HB

456

HOUSE COMMITTEE REPORT

File

(11)
Date Referred: March 30, 1990 FURTHER REFERRALS:

Date of Committee Action: 4/30/90

The FINANCE Committee considered: SSHB 456

SS BILL NO. 456 FISHERIES BUSINESS TAX REFUNDS

"An Act relating to the fisheries business tax and to the allocation of fisheries business tax receipts to certain municipalities by the Department of Community and Regional Affairs; and providing for an effective date."

RECOMMENDATIONS:
[X] be replaced with CS SS HB 456 (FIN) [ ] the same title [✓] a new title
[ ] have attached amendment(s)
[ ] do pass
[ ] do not pass
[✓] no recommendation
[ ] individual recommendations
[ ] additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s): (Dept)
[ ] fiscal impact _____
2 [✓] zero fiscal note C&RA; Dept Rev.
[ ] zero with analysis _____

APPROVES PREVIOUS: (Date/Dept)
[ ] fiscal note(s) _____
[ ] zero fiscal note(s) _____
[ ] zero fn/analysis _____

SIGNING DO PASS:
Hoffman
Swackhammer
Ulmer

SIGNING:
(Check approp. column)

	Do Not Pass	No Rec	Amend
Larson		X	
Brown		X	
Koponen		X	
Phillips		✓	
Rieger		X	
Barnes		X	

Co-Chairman's Signature: Larson

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CS SS HB 456 (Fin)
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: "An Act relating to the fisheries business tax....."
Sponsor: Representative Goll
Requestor:

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

Adopted

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES			23.1	23.1	24.0	24.0
TRAVEL			2.0	2.0	2.0	2.0
CONTRACTUAL			3.0	3.0	3.0	3.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	28.1	28.1	29.0	29.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	28.1	28.1	29.0	29.0
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	28.1	28.1	29.0	29.0

POSITIONS:

FULL-TIME						
PART-TIME	-0-	-0-	1	1	1	1
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

There is no fiscal effect for FY 90.

Jim Plasman

Prepared by: Jim Plasman, Deputy Director
Phone: 465-4750
Division: Municipal & Regional Assistance
Date: 4/30/90

Approved by Commissioner: Harold T. Shefferman
Date: 4-30-90
Agency: Community & Regional Affairs

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

Position Title	No. of Positions	Range/Step	Barg. Unit
Grants Administrator	1	17 A	GGU

Time Status	Staff Months	Location	Election District
Part-time	6 months	Juneau	

Type of Expenditure		Amount
1	2	3
Salary	17.4	
Benefits	5.0	
Premium Pay		
Other		
Total Personal Services		22.4
Travel		2.0
Contractual		3.0
Commodities		
Equipment		1.0
Other		
Total Cost		28.4

Funding Source for Total Cost		
Federal Receipts	1002	
G. F. Match	1003	
General Fund	1004	28.4
I-A Receipts	1006	
CIP Receipts	1061	
Other		

Justification

This position will administer the tax sharing program. The amount of work associated with the program does not justify a full-time position.

Request For New Position

Agency: Community & Regional Affairs
BRU: Local Government Assistance
Component: Statewide Assistance

FY 91

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CSSSHB 456 (FIN)

PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: Fisheries Business Tax Refunds to Municipalities
Sponsor: Goll
Requestor: Finance

Agency Affected: Revenue
BRU: Income & Excise Audit
Components: Operating

Adopted

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
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	<$4000.>	<$4000.>	<$4000.>	<$4000.>

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

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven E. Ketter
Division: Income and Excise Audit
Phone: (907) 465-2320
Date: April 30, 1990

Approved by Commissioner: Hugh Malone for
Agency: Department of Revenue
Date: April 30, 1990

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

Original sponsor(s): REP. GOLL

IN THE HOUSE BY THE FINANCE COMMITTEE

CS FOR SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 456 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to the fisheries business tax and to the allocation of certain fisheries business tax receipts to certain municipalities by the Department of Community and Regional Affairs; and providing for an effective date."

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

* Section 1. AS 29.60 is amended by adding a new section to read:

ARTICLE 6. SHARED FISHERIES BUSINESS TAXES.

Sec. 29.60.450. FISHERIES BUSINESS TAX ALLOCATION. (a) A municipality may receive a fisheries business tax allocation under this section if the municipality demonstrates to the department that the municipality suffered significant effects from fisheries business activities during the base year.

(b) The amount transmitted each fiscal year under AS 43.75.137 shall be apportioned by the department to each management area based on the ratio of the management area's production value to the total production value for all of the management areas. The department shall allocate the amount available for each management area to each municipality in that management area based on the demonstrated effects on the municipality of fisheries business activities, the commercial fishing vessel days in that municipality, or both.

(c) A municipality that receives a tax allocation under this section shall use the tax allocation to help reduce the effect of fisheries business activities on the municipality, which may include

the expenses of any municipal service.

(d) At the request of the department, an applicant or a recipient of a tax allocation shall provide the department with the assistance and information available to the municipality that is necessary for the department to carry out the department's duties under this section relating to that municipality.

(e) The department may adopt regulations necessary to carry out the provisions of this section.

