

H J R

33

# HOUSE COMMITTEE REPORT

(9)

Date Referred: January 9, 1989

FURTHER REFERRALS: FINANCE

Date of Committee Action: 4-17-89

The RESOURCES Committee recommends that:

HOUSE BILL NO. 33 [EXTEND FISHERIES BUSINESS TAX CREDIT]  
"An Act amending and extending the fisheries business tax credit."

- [ ] be replaced with \_\_\_\_\_ [ ] the same title  
[ ] have 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 Revenue 9/13/89  
[ ] zero fiscal note  
[ ] zero with analysis

APPROVES PREVIOUS:

- [ ] fiscal note(s) published:  
\_\_\_\_\_  
[ ] zero fiscal notes(s) published:  
\_\_\_\_\_

SIGNING DO PASS:

SIGNING OTHER THAN DO PASS:  
(Do Not Pass, No Recommendation, Amend)

Clyde Davidson  
George Gorkie Jr.

Frank Mendicino NO REC  
Bill Hudson - Need more info!  
Best Sharp - Do Not Pass  
Richard Kopey no Rec  
Mike Avano no rec  
Mike Davis NO REC

Clyde Davidson  
Chairman's signat re

STATE OF ALASKA  
1989 LEGISLATIVE SESSION

BILL VERSION: HB 33  
PUBLISH DATE: 1/9/89

FISCAL NOTE

REQUEST: \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: An Act Amending and Extending the Fisheries Business Tax Credit  
Sponsor: Cato, etc.  
Requestor: Resources and Finance

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

EXPENDITURES/REVENUES: (Thousands of Dollars)

|                    | FY 91    | FY 92    | FY 93    | FY 94    | FY 95 | FY 96 |
|--------------------|----------|----------|----------|----------|-------|-------|
| 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            | <6700.0> | 13700.0> | 13700.0> | 13700.0> | 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 | 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. Kettel *Steven E. Kettel* Phone: (907) 465-2320  
Division: Income and Excise Audit Date: March 13, 1989

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: March 13, 1989  
Agency: Department of Revenue

Distribution (by preparer):

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

HB 33

Prepared by: Steven E. Kettel

March 15, 1989

### BILL ANALYSIS

The present fish tax credit program has been widely utilized by the shorebased fisheries processing industry. Nearly \$80 million in shorebased investment has been proposed since 1986 and the Department continues to approve additional millions in proposed expenditures each month.

Actual tax credits taken to date total \$6.7 million. This represents credits for expenditures made in 1987 only. 1988 expenditures and the corresponding credits will be claimed by the end of March 1989. Due to higher than expected returns in some salmon fisheries, and higher prices for many species, we anticipate both an increase in fish tax collections for 1988 and a corresponding increase in fish tax credits claimed.

### FISCAL IMPACT OF HB 33

We project that fish processors will continue to take advantage of this program into the 1990's. The attached schedule anticipates that by expanding the number of years that capital expenditures will give rise to tax credits, an estimated \$63.2 million in general funds may be lost. To calculate this impact we have made several broad assumptions.

- 1) Expenditures will level out to \$40 million per year for each additional year of the program.
- 2) The fish tax collections will increase 10% in FY89 and 5% thereafter based upon increased product capacity and productivity through capital expansion.
- 3) We assume that the last tax year for which credits will be granted is 1995.

### DEPARTMENT POSITION STATEMENT

The Department of Revenue opposes this legislation for the following reasons:

- 1) As the fiscal note reports, this legislation has substantial impact on general fund revenues.
- 2) This legislation does not mandate municipal participation. The Department favors an amendment requiring cities and boroughs which benefit from the capital expansion to give up a portion of their revenues.
- 3) After the initial capital expansion which was encouraged by this program, the Department believes that many of the expenditures will be made regardless of whether a credit is offered.

PROJECTED REVENUE IMPACT  
 FISHERIES BUSINESS TAX CREDIT (AS 43,75.032)  
 (\$ in millions)

PREPARED BY:

