other program inspections as well. The cost effective approach would lead to different programs sharing travel expenses.

[9:29:26 AM](#)

Vice-Chair Ortiz MOVED to report CSHB 156 (RES) out of Committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 156(RES) was REPORTED out of committee with four "do pass" recommendations and five "no recommendation" recommendations and with one new fiscal impact note by the Department of Natural Resources.

[9:29:53 AM](#)

AT EASE

[9:31:15 AM](#)
RECONVENED

#hb157
HOUSE BILL NO. 157

"An Act requiring the disclosure of the identity of certain persons, groups, and nongroup entities that expend money in support of or in opposition to an application filed for a state referendum or recall election; and providing for an effective date."

[9:31:20 AM](#)

Co-Chair Merrick noted that HB 157 was previously heard in committee on May 3, 2021.

REPRESENTATIVE SARA RASMUSSEN, SPONSOR, introduced herself. She relayed that the purpose of the bill was to align the Alaska Public Offices Commission (APOC) reporting requirements for recalls and referendums with ballot initiatives making the requirements the same for all three items.

[9:32:22 AM](#)

HEATHER HEBDON, EXECUTIVE DIRECTOR, ALASKA PUBLIC OFFICE COMMISSION (via teleconference), reviewed the fiscal note [FN1 (ADM)]. She anticipated an increase in workload with passage of the bill. She noted the additional workload for filing assistance, education, and regulation promulgation as well as monitoring, auditing, and enforcement of the new requirements. The fiscal note reflected the addition of one Paralegal and associated costs.

[9:33:27 AM](#)

Representative Thompson asked if there were no recalls or referendums in the current year, what the additional employee would do. Ms. Hebdon responded that currently, the agency only had two dedicated employees to oversee campaign finance disclosures and the position would likely assist with the other campaign disclosure work.

Representative Josephson asked how many staff positions worked on campaign finance disclosures 10 years prior. Ms. Hebdon would have to research the full answer. She relayed

that in 2015 the agency had 13.5 full time staff members; four employees were dedicated to campaign finance disclosure. Representative Josephson asked how many staff did the job currently. Ms. Hebdon replied that currently there were two employees that oversaw campaign finance disclosure.

[9:35:39 AM](#)

Representative Josephson wanted further clarification. He asked how many total employees APOC had in 2015. Ms. Hebdon restated that that in 2015 the agency had 13.5 full time staff members. Representative Josephson inquired about the number of total staff that currently worked at APOC. Ms. Hebdon answered that currently there were 8 APOC staff members.

Co-Chair Merrick indicated amendments were due in her office by 6 p.m. on Wednesday, May 5, 2021.

HB 157 was HEARD and HELD in committee for further consideration.

[9:36:28 AM](#)

AT EASE

[9:37:23 AM](#)

RECONVENED

#hb182

HOUSE BILL NO. 182

"An Act extending the fishery resource landing tax credit for certain taxpayers that harvest fishery resources under the provisions of a community development quota; providing for an effective date by amending the effective date of secs. 16 and 23, ch. 61, SLA 2014; and providing for an effective date."

[9:37:30 AM](#)

REPRESENTATIVE BRYCE EDGMON, SPONSOR, thanked the committee for hearing the bill. The bill extended the fisheries resources landing tax that was established in 2014. He provided context for the bill. He noted that HB 182 probably would have passed in the prior session but did not due to COVID and the shortened session. Therefore, the

credit expired in 2020. The tax credit was levied against a tax established in 1993. He explained that in the 1970's and 1980's the Bearing Sea fisheries had opened and were highly productive. In 1992, the legislature recognized the increased fishing activity and the associated increase in utilization of local services in places like Unalaska and Dutch Harbor. He expounded that even though they were harvesting outside of the three mile state controlled boundary, the larger number of fishing boats increased the use of local services when they came to port. The legislature maintained that the state should be compensated for the services provided. The bill establishing a tax was HB 264 [HB 264 - Fishery Resource Landing Tax/Chapter 67 SLA 93/ 06/24/1993] adopted in 1993. The legislation assessed a 3.3 percent tax on the landings outside of the three mile boundary. He noted that the Community Development Quota (CDQ) program was established at the same time. In 2014, the legislature decided to establish a tax credit program for the CDQ groups that contributed to non-profit ventures like education, scholarships, and training. House Bill 182 extended the tax credit to December 31, 2030. He furthered that the benefits of the CDQ program totaled approximately \$650 thousand per year and were being spread amongst 65 costal communities in Western Alaska. He emphasized that the program was hugely successful.