(f) In this section

(1) "base year" means the calendar year that precedes the application deadline for the tax allocation year;

(2) "commercial fishing vessel day" means a day for which a fishing vessel licensed under AS 16.05.490 pays the municipality a moorage, harbor, or docking fee;

(3) "effect" means the result of fisheries business activities on the municipality's

(A) population;

(B) employment;

(C) finances;

(D) air and water quality;

(E) fish and wildlife habitats; and

(F) ability to provide essential public services, including health care, public safety, education, transportation, marine garbage collection and disposal, solid waste disposal, utilities, and government administration;

(4) "fisheries business activity" means activity related to

(A) fishing, including but not limited to the catching and sale of fisheries resources;

(B) vessel moorage and vessel and gear maintenance;

(C) preparing fisheries resources for transportation; and

(D) processing fisheries resources for sale by freezing, icing, cooking, salting, or other method and includes but is not limited to canneries, cold storages, freezer ships, and processing plants;

(5) "management area" means one of the geographical units designated by the Board of Fisheries by regulation adopted under AS 16.05.251(a)(2) for the management of commercial fisheries of the state;

(6) "production value" means the weight of the fish and shellfish produced by floating fisheries businesses.

* Sec. 2. AS 43.75 is amended by adding a new section to read:

Sec. 43.75.137. ADDITIONAL REFUND. To the extent that appropriations are available for the purpose, and notwithstanding the requirement of AS 37.07.080(e) that approval of the office of management and budget is required, an amount equal to 50 percent of the tax revenue that is collected under this chapter from floating fisheries businesses and is not subject to division with a municipality under AS 43.75.130 shall be transmitted each fiscal year, without the approval of the office of management and budget, by the department to the Department of Community and Regional Affairs for disbursal to eligible municipalities under AS 29.60.450.

* Sec. 3. This Act takes effect July 1, 1992.

CITY OF DILLINGHAM

P.O. Box 889
Dillingham, Alaska 99576

CITY HALL	(907) 842-5211
TELEX	(907) 842-5691
FIRE RESCUE	(907) 842-2288
PLANNING	(907) 842-5203
PUBLIC WORKS	(907) 842-5148

POLICY POSITION - H.B. 456

Mr. Chairman, members of the House Finance Committee, my name is Joe McGill and I am the Mayor of Dillingham. I am here today to testify in favor of H.B. 456.

For the past five legislative sessions, one the City's top legislative priorities has been the issue of sharing raw fish taxes collected from floating processors with local governments impacted by those processing activities.

Perhaps some brief background information on this issue would be helpful in framing the public policy issues surrounding this matter. Since statehood it has been the policy of the State of Alaska to share raw fish taxes with incorporated communities in or near the area in which the fishery resource is harvested and processed.

When the original tax sharing statute was originally implemented, the vast majority of fish processing facilities were located onshore. However, with the passage of time, advent of new technology, and changing economics of fishery resource processing, an ever-increasing amount of processing is taking place offshore--outside of municipal boundaries. The net effect of this trend is that onshore communities--which serve as staging areas for the offshore processing activities--bear the brunt of the impacts created by the processing activities. However, the impacted communities do not receive any of the taxes paid to the State by the offshore processors. We believe this an inequitable situation which must be addressed.

Further, as a matter of public policy, we believe that any bill which passes the Legislature should incorporate the following basic distribution plan:

> Incorporated governments located within ADF&G commercial fishery management areas which are impacted by a fishery should be eligible for any funds which would be distributed under this bill. We urge the Committee to consider adopting the distribution plan utilized by the Department of Community and Regional Affairs under the pilot project program of several years ago.

In closing, the City of Dillingham wishes to express its

strong support for the passage of H.B. 456 which includes our proposed distribution plan. We also wish to stress that legislation patterned after our proposal would accomplish the following public policy objectives:

1. It would correct a long-standing inequity in current law which adversely affect local governments which absorb the impacts created by offshore processors, but receive no financial assistance to cope with those impacts.

2. It holds the promise of giving local governments access to a long-term, stable source of income which will exist long after Prudhoe Bay revenues have dried up.

3. It discourages the recent trend by local governments to implement "creative alternatives" to capture tax revenues from floating processors, such as annexing bay with boundaries drawn to include areas where floating processors now operate.

In the Community and Regional Affairs Committee and in the Resources Committee there have been concerns expressed regarding the fiscal impact of this legislation. In addition, there have been concerns expressed about the impact of the onshore fish tax credit for construction of processing facilities. It is our understanding the fish tax credit program will end next year. Therefore, to ease the Committee's potential concern about fiscal impact on the State Treasury, we suggest a delayed effective date on the bill to July 1, 1991 or July 1, 1992.

Mr. Chairman, members of the Committee, the City thanks you for giving us the opportunity to testify on this important bill.

STATE OF ALASKA
THE LEGISLATURE
LEGISLATIVE AFFAIRS AGENCY

POUCH Y · STATE CAPITOL
JUNEAU, ALASKA 99811
907·465·3800

MEMORANDUM February 26, 1990

SUBJECT: Draft Community & Regional Affairs Committee Substitute for House Bill 456 - sectional analysis

TO: Representative Eileen MacLean, Chair
House Community & Regional Affairs Committee
ATTN: Rena Bukovich

FROM: Jack Chenoweth
Legislative Counsel

The draft committee substitute substantially modifies the sponsor substitute offered ten days ago.

The legislation establishes a mechanism for sharing additional revenue derived from the fisheries business tax. Bill section 2, adds a new section, AS 43.75.137, to the chapter levying and collecting the fisheries business tax. It directs that 50% of the amounts received by the Department of Revenue from the current tax levy on floating fisheries businesses that is not already shared with municipalities under existing AS 43.75.130 is to be transferred to the Department of Community & Regional Affairs to support the new revenue sharing mechanism.