STEVEN E. KETTEL  
 INCOME & EXCISE AUDIT  
 MARCH 13, 1989

| TAX YEAR<br>FISCAL YEAR                               | EXISTING CREDIT PROGRAM |              |                 |              | PROGRAM UNDER HB33 |              |              | TOTAL |
|---|-------------------------|--------------|-----------------|--------------|--------------------|--------------|--------------|-------|
|   | 1987<br>1988            | 1988<br>1989 | 1989<br>1990(a) | 1990<br>1991 | 1991<br>1992       | 1992<br>1993 | 1993<br>1994 |       |
| APPROVED<br>EXPENDITURES                              | 55.5                    | 62.4         | 38.4            | 40.0         | 40.0               | N/A          | N/A          | 236.3 |
| CREDIT<br>AVAILABLE                                   | 27.7                    | 31.2         | 19.2            | 20.0         | 20.0               | N/A          | N/A          | 118.1 |
| CREDIT APPLIED<br>(REVENUE LOSS)                      | 6.7                     | 11.0         | 11.8            | 12.4         | 13.0               | 13.7         | 13.7         | 82.3  |
| UNUSED CREDIT   | 21.0                    | 20.2         | 7.4             | 7.6          | 7.00               | 0            | 0            |       |
| CREDIT AVAILABLE<br>FOR CARRYFORWARD                  | 21.0                    | 41.2         | 48.6            | 56.2         | 63.2               | 49.5         | 35.8         |       |
| FISHERIES TAX<br>LIABILITY BEFORE<br>CREDIT APPLIED   | 29.2                    | (b)32.1      | 33.7            | 35.4         | 37.2               | 39.0         | 39.0         | 245.6 |
| FISHERIES TAX<br>LIABILITY AFTER<br>CREDIT APPLIED(c) | 22.5                    | 21.1         | 21.9            | 23.0         | 24.2               | 25.3         | 25.3         | 163.3 |

(a) TY 1989 expenditures to 3/10/89 amount to 18.4 million. Balance of calendar year expenditures at 20 million. TY 1990 through 1991 annual expenditures estimated at 20 million per year.

(b) Tax liability is an estimate based on an increase in resource value and production. Fisheries Business tax returns are due March 31 of the following year. The rate of increase is estimated at 5% to FY 1993 and remained constant through FY 1994.

(c) General fund receipts after revenue sharing:

|             |             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 1987        | 1988        | 1989        | 1990        | 1991        | 1992        |
| <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1991</u> | <u>1992</u> | <u>1993</u> |
| 7.9         | 5.0         | 5.2         | 5.3         | 5.6         | 5.8         |

January 20, 1988

The Honorable Ben Grussendorf  
Speaker of the House  
P.O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032. The spreadsheet attached gives the details of the estimated expenditures which have been approved for the credit.

Total expenditures approved for the 1987 calendar year were \$58,854,564. Total expenditures denied were \$3,312,339. Generally, expenditures denied were made before the effective date, or were being claimed by floating fish processors. The estimated expenditures approved in advance by the Department of Revenue were for the following types of equipment and facilities:

1. Plant modifications and facility upgrading;
2. Baader filleting skinning machines;
3. ice houses and refrigeration equipment;
4. new and replacement of various pumps and cannery equipment;
5. bottomfish and surimi processing equipment;
6. forklifts, loaders, cranes, booms, etc.

The increase in processing capacity and employment are difficult to measure at this point as these expenditures have received only a tentative approval in many cases and the expenditures have not yet been made. The 1987 tax year is the first year the credit is available so the tax credits have not been claimed on a return. Those returns are not due until March 31, 1988.

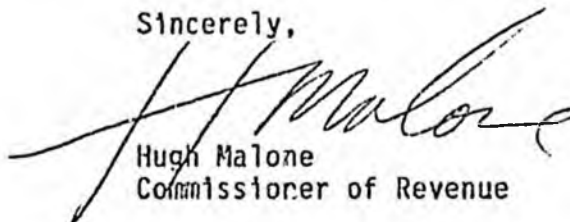
The total revenue the State received from the Fisheries Business Tax returns (AS 43.75) for FY 87 amounted to \$27,257,450. The minimum potential credits which may offset these revenues over the next three years based on applications approved to date are:

|                                       | <u>FY 88</u> | <u>FY 89</u> | <u>FY 90</u> |
|---------------------------------------|--------------|--------------|--------------|
| <u>Minimum</u> Estimated Revenue Loss | \$13,600,000 | \$13,600,000 | \$2,200,000  |

The Honorable Ben Grussendorf  
January 20, 1988  
Page 2

Approval of additional expenditures for credit in 1988 and 1989 will undoubtedly increase these estimates.

Sincerely,

A handwritten signature in cursive script, appearing to read "H. Malone", written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

Hugh Malone  
Commissioner of Revenue

HM:JH:sp  
88-14

January 20, 1989

The Honorable Sam Cotten  
Speaker of the House  
P. O. Box V  
Juneau, AK 99811

Dear Mr. Speaker:

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032.

This program allows fisheries businesses to reduce their tax liability by up to 50% each year over a three year period. This is a temporary program which allows for capital expenditures made in tax years 1987 through 1989 to be claimed as credits on tax returns through tax year 1991.

Qualifying expenditures must be approved by the Department of Revenue in advance and must "increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state" (AS43.75.032(a)).

The municipality in which the capital improvements are made may grant the fisheries business an additional credit of 25%. This reduces the municipality's share of the tax that they would ordinarily receive. The total credit taken against the business tax liability each year still may not exceed 50%.

The attached spreadsheets give the details of the estimated expenditures approved for tax credit in 1988 and the actual credits taken for 1987. Total expenditures approved for the 1988 calendar year were \$62,484,038.00. Total expenditures denied were \$8,781,373.00. Generally, denials were for expenditures made prior to approval from the Department, or for expenditures that did not qualify for the credit. Actual credits taken against 1987 taxes which directly reduced FY88 State revenues totaled \$6,714,793.00.

