

CSSB

162

HOUSE COMMITTEE REPORT

(11)

Date referred: 5/7/87

FURTHER REFERRALS:

DATE: 5-14-87

The Finance Committee has considered CSSB 162 (C&RA) am

"An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

RECOMMENDS:

- replace with HCS CSSB 162 (FIN) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Adams Adams

POURCHANT St. Laurent

GOLD Robert

SWACK-HAMMER Charles

RIEGER Steve

FRANK John

WALLS Ray

SIGNING OTHER RECOMMENDATIONS:

LARSON Ronald J. Larson No Rec.

BROWN Tay Brown No Rec.

DAVIS Michael No Rec.

Albert H. Adams
Chairman's signature

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

Bill Version: HCS CSSB 162 (FIN)
Publish Date: _____

REQUEST: _____
Revision Date: _____
Title: An Act relating to fisheries
business tax refunds to local gov't
Sponsor: Senator Zharoff
Requestor: Senate L & C Committee

Agency Affected: Community & Regional Affs.
BRU: Local Government Assistance
Components: Statewide Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
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REVENUE						
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FUNDING: (Thousands of Dollars)


GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Michael Cushing, Planner 
Division: Municipal & Regional Assistance Phone: 465-4750
Date: 3/16/87

Approved by Commissioner: David G. Hoffman 
Agency: Community & Regional Affairs Date: 3-16-87

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: HCS CSSB 162 (FIN)
Publish Date: _____

REQUEST _____

Revision Date: 3/10/87
Title: An Act relating to fisheries
business refunds to local governments
Sponsor: Zharoff
Requestor: _____

Agency Affected: Revenue
BRU: Audit

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
OPERATING						
PERSONAL SERVICES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TRAVEL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CONTRACTUAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
SUPPLIES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
EQUIPMENT	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
LANDS & STRUCTURES	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
GRANTS, CLAIMS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
MISCELLANEOUS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL OPERATING	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
CAPITAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
REVENUE	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

FUNDING: (Thousands of Dollars)

GENERAL FUND	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
FEDERAL FUNDS	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
OTHER	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
TOTAL	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached.

Prepared By: Steven E. Kettel
Division: Audit

Phone: 465-2320
Date: 3/10/87

Approved by Commissioner: [Signature]
Agency: _____

Date: 3/18/87

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)
- Senate Secretary

Fiscal Note Analysis
Senate Bill 162
Prepared 3/10/87

The communities of Sand Point, King Cove, Akutan, False Pass and Nelson Lagoon will soon be incorporating to form a new borough within the state. AS 43.75.130(a) currently provides that to each unified municipality and to each city located within an unorganized borough, 50 percent of the amount of fisheries business tax revenue collected in the municipality will be refunded by the commissioner of revenue to these agencies. The cities named above have in past years received this 50 percent share. However, when a city lies within an organized borough, the city and the borough each receive a 25 percent share. Therefore, in order to phase in an anticipated reduction in shared revenues to these areas, SB 162 amends AS 43.75.130 by adding a new subsection (d) to minimize the revenue impact on the impacted cities.

AS 43.75.130(d) provides that the commissioner of revenue shall pay to each city in a borough that is incorporated after the effective date of this Act: 45 percent of the taxes collected during the calendar year in which incorporation occurs; 40 percent of the taxes collected during the first calendar year following the year of incorporation; 35 percent of the taxes collected during the second calendar year; and 30 percent of the taxes collected during the third calendar year.

Subsection (d) also provides that the commissioner shall pay to each borough that is incorporated after the effective date of this Act: 5 percent of the taxes collected during the calendar year in which the borough is incorporated; 10 percent during the first calendar year after incorporation; 15 percent during the second calendar year; and 20 percent during the third calendar year.

The Act is to take effect immediately under AS 01.10.070(c).

Original sponsor: Zharoff

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 162 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to the fisheries business tax; and
7 providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 * Section 1. AS 43.75.017 is amended to read:

10 Sec. 43.75.017. EXCLUSION FROM FISHERIES BUSINESS TAX. A person
11 is not liable for the fisheries business tax under AS 43.75.015 when
12 the fishery resource is frozen or iced aboard a fishing vessel if

13 (1) the vessel is operated as a commercial fishing vessel
14 under a valid commercial fishing license;

15 (2) the fishery resource is not processed beyond heading,
16 gutting or cleaning, freezing, and glazing;

17 (3) the fishery resource was caught by the vessel; and

18 (4) the fishery resource is sold by the person claiming an
19 exclusion from the tax to a fisheries business licensed under this
20 chapter.