The specifics of the sharing mechanism are set out in bill section 1. AS 29.65.450, added by that bill section, directs the Department of Community & Regional Affairs as follows:

Subsection 450(a) establishes as a threshold requirement for receipt of a revenue sharing entitlement that the recipient shall be a municipality and the municipality shall have "suffered significant effects from fisheries business activities during the base year."

Subsection 450(b) sets out the formula for computation of entitlements:

$$\frac{\text{commercial fishing vessel days}}{.01 \times \text{municipal population in preceding year}} + \frac{\text{commercial fishing vessel days}}{\text{distribution factor}}$$

in which the distribution factor is the larger of:

(1) the receiving municipality's per capita distribution of the fisheries business tax under AS 43.75.130 during the preceding year; or

(2) the average statewide per capita distribution of the fisheries business tax (calculated for all receiving municipalities) under AS 43.75.130 during the preceding year.

Subsection 450(c) authorizes pro rata distribution of the distribution of the tax money available for distribution.

Subsection 450(d) directs a municipality receiving an entitlement to use the entitlement "to help reduce the effect of fisheries business activities on the municipality," but allows the local government to use the money to meet the expenses of any municipal service.

Subsection 450(e), a management provision, directs the Department of Community & Regional Affairs to calculate the factors applicable to determine the distribution, and requires the municipal applicants and recipients to cooperate with the department in carrying out the program responsibilities.

Subsection 450(f) authorizes the department to adopt necessary regulations.

Subsection 450(g) sets out definitions for terms used in the preceding subsections. Note, especially, the definitions of "commercial fishing vessel day" and "fisheries business activity."

Bill section 3 sets the effective date for this measure as July 1, 1990, the start of the next fiscal year.

JC:pl
WKP2/093

CITY OF CRAIG ALASKA

P.O. Box 23, Craig, Alaska 99921 (907) 826-3275

January 12, 1990

Rep. Peter Goll
P.O. Box V
Juneau 99811

Dear Representative Goll:

The situation with the boat harbors in Craig is getting desperate. Every year the North Cove harbor sustains considerable damage from winter storms because it is not adequately protected. Because Craig receives no raw-fish tax, we are unable to adequately maintain the on-going maintenance required by the State contract let alone do the repairs necessary every year as a result of the winter storms. Moorage fees just do not generate enough revenues as we have spaces for only 129 vessels.

In order to solve the harbor problems, we have tried several approaches:

- First, in order to protect the North Cove harbor, we declared through a City Resolution (see attached) that an emergency existed that required funds to install a temporary log-boom breakwater to prevent further damage to the harbor. We then requested and received support from Emergency Services and DOT/PF to seek a declaration from the Governor for emergency funds (see attached). The Governor on 1/5/90, although agreeing that the need for the breakwater had been demonstrated, did not grant the request as other funding methods were available (see attached letter).

- Secondly, the City Council passed a Resolution authorizing the Administrator to seek legislative assistance in mitigating the problem caused by the City not receiving any raw-fish tax while at the same time providing services for one of the largest purse-seine and troll fleets in Alaska (see attached). This problem is further compounded by the fact that although the demand is there resulting in a 2 to 3 year waiting list for moorage, the City does not have enough moorage spaces to meet the demand and generate revenues to support the harbors. Every year other City revenues are used to cover the deficit created by harbor support. In working with both Southeast Conference and AML, we were able to get these organizations to support resolutions calling for a stronger commitment to collect raw-fish tax and to find ways to use raw-fish tax to support fishing harbors located in the unorganized borough(see attached resolutions). The problem remains, however, and Craig has received no raw-fish tax revenues for many years.

Try though we have, we have to date been unsuccessful in both of these efforts. Hence the purpose of this correspondence.

(1)The immediate problem of annual damage to North Cove harbor must be addressed first in that the risk of loss of property and the endangerment of life and limb must be prevented or at least reduced significantly. The temporary log-boom breakwater will go a long way to reducing these risks. Although the log-boom will not protect against significant swells from the north, nevertheless it will eliminate damaging chop and the subsequent icing present whenever a northerly winter storm occurs. The City of Craig is therefore asking that you and your fellow legislators assist us in finding at least $150,000 to construct a temporary log-boom breakwater in accordance to the requirements of DOT. As you will note from the emergency application, the City will contribute some in-kind services to complete the project. The permit application with the Corps of Engineers has already been submitted and they have indicated that the process can be expedited if necessary.

As you will note, I have indicated that this is a temporary breakwater, one that eventually will have to be replaced with a permanent rock breakwater. The Corps of Engineers is in the process of conducting a reconnaissance and feasibility study of the Craig harbor under the provisions of the Safe Harbor Act and a more permanent breakwater will have to wait until the completion and recommendation of this study.

(2)The long range solution to Craig's harbor problems is dependent upon whether or not adequate funds are available for harbor expansion and repair. As we all know, the primary source of these funds is in the distribution of the raw-fish tax back to the municipalities harboring the fishing fleet and providing support to the fishing and fish-processing effort.

In 1989, $15,721,755 of raw-fish tax was collected and distributed back to the cities and organized boroughs throughout Alaska. Petersburg received $807,316, Ketchikan City & Borough received $690,163 and Craig received $0. All of the fish caught and landed in Craig by the Craig based fleet was transported to and processed in either Petersburg or Ketchikan, hence these communities received the tax collected for these fish. All raw-fish tax revenues collected outside of the city limits of Craig by floating processors buying from the Craig based fleet was kept entirely by the State as the processors were located in the unorganized borough. These, I might add, are processors located within a very short distance from Craig, some within sight of the city limits.