The expenditures were made for the following types of equipment and facilities:

- plant modifications and facility upgrades;
- Baader filleting skinning machines;
- ice houses and refrigeration equipment;
- new and replacement of various pumps and cannery equipment;
- bottomfish and surimi processing equipment;
- forklifts, loaders, cranes, booms, etc.

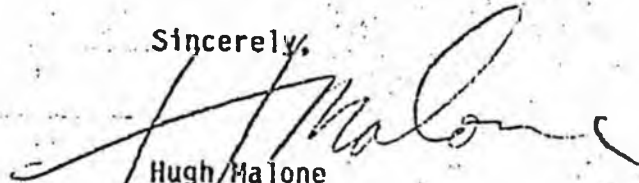
The Honorable Sam Cotten  
January 20, 1989  
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the city's share of the tax because the tax liability did not exceed the amount of credit already granted by the state. In 1988 three cities participated by granting credit to four processors.

To date no business has sought approval of a credit for construction of an industrial seafood park.

If you have any further questions, please let us know.

Sincerely,



Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
89-16

| EXPEND YEAR          | LOCATION OF FACILITY | EXPENDITURE AMT APPROVED | TOTAL POTENTIAL CREDIT              | 1987 QUALIFYING EXPENDITURES | ACTUAL CREDIT AVAILABLE | CREDIT TAKEN PER RETURN | ADJUSTED CREDIT APPLIED | MUNICIPAL PARTICIPATION | POTENTIAL CARRYOVER AVAILABLE |
|----------------------|----------------------|--------------------------|-------------------------------------|------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------------|
| 1987                 | AKUTAN               | \$200,000.00             | \$100,000.00                        | \$0.00                       | \$0.00                  | \$58,031.18             | \$0.00                  |                         | \$0.00                        |
| 1987                 | AKUTAN               | \$13,688,000.00          | \$6,844,000.00                      | \$0.00                       | \$0.00                  | \$0.00                  | \$0.00                  |                         | \$6,844,000.00                |
| 1987                 | ALITAK               | \$120,000.00             | \$60,000.00                         | \$196,737.00                 | \$78,366.00             | \$139,756.02            |                         |                         |                               |
| 1987                 | CHIGNIK              | \$351,509.00             | \$175,750.00                        | \$296,021.00                 | \$145,010.50            | \$152,365.50            | \$145,010.50            |                         | \$0.00                        |
| 1986                 | CORDOVA              | \$950,826.00             | \$475,413.00                        | \$859,172.00                 | \$434,586.00            | \$217,293.00            | \$217,293.00            |                         | \$217,293.00                  |
| 1986                 | CORDOVA              | \$965,929.00             | \$482,964.50                        | \$765,928.63                 | \$482,964.32            | \$327,540.39            | \$327,540.39            |                         | \$155,423.93                  |
| 1987                 | CORDOVA              | \$382,647.00             | \$191,323.50                        | \$191,323.50                 | \$193,103.00            | \$91,360.00             | \$91,360.00             |                         | \$191,743.00                  |
| 1987                 | CRAIG                | \$385,000.00             | \$192,500.00                        | \$493,071.16                 | \$246,935.58            | \$67,011.88             | \$67,078.51             |                         | \$179,857.07                  |
| 1987                 | ERUK                 | \$435,645.00             | \$217,822.50                        | \$608,203.00                 | \$304,101.50            | \$91,914.30             |                         |                         |                               |
| 1987                 | EXCURSION INLET      | \$282,237.00             | \$141,118.50                        | \$687,135.00                 | \$343,567.50            | \$85,472.55             |                         |                         |                               |
| 1986                 | HOONAH               | \$195,515.00             | \$97,757.50                         | \$349,428.62                 | \$174,714.31            | \$47,265.70             | \$47,265.70             |                         | \$127,449.61                  |
| 1986                 | JUNEAU               | \$3,000.00               | \$1,500.00                          | \$4,084.00                   | \$2,042.00              | \$2,141.98              | \$2,042.00              |                         | \$0.00                        |
| 1987                 | JUNEAU               | \$1,500.00               | \$750.00                            | \$1,678.96                   | \$839.48                | \$839.48                | \$839.48                |                         | \$0.00                        |
| 1987                 | KASILOF              | \$190,000.00             | \$95,000.00                         | \$190,000.00                 | \$95,000.00             | \$25,436.00             | \$25,527.02             |                         | \$69,472.98                   |
| 1986                 | KEHAI                | \$550,810.00             | \$275,405.00                        | \$277,203.00                 | \$138,601.50            | \$21,470.72             | \$21,470.72             |                         | \$104,589.19                  |