SETH WHITTEN, STAFF, REPRESENTATIVE BRYCE EDGMON, added that in the 2021 Legislative Finance Division's (LFD) Indirect Expenditure Report it recommended reestablishing the credit.

Vice-Chair Ortiz thanked the representative for bringing the bill forward. He asked Representative Edgmon to explain "where" the credit was applied. He wondered if it was deducted from federal income taxes.

[9:42:36 AM](#)

Representative Edgmon indicated that part of the tax went to the municipalities and the other went to the state. He noted the 45.45 percent tax credit limit came from the municipalities share. He deferred further answer to the Department of Revenue (DOR).

[9:43:13 AM](#)

NICOLE REYNOLDS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), responded that the CDQ credit was allowed for fishery resource landing taxpayers that harvested under the CDQ program. They filed their return to the state and could claim the credit at that time.

Vice-Chair Ortiz cited the sponsor statement that claimed that no revenue was foregone by the state. He asked whether that was correct. Ms. Reynolds responded that he was correct. She elaborated that the CDQ credit reduced the municipal share of the fisheries resource landing tax revenue. Vice-Chair Ortiz asked if it was an annual filing. Ms. Reynolds replied that it was an annual tax, and the taxpayers would claim the credit on their return. She elaborated that the statewide average price report was posted in May and the returns were filed at the end of June. The credit reduced the municipal share of the tax proceeds.

[9:46:27 AM](#)

Co-Chair Merrick asked Ms. Reynolds to review the fiscal note.

Ms. Reynolds stated that the published fiscal note [FN1 (REV)] for DOR, Tax Division estimated the credit in the amount of \$1.16 million. [Secretary Note: The caller dropped from the line.]

[9:46:56 AM](#)

AT EASE

[9:48:41 AM](#)

RECONVENED

Ms. Reynolds continued to discuss the fiscal note for HB 182. The amount shown was \$1.16 million of credit value. The amount was higher because it applied to 1.5 years of impact. In the out years, FY 2023 through FY 2027 the department anticipated about \$795 thousand to \$860 thousand in tax credits. The department used actual FY 2022 CDQ credits as a baseline and assumed a 2 percent annual increase in credit value.

[9:50:24 AM](#)

Representative Josephson asked if the division was treating FY 2022 as if the program did not expire for one year. Ms. Reynolds reported that the bill had a retroactive effective date of December 30, 2020, which was reflected in the fiscal note and allowed any contributions from calendar year 2021 to count for the credit.

[9:51:25 AM](#)

Representative LeBon asked whether a CDQ was a permit. Representative Edgmon answered that it was a fisheries quota. Representative LeBon asked whether the participation in the program was up to the quota holder. Representative Edgmon replied that technically speaking, 100 percent of the CDQ groups actively fished. He indicated that the program had grown over the years. In the early 1990s, the quotas were used in partnerships with larger companies who had the large boats, crew, and expertise. He expounded that over the years the CDQ groups owned the quotas, and many CDQ groups owned the larger vessels that harvested the quota. He added that ownership rights in vessels might be owned at 100 percent and others may be owned in partnership. The CDQ companies had grown significantly and matured over the years. The CDQ proceeds were distributed out to the villages in Western Alaska and contributed to positive benefits to the communities. He believed that was the essence of the bill.

[9:53:30 AM](#)

Representative LeBon commented that some of the uses of the funding went towards training and scholarships, etc. He wondered if a CDQ group had to participate in the tax credit program and if not, how were the taxes distributed. Representative Edgmon deferred the answer to the CDQ holders.

Co-Chair Merrick indicated amendments were due in her office by 6 p.m. on Wednesday, May 5, 2021.

Co-Chair Merrick indicated amendments for HB 19, offered by Representative Kreiss-Tompkins, were due in her office by 6 p.m. on Wednesday, May 5, 2021. She reviewed the agenda for the following meeting.

HB 182 was HEARD and HELD in committee for further consideration.

ADJOURNMENT

9:55:15 AM

The meeting was adjourned at 9:55 a.m.