We realize that the obvious solution to this problem is to attract processors within the city limits of Craig. Every effort is being made to do this from upgrading our water supply (estimated completion of water treatment plant is Fall of 1990) to settling the land reconveyance issue with our local native corporation. In the meantime, however, the fact is that a large amount of tax collected in the unorganized boroughs throughout the State is not going to municipalities harboring the fishing fleet but is being collected and held by the State. I can't believe that this was the Legislature's intent when they passed Title 43.75, the statute establishing the fisheries business tax imposed upon shore-based and floating processors, commonly referred to as the "raw-fish tax".

In AS 43.75.130, Refund to local governments, it is very apparent that the Legislature intended that 50 percent of the tax was to go back to the municipalities supporting the fishing and processing activities. The only problem with the statute is that it fails to address the distribution back to the municipalities of the tax collected in the unorganized borough. Realizing that the method for allocation of tax revenues back to municipalities in the unorganized borough may be unclear, it nevertheless is something that can be worked out on a formula based on population, harbor space or other criteria.

May I request that the Legislature please address the inequities in the manner that the raw-fish tax is distributed to the municipalities that are involved in harboring and supporting the fishing fleets throughout Alaska. Without these tax revenues intended for the effected municipalities, adequate care and maintenance of our harbors will fall far short of that necessary to attract and provide for a professional fishing fleet, especially in light of the declining State revenues and the declining logging industry.

Thank you for attention to these problems and I look forward to hearing from you on these or other matters.

Sincerely,

Tom Briggs

Tom Briggs
City Administrator

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325
FAX 463-5480

217 SECOND STREET, SUITE 200
JUNEAU, ALASKA 99801

AML PRIORITY ISSUES

April 4, 1990

RESTORATION OF FUNDING FOR MUNICIPAL ASSISTANCE AND REVENUE SHARING

The League seeks restoration of funding for the Municipal Assistance and State Revenue Sharing programs in recognition of the shared resources and responsibilities of the State and local governments to provide essential services to Alaska's citizens.

The League requests that for FY 91 the Municipal Assistance Program be funded at not less than $56,084,400, the FY 89 appropriation level and the level requested by the Governor for FY 90. The League requests that the State Revenue Sharing Program be funded for FY 91 at $40,773,400, the FY 89 appropriation level and the level requested by the Governor for FY 90.

Bill Number: HB 500, the Governor's budget

Status: HB 500 is in House Finance; HB 101, which would increase minimum entitlements under the Revenue Sharing Program from $25,000 to $50,000 with a $3.4 million hold-harmless cost, is in Senate Finance.

Action Needed: Restoration of the 6 percent cuts in Municipal Assistance and Revenue Sharing plus passage of HB 101 (with the inclusion of the $3.4 million for the hold harmless provision).

FULL FUNDING FOR EDUCATION

The League requests full funding for public education, including the Education Foundation Formula ($512,771,092) and the School Construction Debt Reimbursement Program ($131,500,000), in recognition of the State's constitutional responsibility to provide education to all of Alaska's children.

REMOVAL OF SALES TAX CAP

The League supports legislation that would remove the 6 percent sales tax cap currently imposed on general law municipalities.

Bill Number: SB 505

Status: SB 505 is awaiting a hearing in Senate Finance (it is tentatively scheduled for a hearing next week). Zero fiscal note.

Action Needed: Passage.

REMOVAL OF RESTRICTIONS ON SEPARATE TAXATION OF ALCOHOL

The League supports legislation that would allow municipalities to tax alcohol at any rate and in the absence of other sales taxes.

Bill Number: SB 507

Status: SB 507 is awaiting a hearing in Senate Labor and Commerce

Action Needed: Passage.

SHARING OF FISHERIES BUSINESS TAX RECEIPTS WITH MUNICIPALITIES

The League supports legislation establishing a program to share fisheries business tax receipts from processors operating outside municipal boundaries with affected municipalities to mitigate the impacts of the fisheries on the provision of local services.

Bill Number: HB 456
SB 512

Status: CSHB 456 (C&RA) is awaiting a hearing in House Finance Committee. SB 512 is waiting for a hearing in Senate Resources.

Action Needed: Passage of HB 456.

REPORTING OF REAL PROPERTY TRANSACTION VALUES

The League supports legislation requiring that real property transaction values be reported and that this information be made available to municipalities.

The Alaska Municipal League supports establishment of a program to share fisheries business tax proceeds from offshore processors with affected municipalities to mitigate the impacts of the fisheries on the provision of local services.

Coastal municipalities must provide additional governmental services because of the impact of seafood processors, both within and outside municipal boundaries. It is important that tax receipts from all types of processors be shared with the municipalities affected by their operations.

Under the provisions of AS 43.75, Fisheries Taxes, all processors must pay a fisheries business tax to the State. Only the portion of the tax collected as a result of processing activity that takes place within municipal boundaries is shared with municipalities. This is intended to help offset the demands on local services resulting from the influx of people, demand for utilities, increased use of health facilities, additional call for law enforcement, and other impacts that result from the fish harvesting and processing activities. The formula for distribution of these tax revenues is based on the revenue generated from fisheries business operations occurring within municipal boundaries. The municipalities get 50 percent, and the State retains 50 percent. Shared fisheries tax revenues are a substantial source of revenue for many local governments: in FY 89, for example, 53 municipalities received over $15.7 million, with shares ranging from as little as $52.50 to over $1.7 million (Bristol Bay Borough and Kodiak Island Borough).