| 1986                 | KEHAI                | \$234,400.00             | \$117,200.00                        | \$241,349.61                 | \$120,674.81            | \$103,319.00            | \$103,319.00            |                         | \$17,525.00                   |
| 1986                 | KEHAI                | \$49,553.00              | \$24,776.50                         | \$49,883.34                  | \$24,941.67             | \$24,776.67             | \$24,776.67             |                         | \$0.00                        |
| 1986                 | KEHAI                | \$88,400.00              | \$44,200.00                         | \$88,400.47                  | \$44,200.24             | \$15,044.30             | \$15,044.30             |                         | \$29,155.93                   |
| 1987                 | KEHAI                | \$383,500.00             | \$191,750.00                        | \$383,500.00                 | \$191,750.00            | \$157,042.26            | \$157,042.26            |                         | \$34,707.74                   |
| 1987                 | KEHAI                | \$96,629.00              | \$48,314.50                         | \$96,629.00                  | \$48,314.50             | \$59,983.00             | \$244,201.72            |                         |                               |
| 1986                 | KETCHIKAN            | \$731,699.00             | \$365,849.50                        | \$731,699.00                 | \$365,849.50            | \$97,072.85             | \$97,072.85             |                         | \$268,776.65                  |
| 1986                 | KETCHIKAN            | \$558,221.00             | \$279,110.50                        | \$797,347.00                 | \$398,673.50            | \$197,071.00            | \$197,071.00            |                         | \$201,603.00                  |
| 1986                 | KETCHIKAN            | \$1,160,000.00           | \$580,000.00                        | PENDING                      | \$0.00                  |                         |                         |                         | \$580,000.00                  |
| 1987                 | KETCHIKAN            | \$183,337.00             | \$91,668.50                         | \$263,976.00                 | \$131,988.00            | \$37,576.93             | \$975,327.48            |                         | \$17,129.52                   |
| 1987                 | KING COVE            | \$2,500,000.00           | \$1,250,000.00                      | \$0.00                       | \$0.00                  | \$80,000.00             | \$80,000.00             |                         | \$1,250,000.00                |
| 1986                 | KODIAK               | \$653,916.00             | \$326,958.00                        | PENDING                      | \$0.00                  |                         |                         |                         | \$326,958.00                  |
| 1986                 | KODIAK               | \$4,224,633.65           | \$2,112,316.83                      | \$4,226,633.65               | \$2,113,316.83          | \$410,151.30            | \$410,151.30            |                         | \$1,703,165.53                |
| 1986                 | KODIAK               | \$2,091,994.00           | \$1,045,997.00                      | \$0.00                       | \$0.00                  | \$0.00                  | \$0.00                  |                         | \$1,045,997.00                |
| 1987                 | KODIAK               | \$540,000.00             | \$270,000.00                        | \$254,309.47                 | \$127,154.74            | \$140,203.33            | \$140,203.33            |                         | \$0.00                        |
| 1987                 | KODIAK               | \$160,438.00             | \$80,219.00                         | \$139,770.19                 | \$69,885.10             | \$69,800.21             | \$68,478.00             |                         | \$84.69                       |
| 1987                 | KODIAK               | \$1,118,087.40           | \$559,043.70                        | \$1,318,204.92               | \$659,102.46            | \$318,435.25            | \$318,735.25            |                         | \$340,667.21                  |
| 1987                 | KODIAK               | \$1,472,527.00           | \$736,263.50                        | \$1,472,527.00               | \$736,263.50            | \$690,948.76            | \$690,948.76            |                         | \$45,314.74                   |
| 1987                 | KODIAK               | \$777,670.00             | \$388,835.00                        | \$754,637.39                 | \$377,418.70            | \$244,826.00            | \$244,826.00            |                         | \$132,592.70                  |
| 1987                 | KODIAK               | \$235,000.00             | \$117,500.00                        | \$48,642.07                  | \$24,321.04             | \$18,386.46             | \$18,386.46             |                         | \$5,934.58                    |
| 1986                 | MAKNEK               | \$32,940.00              | \$16,470.00                         | \$49,553.34                  | \$24,776.67             | \$24,776.67             | \$24,776.67             |                         | \$0.00                        |