21 * Sec. 2. AS 43.75.130(a) is amended to read:

22 (a) Except as provided in (d) of this section, the [THE] commis-
23 sioner of revenue shall pay

24 (1) to each unified municipality and to each city located
25 in the unorganized borough, 50 percent of the amount of tax revenue
26 collected in the municipality from taxes levied under [BY] this chap-
27 ter;

28 (2) to each city located within a borough, 25 percent of
29 the amount of tax revenue collected in the city from taxes levied

1 under [BY] this chapter; and

2 (3) to each borough

3 (A) 50 percent of the amount of tax revenue collected
4 in the area of the borough outside cities from taxes levied under
5 [BY] this chapter; and

6 (B) 25 percent of the amount of tax revenue collected
7 in cities located within the borough from taxes levied under [BY]
8 this chapter.

9 * Sec. 3. AS 43.75.130 is amended by adding new subsections to read:

10 (d) Notwithstanding the provisions of (a)(2) and (a)(3)(B) of
11 this section, the commissioner shall pay

12 (1) to each city that is located in a borough incorporated
13 after the effective date of this Act the following percentages of the
14 tax revenue collected in the city from taxes levied under this chap-
15 ter:

16 (A) 45 percent of the taxes collected during the
17 calendar year in which the borough is incorporated;

18 (B) 40 percent of the taxes collected during the first
19 calendar year after the calendar year in which the borough is
20 incorporated;

21 (C) 35 percent of the taxes collected during the
22 second calendar year after the calendar year in which the borough
23 is incorporated; and

24 (D) 30 percent of the taxes collected during the third
25 calendar year after the calendar year in which the borough is
26 incorporated; and

27 (2) to each borough that is incorporated after the effec-
28 tive date of this Act the following percentages of the tax revenue
29 collected in the cities located within the borough from taxes levied

1 under this chapter:

2 (A) 5 percent of the taxes collected during the calen-
3 dar year in which the borough is incorporated;

4 (B) 10 percent of the taxes collected during the first
5 calendar year after the calendar year in which the borough is
6 incorporated;

7 (C) 15 percent of the taxes collected during the
8 second calendar year after the calendar year in which the borough
9 is incorporated; and

10 (D) 20 percent of the taxes collected during the third
11 calendar year after the calendar year in which the borough is
12 incorporated.

13 (e) Notwithstanding the provisions of (d) of this section, a
14 city may adopt an ordinance to transfer a portion of the funds re-
15 ceived under (d)(1) of this section to the borough in which the city
16 is located.

17 * Sec. 4. AS 43.75.140(4) is amended to read:

18 (4) "fisheries business" means a person who engages in
19 processing fisheries resources for sale by icing, freezing, cooking,
20 salting, or other method and includes but is not limited to canneries,
21 cold storages, freezer ships, and processing plants;

22 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).
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by Rep. Wallis

Explanation of Proposed amendment to CSSB 162(C&RA) am

The amendment would clarify the definition of fisheries business to include icing. When fish are landed, they are either completely processed immediately, or partially processed and prepared for additional processing. One such way of partially processing fish is icing.

Icing of fish is a costly process and requires a significant business investment, especially in rural Alaska. Iced fish are typically shipped by air to another location for completion of the processing. Icing is the first step in the processing of some fish. Without icing the fish first, the quality of the fish would be lost or seriously reduced.

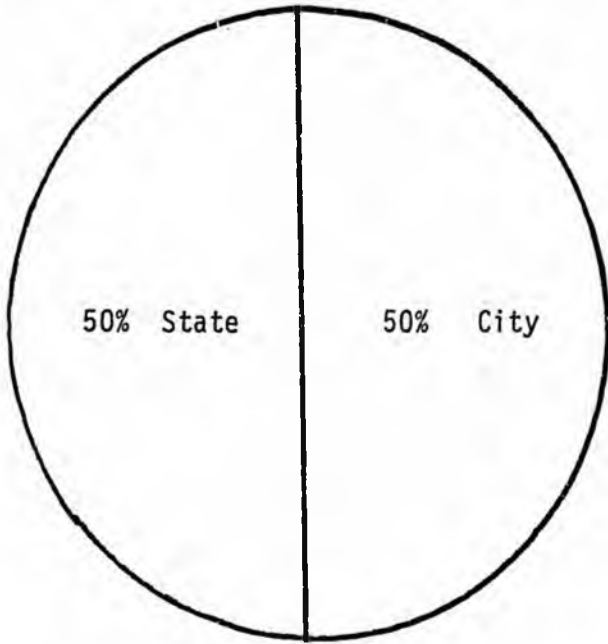
Since icing is an essential part of a complete processing system, it should be recognized as such in statute.