Current statutes provide that the revenue generated from fish processing plants located outside municipal boundaries goes entirely to the State and is not shared with local governments, in spite of the fact that the activities of these processors do impact local governments. Many municipalities have to provide additional services as a result of offshore processing operations outside their borders, for instance health services, garbage hauling, and expanded law enforcement activities. These impacts can be significant to municipalities and their taxpayers, especially in proportion to the level of service provided to their permanent municipal population. However, the State, which does not provide services at the local level, receives the tax receipts from the processors operating outside municipal boundaries.

In FY 1989, the total tax liability of processors was $41.3 million. Of this, $31.4 million was attributable to processing activity that took place within municipal boundaries (resulting in a $15.7 million distribution to municipalities). The balance, $9.9 million, was attributable to processors operating outside municipalities and

was retained by the State. If this had been shared 50/50 with affected municipalities, local governments would have received up to $4.95 million to help mitigate the additional costs of providing services to processors and their employees.

The League supports a program that would share the fisheries business tax revenues generated from processors located outside municipal boundaries with those communities that can demonstrate an effect on municipal operations resulting from the processors' activities. During FY 86, the Department of Community and Regional Affairs conducted a pilot project to allocate revenues from offshore processing activities to municipalities, and legislation (HB 314/SB 454) was introduced in 1988 that would have made such a program permanent. The impact of offshore processors on local government operation is, if anything, increasing, and municipalities, which must provide services to such processors, should be given a share of the revenue received by the State from them.

NOTE: Senator Zharoff is planning to introduce legislation (copy attached) that would establish a program to share fisheries business tax revenue collected from processors outside municipal boundaries with affected municipalities.

FISH TAX COMPLIANCE PROJECT

FIRST ANNUAL REPORT
JANUARY 31, 1990

PREPARED BY:

STEVEN E. KETTEL
VINCENT D. WRIGHT
ALASKA DEPARTMENT OF REVENUE

Introduction

The Department of Revenue, Income and Excise Audit Division is responsible for enforcement and collection of the Fisheries Business Tax, also known as the raw fish tax, under AS 43.75. The tax is generally levied against fish processors engaged in processing raw fish products in the state. The tax is also collected from fishermen and others who export fish out of the state in an unprocessed form. The rate of tax varies depending upon the type of processing conducted, the species of fish processed, location of the fish caught or the method used to catch the fishery resource. Revenues from the fisheries business tax are placed in the general fund. One-half of the tax is shared back to cities and boroughs in which the processing activities occurred. Chart #3 illustrates our present fish tax collection and distribution and is more fully discussed at the end of this report.

Recently, the Alaska legislature directed that the department increase its level of fish tax and license compliance and approved increases in the division's budget to enhance its tax compliance activities in the fish tax area. The request for enhanced compliance has also been recently echoed by the Alaska Municipal League, Legislative Audit and the former House Research Agency. As late as 1982 the division had audit and compliance personnel in Fairbanks and Juneau and twice the staff it now has in Anchorage. Due to budget cutbacks and the partial reallocation of resources to oil and gas audit, Fairbanks and Juneau offices were closed. Audit and compliance activities in fisheries, mining and to some degree motor fuel tax was curtailed. In FY88 and FY89 the governor requested and legislators appropriated additional resources to the division to increase compliance specifically in the area of fisheries taxes. This initial report is designed to give the reader a historical perspective of fish tax collection efforts and focus attention on the need for additional resources to ensure that the fish processing industry pays its fair share of taxes to the state.

Fish Tax Task Force

On June 16, 1988 the division established a fish tax compliance task force. The general purpose for the task force was to increase tax collections and compliance with fish tax laws through in-field audit examinations, increased visibility of department personnel on the fishing grounds, and enhanced communications with industry and civic leaders in the state's fisheries hot spots.

Several objectives for the force were established and were accomplished. These included:

1) Coordinating efforts with Fish and Wildlife Protection and the Department of Fish and Game;

2) Establishing a Fish Tax evasion hotline;

3) Implementing the exchange of information program with the cities and boroughs affected by revenue sharing;

4) Increasing in-field activities including vessel boardings and field audits;

5) Utilizing public service announcements, and using radio, newspaper and television to advertise our presence in the fishing community and our determination to collect appropriate fish taxes due the state.

Juneau Audit & Compliance Unit

In conjunction with the task force, the division has also reallocated resources to establish a tax audit and compliance unit in Southeast Alaska. By April 1, we anticipate having on staff a supervisor, two auditors and a tax examiner to coordinate the fish tax audit and compliance activities in Southeast Alaska, Kodiak, the Aleutians and Pribilofs. Staffing problems have delayed the formation of the group, but recent hirings have put us in good shape going into the 1990 fishing season.

Measuring Performance

The division is given limited funding in which to perform its legislatively mandated functions. The division is required to administer twelve different tax programs in addition to five shared tax and license programs along with the unclaimed property program. Consequently, it is required to allocate its resources to ensure compliance with every tax law it administers. How those resources are allocated depends in large measure on the level of compliance presently existing and the anticipated increase in state revenues that audit activities may bring.

Two factors led the Governor and legislature to place additional resources in this division specifically to address fisheries tax issues. First, was the perception that voluntary compliance was low as a result of several years of limited audit activities. Second, the Americanization of the Bering Sea bottomfish industry has resulted in an increase in the number of fishermen and floating processors having contact with Alaska's ports, and the development of additional shoreside processing capacity. The potential for tremendous volumes of fish coming near shore or onshore for processing also dramatically increased. With the majority of this activity taking place in remote areas of the state, voluntary compliance was anticipated to be low.