| 1987                 | MAKNEK               | \$68,000.00              | \$34,000.00                         | \$63,001.00                  | \$31,500.50             | \$197,118.47            |                         |                         |                               |
| 1987                 | MAKNEK               | \$239,126.00             | \$119,563.00                        | \$119,563.00                 | \$0.00                  | \$0.00                  |                         |                         |                               |
| 1987                 | MAKNEK               | \$106,500.00             | \$53,250.00                         | \$101,431.71                 | \$50,715.86             | \$50,715.86             | \$0.00                  |                         | \$50,715.86                   |
| 1987                 | PETERSBURG           | \$2,706,847.06           | \$1,353,423.50                      | \$2,706,847.00               | \$1,353,423.50          |                         |                         |                         |                               |
| 1987                 | PETERSBURG           | \$399,500.00             | \$199,750.00                        | \$284,879.67                 | \$142,439.84            | \$111,824.62            | \$68,088.00             |                         | \$0.00                        |
| 1987                 | PETERSBURG           | \$77,000.00              | \$38,500.00                         | \$85,276.74                  | \$42,638.37             | \$42,638.27             | \$42,638.27             |                         | \$0.00                        |
| 1986                 | PORT BAILEY          | \$364,653.00             | \$182,326.50                        | \$45,791.00                  | \$22,950.50             | \$57,713.68             |                         |                         |                               |
| 1987                 | S. MAKNEK            | \$36,639.00              | \$18,319.50                         | \$0.00                       | \$0.00                  | \$0.00                  | \$0.00                  |                         | \$18,319.50                   |
| 1987                 | SLWARD               | \$616,087.00             | \$309,043.50                        | \$618,087.00                 | \$309,043.50            | \$1,573,143.18          | \$1,573,143.18          |                         | \$89,323.82                   |
| 1987                 | SITKA                | \$126,423.00             | \$63,211.50                         | \$25,422.97                  | \$12,711.49             | \$12,711.49             | \$12,711.49             |                         | \$0.00                        |
| 1987                 | SITKA                | \$524,251.00             | \$262,125.50                        |                              | \$0.00                  |                         |                         |                         |                               |
| 1987                 | TOSTAK               | \$139,395.00             | \$69,697.50                         | \$65,697.50                  | \$34,848.75             | \$40,535.09             | \$40,970.60             |                         | \$28,727.13                   |
| 1986                 | UNALASKA             | \$12,483,742.00          | \$6,241,871.00                      | \$16,878,360.00              | \$8,439,180.00          | \$284,296.44            | \$293,016.18            |                         | \$8,156,163.82                |
| 1986                 | UNALASKA             | \$428,552.00             | \$214,276.00                        | \$428,552.00                 | \$214,276.00            | \$37,732.22             | \$37,732.22             | \$107,138.00            | \$283,681.78                  |
| 1987                 | UNALASKA             | \$450,000.00             | \$225,000.00                        | \$0.00                       | \$0.00                  | \$0.00                  | \$0.00                  |                         | \$225,000.00                  |
| 1986                 | VALDEZ               | \$475,000.00             | \$237,500.00                        | \$269,273.34                 | \$134,636.67            | \$93,392.50             | \$93,392.50             |                         | \$41,244.17                   |
| 1987                 | WRANGELL             | \$197,000.00             | \$98,500.00                         | \$156,894.00                 | \$78,447.00             | \$54,778.50             | \$41,512.50             |                         | \$36,934.50                   |
| 1987                 | YAKUTAT              | \$1,224,435.00           | \$612,217.50                        | \$1,749,717.28               | \$874,858.64            | \$417,179.31            | \$417,179.31            |                         | \$457,679.33                  |
| TOTALS               |                      | \$55,488,269.05          | \$27,744,134.53                     | \$38,013,886.75              | \$19,006,943.38         | \$6,758,134.43          | \$6,714,793.39          |                         | \$22,729,372.05               |
| 8 UNEXAMINED RETURNS |                      | \$8                      | BRINDLE MEMORIAL SCHOLARSHIP CREDIT |                              |                         |                         |                         |                         |                               |