The amendment is in two parts. The first part adds icing to the definition of "fisheries business." The second part makes it clear that commercial fishing vessels who ice their fish are excluded from paying the fisheries business tax. They are currently excluded from paying the tax if they freeze their fish.

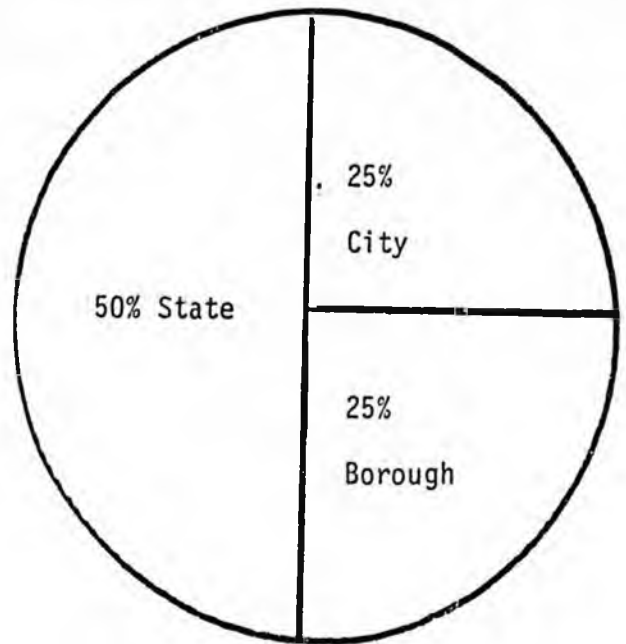
FISH TAX REVENUE

Representative Herrman

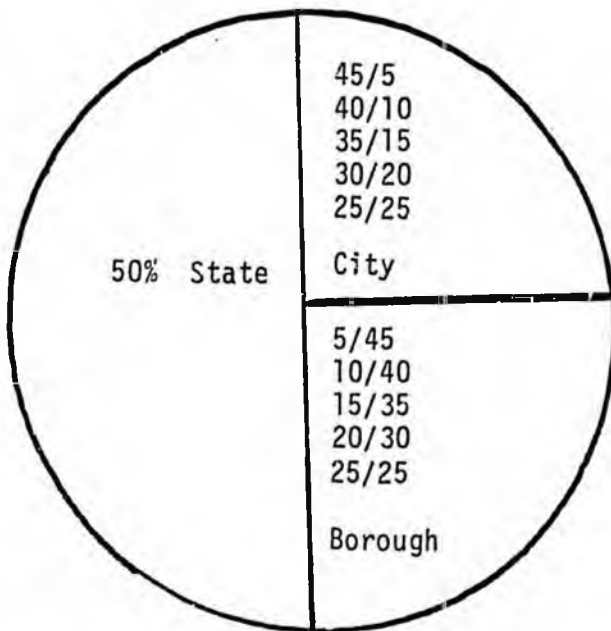
CITIES - under current law the state shares fish tax revenue 50% / 50% with cities



BOROUGH'S - when a Borough is formed, cities are required to share half of their fish tax revenue with the new Borough



SB. 162



First year of Incorporation: City retains 45% and returns 5% to Borough

First calendar year of Borough: City retains 40% and returns 10% to Borough

Second calendar year of Borough: City retains 35% and returns 15% to Borough

Third Calendar year of Borough: City retains 30% and returns 20% to Borough

Fourth Calendar year of Borough: City retains 25% and returns 25%

Because the cities are giving up a substantial portion of their fish tax revenue to the new Borough organization, SB 162 will help to ease the revenue loss by phasing in revenue payments to the new organization.

This affects only revenues generated within the cities boundaries and does not affect the portion of revenues generated in the new borough boundaries. Those additional revenues will be shared 50% state / 50% Borough

Fish processor plant proposed, would lease city's ice machine

By BETSY LONGENBAUGH

THE JUNEAU EMPIRE

It's good news on the fisheries front.

A fish processor is in town this week with a proposal to build a plant here, using an ice machine supplied by the city-borough and employing up to 80 people during the summer salmon season and possibly 25 people year-round.

Bill Kallenberg's proposal calls for his new company, Capital Seafoods, to lease the city-owned ice machine currently located in the Juneau Cold Storage Building.