Beginning in fiscal year 1988 and continuing through 1989, the division has increased its audit activity and its visibility on the fishing grounds. Staff have visited the lucrative Sitka herring fishery, Valdez, Kodiak, Kenai Peninsula, Bristol Bay, Port Moller, Dutch Harbor and St. Paul. At each site vessels were boarded and other enforcement and data gathering actions were taken. In terms of dollars and cents these efforts have proven highly successful. Chart #1 compares the value of tax assessments and adjustments made to tax returns over the past 6 years, with the administrative costs we

have allocated to conduct compliance activities. In FY89, the last complete year in which statistics are available, nearly $1.5 million in adjustments to fish taxes were made. Less than $200,000 was expended to generate that tax, for a 7 to 1 return. In FY90, assessments have already outdistanced FY89's results with nearly half the year yet remaining. Costs to administer the program have increased. However, we do not believe we have reached the point of diminishing returns. In fact, we have more complaints, leads, anonymous tips and requests from other agencies than we have staff to handle them.

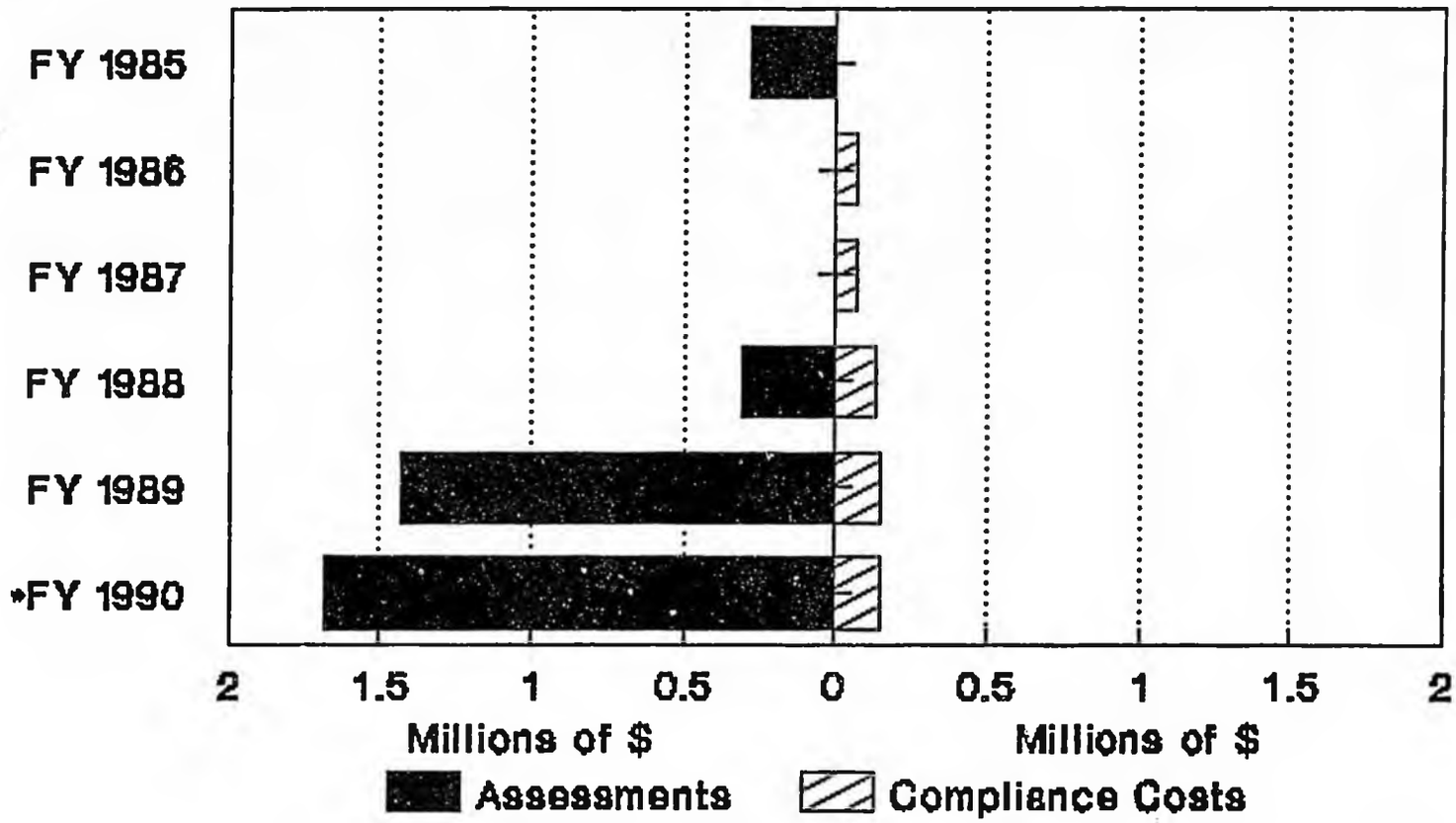
The trend for fish tax revenues is up over the past 3 years and most agree there is no sign of the fishing boom leveling off in the near future. Chart #2 illustrates the significant increase in fish tax collections from FY87 through FY89, matching the dramatic rise in the value of Alaska fish harvest. The division's resources are being seriously challenged to keep up with the boom. The large numbers of floating processors moving into many new areas such as the Pribilofs, and outer reaches of Alaska'a Western shores are creating new compliance problems. We do not have the personnel to be on site for all important fisheries. High travel costs to those remote areas are stretching our budget resources even further.