1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED  
PAGE 1

ENCLOSURE 2

| LOCATION OF FACILITY | \$ AMOUNT PENDING | \$ AMOUNT APPROVED | \$ AMOUNT DENIED | REASON FOR DENIAL        |
|----------------------|-------------------|--------------------|------------------|--------------------------|
| AKUTAN               |                   | \$403,000.00       |                  |                          |
| ALITAK               |                   | \$98,000.00        |                  |                          |
| ANCHORAGE            |                   | \$430,000.00       |                  |                          |
| ANCHORAGE            |                   | \$381,600.00       |                  |                          |
| BETHEL               |                   | \$51,000.00        |                  |                          |
| CHIGNIK              |                   | \$491,643.00       | \$305,000.00     | NO PRIOR APPROVAL        |
| CORDOVA              |                   |                    | \$23,830.00      | MESSHALL                 |
| CORDOVA              |                   | \$1,062,792.00     |                  |                          |
| CORDOVA              |                   | \$902,100.00       |                  |                          |
| CORDOVA              |                   |                    | \$79,550.00      | COMPUTER                 |
| CORDOVA              |                   | \$832,802.00       | \$61,650.00      | INVENTORY CONTROL/NPA    |
| DILLINGHAM           |                   | \$682,400.00       |                  |                          |
| EGEGIK               |                   | \$26,250.00        |                  |                          |
| EGEGIK               |                   | \$110,500.00       |                  |                          |
| EKUK                 |                   | \$1,836,997.00     |                  |                          |
| FLOATERS             |                   |                    | \$360,000.00     | FLOATERS                 |
| GUSTAVUS             |                   | \$60,000.00        |                  |                          |
| GUSTAVUS             |                   | \$5,030.00         |                  |                          |
| HAINES               |                   | \$39,000.00        |                  |                          |
| HOMER                |                   | \$239,300.00       |                  |                          |
| HOMER                |                   |                    | \$5,557.00       | NO PRIOR APPROVAL        |
| JUNEAU               |                   | \$8,000.00         |                  |                          |
| JUNEAU               |                   | \$589,000.00       |                  |                          |
| KASLOF               |                   | \$774,413.00       | \$93,707.00      | VARIOUS                  |
| KASLOF RVR           |                   | \$381,600.00       |                  |                          |
| KENAI                |                   |                    | \$9,000.00       | SKIFF/MOTOR              |
| KENAI                |                   | \$437,225.00       | \$14,500.00      | RADIO EQUIP              |
| KENAI                |                   |                    | \$3,000,000.00   | BUY EXISTING FCLTY       |
| KENAI                |                   | \$996,558.00       |                  |                          |
| KENAI                |                   |                    | \$42,864.00      | NO PRIOR APPROVAL        |
| KENAI                |                   | \$460,000.00       | \$10,000.00      | TRUCK/RADIO              |
| KENAI                |                   | \$1,256,450.00     | \$364,600.00     | VARIOUS                  |
| KENAI                |                   | \$192,626.00       |                  |                          |
| KENAI                |                   | \$241,450.00       |                  |                          |
| KETCHIKAN            |                   | \$186,260.00       |                  |                          |
| KETCHIKAN            |                   | \$617,105.00       |                  |                          |
| KODIAK               |                   | \$422,590.00       | \$20,000.00      | TRUCK/PHONE/PAVING       |
| KODIAK               |                   | \$1,635,000.00     | \$15,000.00      | VEHICLE                  |
| KODIAK               | \$6,000.00        | \$32,600.00        | \$15,000.00      | COMPUTER                 |
| KODIAK               |                   | \$1,136,600.00     |                  |                          |
| KODIAK               |                   | \$4,215,000.00     |                  |                          |
| KODIAK               |                   | \$218,800.00       | \$18,000.00      | NO PRIOR APPROVAL        |
| KODIAK               |                   | \$935,000.00       | \$1,085,000.00   | WAREHOUSE/TRUCK OVERHAUL |
| KODIAK               |                   | \$450,000.00       |                  |                          |
| KODIAK ISL           |                   | \$244,300.00       | \$189,900.00     | COMPUTER                 |
| NAKNEK               |                   | \$417,075.00       | \$38,592.00      | BUNKHOUSE/MESSHALL       |
| NAKNEK               |                   | \$1,303,000.00     | \$291,300.00     | TRUCK/BKHSE/BULLDZR      |
| NORTH POLE           |                   | \$57,140.00        |                  |                          |
| PELICAN              |                   | \$59,100.00        |                  |                          |
| PETERSBURG           |                   | \$1,944,600.00     |                  |                          |
| PETERSBURG           |                   | \$70,350.00        |                  |                          |
| FORT GRAHAM          |                   | \$124,623.00       | \$25,739.00      | COMPUTER                 |
| PT BAILEY            |                   | \$494,000.00       |                  |                          |
| S NAKNEK             |                   | \$801,480.00       |                  |                          |

1988 FISHERIES BUSINESS TAX CREDIT  
 EXPENDITURE AMOUNTS APPROVED/DENIED  
 PAGE 2

ENCLOSURE 2

| LOCATION OF FACILITY | \$ AMOUNT PENDING | \$ AMOUNT APPROVED | \$ AMOUNT DENIED | REASON FOR DENIAL   |
|----------------------|-------------------|--------------------|------------------|---------------------|
| SEWARD               |                   | \$3,121,000.00     |                  |                     |
| SEWARD               |                   | \$1,347,472.00     |                  |                     |
| SITKA                |                   | \$252,250.00       | \$14,500.00      | VARIOUS             |
| SITKA                |                   | \$80,624.00        |                  |                     |
| STERLING             |                   |                    | \$156,963.00     | NO PRIOR APPROVAL   |
| STERLING             |                   | \$235,000.00       |                  |                     |
| STERLING             |                   |                    | \$75,000.00      | OFFICE/STORE        |
| TOGIAK               |                   | \$30,969.00        |                  |                     |
| TOGIAK               |                   | \$163,000.00       |                  |                     |
| UNALASKA             |                   | \$605,213.00       | \$647,581.00     | NO PRIOR APPROVAL   |
| UNALASKA             |                   | \$16,500,000.00    |                  |                     |
| UNALASKA             |                   |                    | \$1,198,740.00   | BUNKHOUSE           |
| VALDEZ               |                   | \$5,459,500.00     | \$610,000.00     | BUNKHOUSE/LOCKER RM |
| VALDEZ               |                   | \$5,470,721.00     |                  |                     |
| WRANGELL             |                   | \$104,000.00       |                  |                     |
| WRANGELL             |                   | \$13,000.00        |                  |                     |
| YAKUTAT              |                   | \$747,000.00       | \$9,800.00       | VARIOUS             |
| TOTALS               | \$6,000.00        | \$62,484,038.00    | \$8,781,373.00   |                     |