Capital Seafoods would then begin processing fish by Aug. 1, employing some 30 to 40 people at that time. The processing plant would be capable of handling between 40,000 and 60,000 pounds of fish each day, either flying

it out fresh or freezing it.

Under the proposal, the ice machine would be moved from the cold storage building - which is scheduled for demolition in June - and placed at a municipal fisheries terminal on University of Alaska-Juneau property if the site is ready.

If it isn't, Kallenberg has arranged to temporarily lease a dock near the Douglas Bridge for the ice machine and store fish in the Lemon Creek area until the municipal site is ready.

Helping Kallenberg in this venture as his local representative is Eric Eckholm of Juneau. Kallenberg would manage the plant, however, and plans to move here from Seattle. Kallenberg is currently part-owner and operator of a fish processor in Egegik, which handles fish from the

Bristol Bay fishery.

Capital Seafoods' proposal was in response to the city-borough's decision to seek proposals to renovate and operate the ice machine. Funds to renovate the 15-year-old machine would be supplied by the city-borough from a federal grant of \$150,000.

Ira Winograd, assistant planner for the municipality, said Capital Seafoods' proposal will be recommended for award at the Juneau City-Borough Assembly's Monday meeting.

He said municipal staff will recommend Capital Seafoods' proposal over those received by Douglas Cold Storage and Bob File of Juneau.

Winograd said Capital Seafoods' proposal is preferred because of Kallenberg's experience with sea-

Please turn to Page 8



MARK KELLEY/JUNEAU EMPIRE

BILL KALLENBERG

Processor...

Continued from Page 1

food processing, the number of jobs provided by Capital Seafoods, its proposal to remain open year-round and its agreement to renovate the ice machine within the available federal funds.

Winograd added, however, that the federal grant funds have one stipulation attached - Capital Seafoods will be asked to employ workers who meet federal low-income standards.

Kallenberg, who arrived in Ju-

neau today, said he has considered putting a processing plant in Juneau for some time. He said he has fished here and knows what's available.

"I've had a lot of experience in Juneau and I understand the resource here," he said.

Kallenberg said that while Juneau isn't able to supply "a huge amount of salmon," it has "a steady and good quality resource of fish from Lynn Canal and Taku River."

He also anticipates that Juneau will be a good site for groundfish - which is caught during the winter and would keep the processor open year-round.

Kallenberg said the market for fresh groundfish has increased, and having two airlines in Juneau makes it a better base for flying out fresh fish than other Southeast towns.

He said this winter would be a "pilot program" for the groundfish operation, when he hopes to have between five and 10 boats selling fish to him.

Kallenberg said he is also interested in putting a processor in Juneau because of the fish available from local hatcheries and because of the skilled work force available here.

"I see the labor pool here being a real asset," he said.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

March 16, 1987

POSITION PAPER

STEVE COWPER, GOVERNOR

- P.O. BOX B
JUNEAU, ALASKA 99811-2100
PHONE: (907) 465-4700
- 949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

RE: SB 162 -- "An Act relating to fisheries business tax refunds to local government; and providing for an effective date."

SPONSOR: Senator Zharoff

Program Effects of Bill:

Section 1 of the bill amends existing language in AS 43.75.130(a) to provide for a new subsection (d) as well as several minor "house cleaning" wording changes.

Section 2 of the bill amends AS 43.75.130 by adding a new subsection (d) which provides for a five-year phasing in of the sharing of fish tax revenues between cities and boroughs in the instance of new borough formation.

Section 3 of the bill provides for an immediate effective date for the Act.

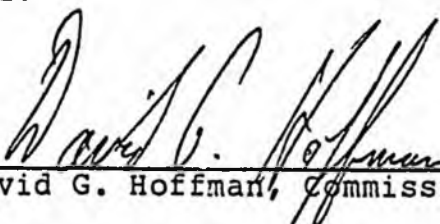
Comments:

The existing State Fisheries Business Tax law provides for a "refund" of this state tax to municipalities in whose jurisdiction the tax was collected. In the case of unified municipalities and cities in the unorganized borough, 50 percent of the tax revenue collected within municipal boundaries is returned. However, cities located within a borough must in turn share 50 percent of their fish tax refund with the surrounding borough. In other words, such a city would receive only 25 percent of the fish tax collected within its jurisdiction; the other 25 percent would go to the borough.