Disposition of Raw Fish Tax

As with many of the tax types administered by this department, much of the raw fish tax revenues which would otherwise flow to the general fund is either shared with communities impacted by the fishing industry or donated back to the fish processors in the form of tax credits. Total fish tax take before revenue sharing and credits has risen from $18 million in FY 85 to a record $41.4 million in FY 89. In that same time frame general fund revenues available for appropriation actually has declined from a high of $18.3 million in FY 87 to $11.0 million in FY 89.

The decline in general fund revenues is attributed to two causes. The Department has worked much more closely with local communities and floating processors to ensure that revenue generated in those municipalities is properly shared. Secondly, beginning in FY 88 fish processors were entitled to deduct from their fish tax liability a credit for expenditures made to construct, improve, or increase the quality or capacity of their shorebased processing operations. In FY 88 and FY 89 these credits have reduced general fund revenues by over $21 million. Chart #3 illustrates the disposition of raw fish tax from FY 86 through FY 89.

Assessments vs Compliance Cost
(Fisheries)

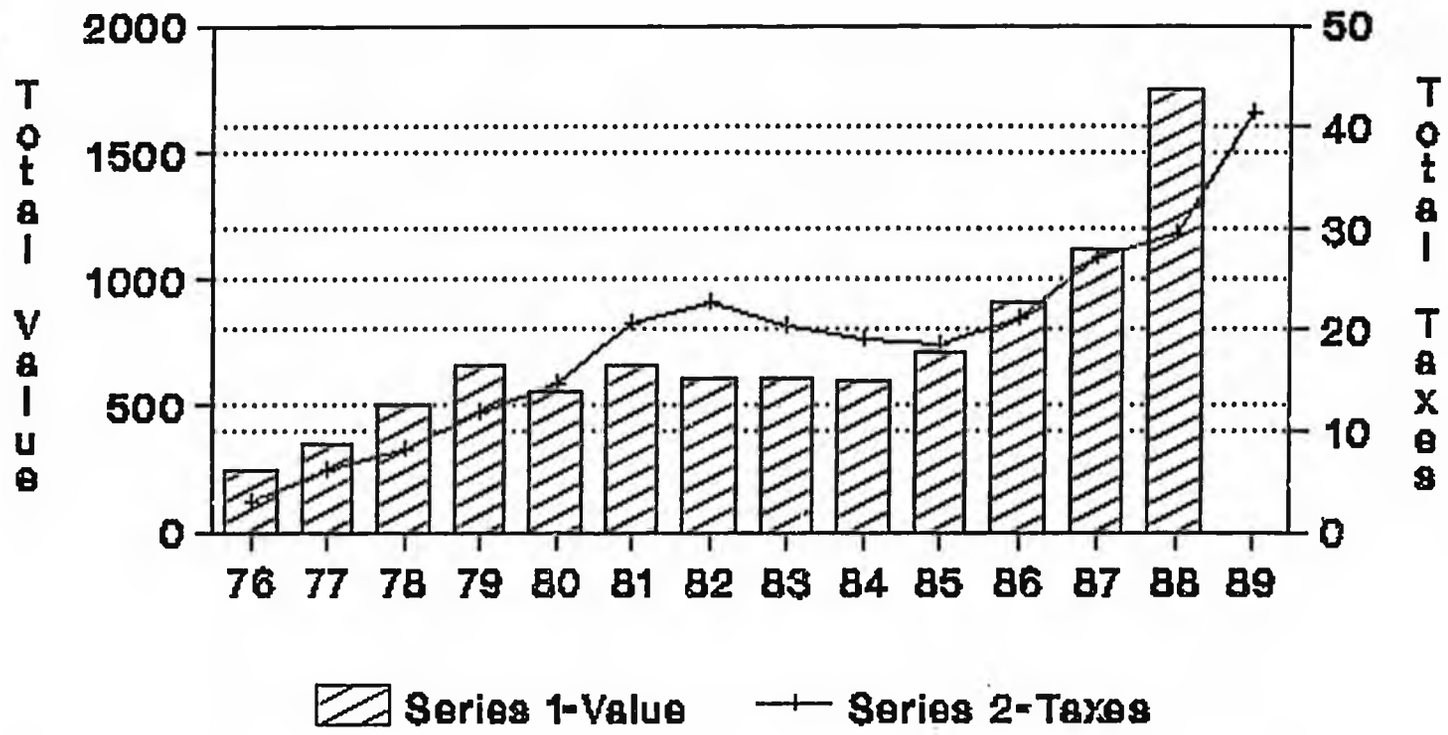


*The costs and assessments are for one half year only.