## FISHERIES BUSINESS TAX CREDIT

CALENDAR YEAR 1989

UPDATED 03/09/89

| DATE     | TAX YEAR | LOCATION OF FACILITY   | \$ AMOUNT APPROVED | \$ AMOUNT DENIED | REASON/ITEM DENIED          |
|----------|----------|------------------------|--------------------|------------------|-----------------------------|
| 11/3/88  | 1989     | ST PAUL ISLAND         | \$2,527,000.00     |                  |                             |
| 11/10/89 | 1989     | DRY BAY (YAKUTAT AREA) | \$38,000.00        |                  |                             |
| 11/10/88 | 1989     | YAKUTAT                | \$112,200.00       | \$45,000.00      | EMPLEE SHHRSAGNERATOR       |
| 11/10/88 | 1989     | SITKA                  | \$133,500.00       | \$3,000.00       | COMMUNICATION SYSTEM        |
| 11/29/88 | 1989     | SEWARD                 | \$1,250,000.00     |                  |                             |
| 12/13/88 | 1989     | KENAI                  | \$101,800.00       |                  |                             |
| 12/8/88  | 1989     | BETHEL                 | \$885,000.00       |                  |                             |
| 12/15/88 | 1989     | KODIAK                 | \$700,000.00       |                  |                             |
| 12/15/88 | 1989     | KODIAK                 | \$181,500.00       |                  |                             |
| 12/15/88 | 1989     | KODIAK                 | \$375,800.00       |                  |                             |
| 12/19/88 | 1989     | KODIAK                 | \$222,000.00       | \$20,000.00      | PRIOR EXPEDITURE            |
| 12/23/88 | 1989     | TOGIAK                 | \$516,500.00       | \$7,500.00       | DND                         |
| 01/04/89 | 1989     | UNALASKA               | \$14,000.00        |                  |                             |
| 01/04/89 | 1989     | CORDOVA                | \$200,000.00       |                  |                             |
| 01/04/89 | 1989     | CORDOVA                | \$162,000.00       | \$200,000.00     | EMPLEE ACCOMODATIONS        |
| 01/04/89 | 1989     | KODIAK                 | \$19,000.00        |                  |                             |
| 01/04/89 | 1989     | CHIGNIK                |                    | \$75,924.00      | MISC                        |
| 01/10/89 | 1989     | NAKNEK                 | \$382,518.00       | \$500,000.00     | BKHS/STRG BLDG              |
| 01/10/89 | 1989     | JUNEAU                 |                    | \$5,000.00       | PRIOR EXPENDITURE           |
| 01/11/89 | 1989     | KODIAK                 |                    | \$12,276.97      | TRUCK                       |
| 01/12/89 | 1989     | EXCURSION INLET        | \$623,000.00       |                  |                             |
| 01/12/89 | 1989     | ALITAK                 | \$530,260.00       |                  |                             |
| 01/12/89 | 1989     | EKUK                   | \$91,000.00        |                  |                             |
| 01/12/89 | 1989     | EXCURSION INLET        | \$158,000.00       |                  |                             |
| 01/23/89 | 1989     | KODIAK                 | \$9,335.40         |                  |                             |
| 01/23/89 | 1989     | SITKA                  | \$40,000.00        |                  |                             |
| 01/19/89 | 1989     | UGANIK BAY             | \$370,574.00       | \$63,876.00      | VHF/MESSHALL/WASTE DISPOSAL |
| 01/19/89 | 1989     | CORDOVA                | \$1,022,758.00     |                  |                             |
| 01/19/89 | 1989     | CORDOVA                | \$376,400.00       |                  |                             |
| 01/20/89 | 1989     | KETCHIKAN              | \$2,002,000.00     | \$65,000.00      | LUNCH RM/OFFICE             |
| 02/13/89 | 1989     | PORT BAILEY            | \$131,000.00       |                  |                             |
| 02/13/89 | 1989     | PORT BAILEY            | \$15,500.00        |                  |                             |
| 02/13/89 | 1989     | PORT BAILEY            | \$19,500.00        |                  |                             |
| 02/13/89 | 1989     | PORT BAILEY            |                    | \$75,000.00      | FUEL DOCK                   |
| 02/13/89 | 1989     | KENAI                  | \$29,000.00        |                  |                             |
| 02/13/89 | 1989     | KENAI                  | \$53,240.00        |                  |                             |
| 02/13/89 | 1989     | NAKNEK                 | \$37,880.00        |                  |                             |
| 02/13/89 | 1989     | EXCURSION INLET        | \$27,000.00        |                  |                             |
| 02/13/89 | 1989     | EXCURSION INLET        | \$78,000.00        |                  |                             |
| 02/13/89 | 1989     | ALITAK                 | \$190,000.00       |                  |                             |
| 02/13/89 | 1989     | ALITAK                 | \$37,000.00        |                  |                             |
| 02/13/89 | 1989     | KETCHIKAN              | \$882,200.00       |                  |                             |
| 02/13/89 | 1989     | KENAI                  | \$1,059,750.00     |                  |                             |
| 02/13/89 | 1989     | KENAI                  |                    | \$76,500.00      | OFFICE/SPLY ETCRG/BARCODE   |
| 02/13/89 | 1989     | KENAI                  | \$880,000.00       |                  |                             |
| 02/13/89 | 1989     | SEWARD                 | \$1,195,000.00     | \$5,000.00       | RADIOS                      |
| 02/13/89 | 1989     | BETHEL                 | \$180,000.00       | \$110,000.00     |                             |
| 02/16/89 | 1989     | KENAI                  |                    | \$20,000.00      | DREDEINS                    |
| 02/22/89 | 1989     | KODIAK                 | \$8,344.00         | \$5,955.00       | ELEVATOR DOORS              |
| 02/23/89 | 1989     | KENAI                  | \$20,000.00        |                  |                             |
| 02/23/89 | 1989     | KODIAK                 | \$211,125.00       |                  |                             |
| 03/02/89 | 1989     | JUNEAU                 | \$50,000.00        |                  |                             |
| 03/09/89 | 1989     | VALDEZ                 | \$7,000.00         |                  |                             |
| 03/09/89 | 1989     | JUNEAU                 | \$125,000.00       |                  |                             |