The state fish tax provides a significant and relatively stable portion of total revenues for many cities presently located outside of organized boroughs. The formation of a borough which would include such cities would result in sudden and substantial revenue losses for these cities. Cities located within the new borough have no guarantee of receiving any of this funding back from the borough. The prospect of such a revenue shock represents a clear disincentive to borough formation. Providing for a phased transition into the sharing of fish tax revenues from cities to new boroughs would reduce the severity of the shock to city operations; consequently, reducing the disincentive to borough formation.

SB 162
March 16, 1987
Page Two

The establishment of strong, self-sufficient, local and regional government throughout Alaska is a longstanding goal of the Department of Community and Regional Affairs. The Department endorses practical measures which provide incentives, or reduce existing disincentives, with regard to borough formation. The measures provided for in this bill appear to be straightforward in effect and relatively simple in their implementation. The Department therefore supports the expeditious passage of this bill.



David G. Hoffman, Commissioner

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99812 • (907) 497-2340

May 11, 1987

The Honorable Al Adams, Chairman
House Finance Committee
Alaska House of Representatives
Pouch V
Juneau, Alaska 99811

RE: HB 226/SB 162

Dear Representative Adams:

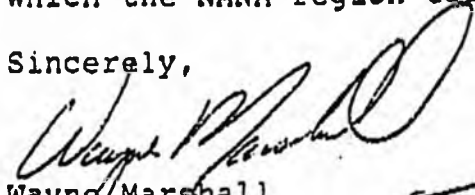
The Communities of the Aleutians East region, Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, ask for your support of SB 162/HB 226, an Act relating to Fisheries Business Tax refunds. Our region has submitted the petition required to establish the Aleutians East Borough, and if the State Local Boundary Commission acts favorably, an election will be held in October, 1987, on incorporating a borough. We view passage of SB 162/HB 226 as critical to residents voting to form the new Aleutians East Borough.

This legislation allows the phased transfer of fish tax revenues between existing cities and a newly established borough. The transition will occur over a period of five years and would allow the cities to adjust existing service delivery to the decrease in amount and percentage of fish tax revenues they will receive. The net effect is that the bill will decrease one of the disincentives for borough incorporation for cities in the Aleutians East region which heavily depend on the fish tax revenues they currently receive. For example, the Cities of Akutan and King Cove receive 15%-20% of their general operating revenues from the State Fish Tax. Also, the bill will not affect the new borough's ability to deliver quality services, does not affect fish tax revenues existing boroughs receive, does not affect State revenues, and does not require any new State monies to implement.

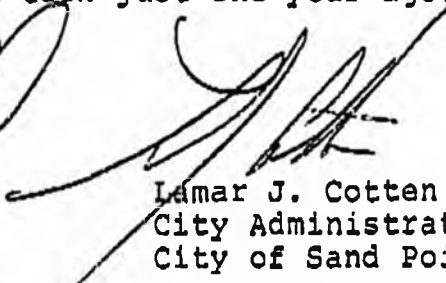
To date, this legislation has been acted on by the Senate and was approved by this Chamber's Labor and Commerce, Community and Regional Affairs and Finance Committees. On the House side, the Resources and Community and Regional Affairs Committees have approved the legislation. We ask now for the

House Finance Committee's support so the legislation can be adopted this legislative session. The legislation will remove one of the obstacles to establishing a borough and more self-government in the Aleutians East region, a step which the NANA region took just one year ago.

Sincerely,



Wayne Marshall
City Manager
City of King Cove



Lamar J. Cotten
City Administrator
City of Sand Point.

cc: Rep. Herrmann
Sen. Zharoff

CITY OF KING COVE

P.O. Box 37 • King Cove, Alaska 99612 • (907) 497-2340

January 12, 1987

The Honorable Fred Zharoff
P.O. Box 405
Kodiak, Alaska 99615

RE: Establishing a Borough Government in the Aleutians East Region

Dear Senator Zharoff:

The six communities of the Aleutians East region; Akutan, Cold Bay, False Pass, King Cove, Nelson Lagoon and Sand Point, are pursuing possible formation of a borough government. On November 10, 1986, leaders from the above communities met to examine concerns facing the region and the merits of forming a borough as a way to address these concerns. The general consensus of the 27 persons that participated in this meeting was:

- o there are a number of serious financial, capital improvement project, political and other problems facing the region;
- o community leaders should meet again early in 1987 to make a more informed decision on establishing a Borough;
- o additional information must be gathered and examined before community leaders decide if the area should incorporate an Aleutians East Borough;
- o an Aleutians East Borough is probably the best way for residents to address many of the region's problems; and
- o incorporation of an Aleutians East Borough may soon be necessary.