CHART 1

DEPT. OF REVENUE
1-31-90

Fisheries
Value vs. Taxes
(millions of $)

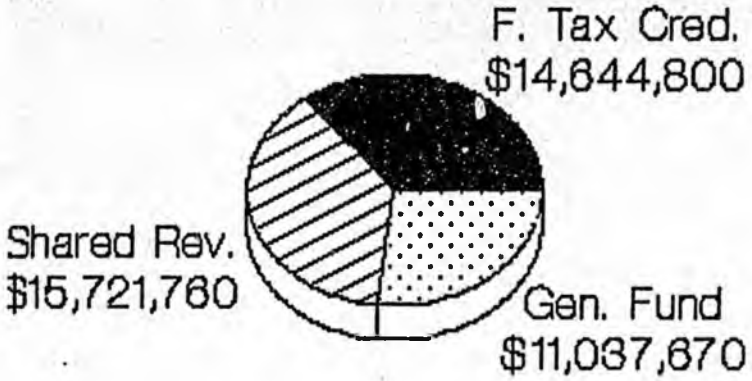


Source of Value Info. - Dept. of F&G
Value Data by CY - Tax Data by FY

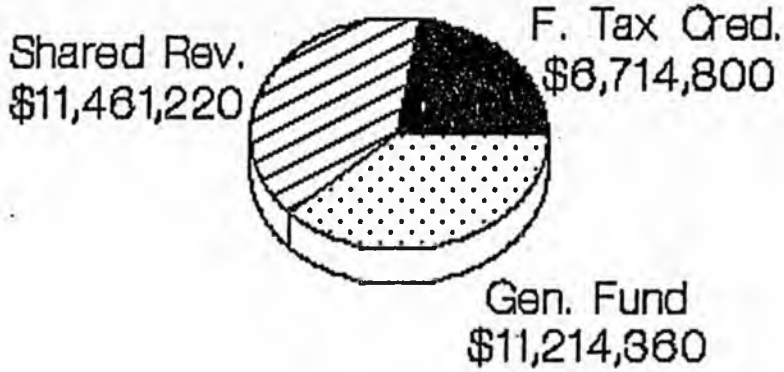
CHART 2

DEPT. OF REVENUE
1-31-90

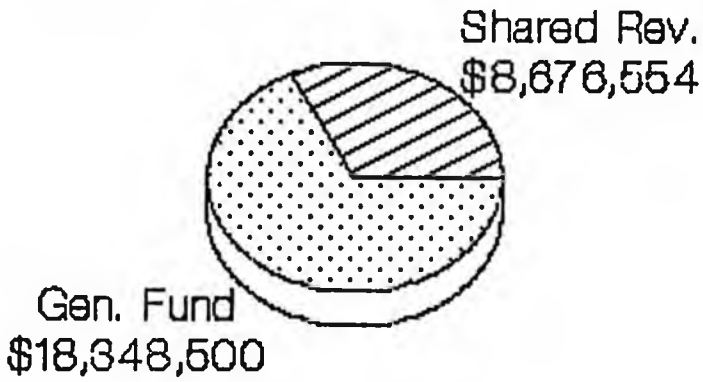
DISPOSITION OF FISH TAXES



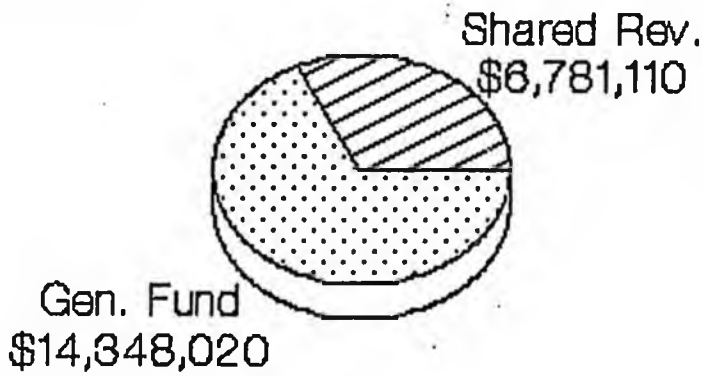
Fish Taxes
FY 1989



Fish Taxes
FY 1988



Fish Taxes
FY 1987



Fish Taxes
FY 1986

CHART 3

DOR
1-31-90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CS SSHB 456
PUBLISH DATE:

FISCAL NOTE

REQUEST:

Revision Date:
Title: "An act relating to fisheries business tax refunds."
Sponsor: Goll
Requestor:

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES	22.4	22.4	23.1	23.1	24.0	24.0
TRAVEL	2.0	2.0	2.0	2.0	2.0	2.0
CONTRACTUAL	3.0	3.0	3.0	3.0	3.0	3.0
SUPPLIES						
EQUIPMENT	1.0					
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	28.4	27.4	28.1	28.1	29.0	29.0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	28.4	27.4	28.1	28.1	29.0	29.0
FEDERAL FUNDS						
OTHER						
TOTAL	28.4	27.4	28.1	28.1	29.0	29.0

POSITIONS:

FULL-TIME						
PART-TIME	1	1	1	1	1	1
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

No fiscal impact in FY 90.

Prepared by: Jim Plasman, Deputy Director
Phone: 465-4750
Division: Municipal & Regional Assistance
Date: 02-27-90

Approved by Commissioner: Marc C. Kolbe
Date: 2-27-90
Agency: Community & Regional Affairs

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

page ____ of ____

Position Title	No. of Positions	Range/Step	Barg. Unit
Grants Administrator	1	17 A	GGU

Time Status	Staff Months	Location	Election District
Part-time	6 months	Juneau	

Type of Expenditure		Amount
1	2	3
Salary	17.4	
Benefits	5.0	
Premium Pay		
Other		
Total Personal Services		22.4
Travel		2.0
Contractual		3.0
Commodities		
Equipment		1.0
Other		
Total Cost		28.4

Funding Source for Total Cost		
Federal Receipts	1002	
G. F. Match	1003	
General Fund	1004	28.4
I-A Receipts	1006	
CIP Receipts	1061	
Other		

Justification

This position will administer the tax sharing program. The amount of work associated with the program does not justify a full-time position.

Request For New Position

Agency: Community & Regional Affairs

BRU: Local Government Assistance

Component: Statewide Assistance

Revised Date

FY 91