This consensus reflects an awareness that the serious financial problems facing the State and Aleutians East communities will require the region to examine ways to raise additional local revenues to maintain service delivery.

In addressing forming a borough, community leaders identified concerns which may be impediments to establishing a Borough. Three of these concerns, which are identified below and

described in the attached topical papers, are ones which will require legislative assistance and action to accomplish. The region asks for your support and direction in helping to relieve the problems caused by these impediments.

The three concerns which require legislative attention include:

1) Effect of Establishing a Borough Government on Revenues for Education Services that the Region will Receive. The concern centers on the potential of significantly decreased revenues to the district for education if a Borough is established. The existing State School Foundation Funding Formula does not include provisions to address the merging of three school districts into a single district. The region needs assistance from you to work with the Departments of Education and Revenue, and fellow legislators to ensure the Borough School District receives a level of education funds equal to those which would have been provided to the Aleutians REAA and King Cove and Sand Point School Districts.

2) Shared Fish Tax Distribution - Borough/Cities: The concern centers on the loss of State Shared Fish Tax (Fishery Business Taxes) revenues to the region's four cities if a Borough is established. This occurs because the present law requires cities in the organized borough to equally share raw fish tax revenues they would receive with a borough, while a city in the unorganized borough receives a full share of these taxes. The region proposes the existing law be amended to allow a three year phase-out of the amount of revenue the cities will lose to a borough. This amendment is fully explained in the attached issue paper and will require legislative action.

3) Borough Formation Assistance Funds: The region needs approximately \$30,000 and assistance from the Department of Community and Regional Affairs (DCRA) to complete its efforts to form a Borough. To date, the region has used FY 85 Regional Strategy Funds from DCRA to fund its organizational efforts. These funds are now exhausted. The region would use the funds to conduct meetings of regional representatives, gather data, prepare its incorporation petition and publish public information. The region will need the funds to conduct these activities in March -December 1987.

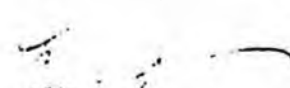
These three issues, if they can be resolved, will lessen the impediments and provide incentives to establish a Borough. The region will keep you appraised of our efforts to pursue Borough formation and is available to further discuss the above three concerns with you. In addition you and your staff are invited to participate in the next meeting of community leaders, which is tentatively scheduled for the first week of February in Anchorage.

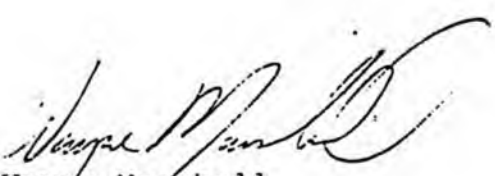
Also, enclosed for your review is information that has been produced on the Aleutians East Borough. This information includes:

- o Aleutians East Regional Government Study, March 1986 report;
- o Executive summary of the above report, March 1986;
- o Aleutians East Regional Government Study, Issues/Data Update paper, October 31, 1986, which was distributed to representatives that attended the November 10, 1986 meeting;
- o Aleutians East Borough - Why Is It Being Considered?, brochure, January 1987, which was distributed on January 9, 1987 to all box holders in the Aleutians East region.

We would appreciate the opportunity to discuss the region's concerns with you when you pass through Anchorage on your way to Juneau.

Sincerely,


Lamar J. Cotten
City Administrator


Wayne Marshall
City Manager

1689 'C' Street
Anchorage, Alaska 99501
276-2700

STATE FISHERIES BUSINESS (RAW FISH) TAX

DESCRIPTION OF PRESENT DISTRIBUTION SYSTEM FOR STATE FISHERIES BUSINESS TAX REVENUES: Existing State law provides that the State and cities in the Unorganized Borough equally share, 50%-50%, State Fisheries Business Tax revenues (for fish delivered within city boundaries). However, if a borough exists, the State receives its 50% share, but the borough and cities within the borough must equally share the other 50% of revenues. Thus, if an Aleutians East Borough is established, cities which presently receive 50% of State Fisheries Tax revenues see this amount decrease to 25% of the State tax, a loss of half of the cities' present fish tax revenues.

The cities of Akutan, King Cove and Sand Point, and to a lesser extent, Cold Bay, receive a large amount of their municipal revenues from State Fish Tax revenues. For example, the following represents revenues received for FY 86 and FY 87:

	<u>Akutan</u>	<u>King Cove</u>	<u>Sand Point</u>	<u>Cold Bay</u>
FY 86	\$121,000	\$410,000	\$ 88,000	(about)\$2,500
FY 87	\$356,000	\$327,000	\$114,000	(about)\$2,500

In short, the above cities received a total of \$621,500 in FY 86, and \$800,000 in FY 87.

DESCRIPTION OF CONCERN: In examining Borough formation, the present distribution method causes significant concern among the cities in the Aleutians East region. If a Borough is established, each city would immediately lose a significant amount of its local revenue base to the new Borough. This loss, when coupled with projected decreases in State Municipal Assistance (elimination of this program has been publicly discussed by Governor Cowper's administration), State Revenue Sharing and State School Foundation funds, will make it extremely difficult for these cities to absorb the loss of half of the State Fish Tax monies. This revenue loss is heightened because it occurs in one year; the year the borough is incorporated.

The City of King Cove's budget and revenues are used to illustrate the extent of loss. In FY 86, King Cove had general operating revenues of about \$1,000,000. Of these, \$411,000 or about 41%, were obtained from the 50% disbursement of State Shared Fish Tax revenues. If a borough existed in FY 86, King Cove would have lost about \$205,000 or 20% of its general operating revenue base to the borough.

Similarly, in FY 87, about 35% (\$327,000) of King Cove's revenues are from State Shared Fish Tax revenues; or a loss of about 18% of its operating funds if a borough existed. Akutan obtains an even greater percentage of its operating funds than King Cove from State Shared Fish Tax revenues, while Sand Point receives a lesser, but significant amount.

Collectively, the Aleutians East region cities view the present method for distributing State Shared Fish Tax revenues as a disincentive to establishing a borough. This revenue loss (if a borough is established), combined with the projected losses in other State assistance funds, and little, if any, decrease in services which the cities deliver, except for education, will cause severe shortfalls in City budgets. The cities need a way to mitigate these losses so they, like the State, can gradually adjust to reduced revenues. Specifically, the Aleutians East region cities need time to adjust to the elimination of half of the Fish Tax Revenues which they presently receive.

LEGISLATIVE ASSISTANCE NEEDED: Cities in the Aleutians East region as well as those in other coastal areas which may pursue borough formation, would benefit from a phased reduction in the amount of State Shared Fish Tax revenues, rather than an abrupt immediate reduction of half of these revenues. The intent of the phased reduction is to provide the cities with a transition period to adjust to permanent revenue losses, and to mitigate one of the disincentives for borough incorporation. Two options are recommended for legislative action to help accomplish this objective.

Option 1 - The State provides each City 75% of its full share for year one, 50% for year two, and 25% for year three, of the difference between 50% and 25% of State Shared Fish Tax revenues after a Borough is established. In addition, the Borough begins to receive its full 25% share of State revenues from the date the Borough is established.

The following illustrates how Option #1 would apply assuming a City were eligible to receive (if it had remained in the Unorganized Borough) \$400,000 in State Shared Fish Tax revenues for each of 3 years.

Year #1. City receives \$200,000, plus an additional appropriation of \$150,000 (75% of funds Borough would receive), and the Borough would receive \$200,000.

Year #2. City receives \$200,000, plus an additional appropriation of \$100,000 (50% of funds Borough would receive), and Borough would receive \$200,000.

Year #3. City receives \$200,000, plus an additional appropriation of \$50,000 (25% of funds Borough would receive) and Borough would receive \$200,000.

Year #4 and beyond. City receives \$200,000 and Borough receives \$200,000. No additional State funds are required.

Option #1 will enable cities to adjust to the permanent loss of these revenues over a three year period, rather than in one year. Also, this provides a Borough with the funds it needs to deliver services to borough residents. This approach would require the State to provide additional revenues for a period of three years to this region (and potentially others that may establish a Borough), but would not require a permanent commitment of State funds above and beyond present State Fish Tax formula distributions. In return, the State would encourage Borough formation, a State goal, by removing one of the obstacles - immediate loss of revenues - to the Cities.

This approach is similar to the State's method of trying to reach a sustainable budget. The State is gradually reducing services/budget to a sustainable level, rather than making wholesale reductions in one year because of revenue shortfalls --- making the budget equal revenues received. This policy is being pursued even though it requires the infusion of one time sources of revenues or reserve or savings account funds into the State budget.

Option 2 - The State retains its 50% of revenues, and each city receives its 25% share, plus a graduated reduction of the borough's 25% share. The proposed distribution of a percentage of the Borough's State Shared Fish Tax revenue to the respective cities would be over 3 years. Each City would receive its respective share at the rate of 75% of Borough share -year 1, 50% of Borough share -year 2, and 25% of Borough share -year 3.

Using the same example as Option #1, \$400,000 per year in Fish Tax business done within city limits, Option #2 would result in the following:

Year #1. City would receive \$200,000, plus 75% of the Borough's allocation \$150,000, and the Borough would receive \$50,000.

Year #2. City would receive \$200,000, plus 50% of the Borough's allocation \$100,000, and the Borough would receive \$100,000.

Year #3. - City would receive \$200,000, plus 25% of the Borough's allocation \$50,000, and the Borough would receive \$150,000.

Year #4 and beyond. City would receive \$200,000, but none of the borough share, and the borough would receive its full \$200,000 allocation.

This would allow cities to gradually wean themselves from reliance on fish tax revenues and mitigate one of the concerns with establishing a Borough -immediate loss of almost 20% of city revenues for at least 2 of the Aleutians East cities.

However, this approach, unlike option 1, may cause problems for Borough service delivery. The newly established borough will not receive its full share of Fish Tax revenues, and may not have adequate funds to operate. For example, in FY 87, the Aleutians East Borough (if it was established) would not have received approximately \$360,000, because the cities would retain these funds in year one using this option. In year two, this amount would decrease to about \$240,000, and in year three, would further decrease to about \$120,000, because of the graduated reduction. However, this method would not require the allocation of additional State funds, it would only require legislative action to adopt the change, and administrative action to implement it. The major disadvantage to this option from the region's perspective is the loss of funds to help the newly established borough become operational.

The communities which are considering borough formation in the Aleutians East recognize that either of these options may be difficult to achieve, but believe a phased reduction in State Shared Fish Tax revenues is needed to encourage borough formation.

Original sponsor: Zharoff

1 IN THE SENATE BY THE COMMUNITY AND
REGIONAL AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 162 (C&RA)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to fisheries business tax refunds to
7 local government; and providing for an effective
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 43.75.130(a) is amended to read:

11 (a) Except as provided in (d) of this section, the [THE] commis-
12 sioner of revenue shall pay

13 (1) to each unified municipality and to each city located
14 in the unorganized borough, 50 percent of the amount of tax revenue
15 collected in the municipality from taxes levied under [BY] this chap-
16 ter;

17 (2) to each city located within a borough, 25 percent of
18 the amount of tax revenue collected in the city from taxes levied
19 under [BY] this chapter; and

20 (3) to each borough

21 (A) 50 percent of the amount of tax revenue collected
22 in the area of the borough outside cities from taxes levied under
23 [BY] this chapter; and

24 (B) 25 percent of the amount of tax revenue collected
25 in cities located within the borough from taxes levied under [BY]
26 this chapter.

27 * Sec. 2. AS 43.75.130 is amended by adding new subsections to read:

28 (d) Notwithstanding the provisions of (a)(2) and (a)(3)(B) of
29 this section, the commissioner shall pay

1 (1) to each city in a borough that is incorporated after
2 the effective date of this Act the following percentages of the tax
3 revenue collected in the city from taxes levied under this chapter:

4 (A) 45 percent of the taxes collected during the
5 calendar year in which the borough is incorporated;

6 (B) 40 percent of the taxes collected during the first
7 calendar year after the calendar year in which the borough is
8 incorporated;

9 (C) 35 percent of the taxes collected during the
10 second calendar year after the calendar year in which the borough
11 is incorporated; and

12 (D) 30 percent of the taxes collected during the third
13 calendar year after the calendar year in which the borough is
14 incorporated; and

15 (2) to each borough that is incorporated after the effec-
16 tive date of this Act the following percentages of the tax revenue
17 collected in the cities located within the borough from taxes levied
18 under this chapter:

19 (A) 5 percent of the taxes collected during the calen-
20 dar year in which the borough is incorporated;

21 (B) 10 percent of the taxes collected during the first
22 calendar year after the calendar year in which the borough is
23 incorporated;

24 (C) 15 percent of the taxes collected during the
25 second calendar year after the calendar year in which the borough
26 is incorporated; and

27 (D) 20 percent of the taxes collected during the third
28 calendar year after the calendar year in which the borough is
29 incorporated.

1 (e) Notwithstanding the provisions of (d) of this section, a
2 city may adopt an ordinance to transfer a portion of the funds re-
3 ceived under (d)(1) of this section to the borough in which the city
4 is located.

5 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).

1 IN THE SENATE

BY ZHAROFF

2

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