TOTALS

\$18,370,654.40

\$1,312,033.97

\$19,682,718.37

6-0370E  
Chenoweth  
3/13/89

Original sponsors: Cato, Grussendorf,  
and Hudson

1 IN THE HOUSE

2 CS FOR HOUSE BILL NO. 33 ( )  
3 IN THE LEGISLATURE OF THE STATE OF ALASKA  
4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act amending and extending the fisheries business  
7 tax credit; relating to fisheries business tax re-  
8 funds to municipalities; and providing for an effec-  
9 tive date."

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

11 \* Section 1. AS 43.75.032(a) is amended to read:

12 (a) A fisheries business is entitled to a credit of not more  
13 than 50 percent of the business tax liability under AS 43.75.015 for  
14 capital expenditures made during the tax year that (1) increase prod-  
15 uct diversity, or production efficiency and capacity, or improve  
16 product quality, at a shore-based fisheries business facility in the  
17 state, or (2) contribute to the development of a cooperative seafood  
18 industrial park in the state, if an application for the credit is  
19 approved by the department in advance of the capital expenditure. A  
20 fisheries business may claim a credit under this subsection for a  
21 maximum period of five [THREE] consecutive years. An applicant for  
22 the credit may elect to begin the five-year [THREE-YEAR] period with  
23 any tax year from 1987 through 1991 [1989]. A tax credit under this  
24 subsection may not be approved for more than 50 percent of a capital  
25 expenditure, plus any increase required under (b) of this section.

26 \* Sec. 2. AS 43.75.032(b) is amended to read:

27 (b) The amount of a credit under (a) of this section for a  
28 capital expenditure involving a shore-based fisheries business facil-  
29 ity or cooperative seafood industrial park located or to be located in

1 a municipality shall be increased by the amount by which the munic-  
2 ipality's fisheries business tax refund is reduced under AS 43.75.-  
3 130(c). The total amount of a credit increase under this subsection  
4 during a five-year [THREE-YEAR] period may not exceed 25 percent of  
5 the amount of the capital expenditure.

6 \* Sec. 3. AS 43.75.032(c) is amended to read:

7 (c) The portion of a capital expenditure that is eligible for a  
8 credit under this section but is claimed during a single tax year may  
9 not be carried back to a prior tax year but is available for the  
10 computation as a credit under this section for a subsequent tax year  
11 within the five-year [THREE-YEAR] period elected under (a) of this  
12 section.

13 \* Sec. 4. AS 43.75.032(f) is amended to read:

14 (f) The total tax credits that may be claimed under this section  
15 for a tax year for capital expenditures and scholarship contributions  
16 combined may not exceed

17 (1) 75 percent of the taxpayer's business tax liability  
18 under AS 43.75.015 for the tax year if a municipality adopts an ordi-  
19 nance under AS 43.75.130(c) reducing the municipality's tax refund for  
20 that tax year; or

21 (2) 50 percent of the taxpayer's business tax liability  
22 under AS 43.75.015 for the [THAT] tax year if a municipality has not  
23 adopted an ordinance under AS 43.75.130(c) reducing the municipality's  
24 tax refund for that tax year.

25 \* Sec. 5. AS 43.75.130(c) is amended to read:

26 (c) Within 60 days after a credit is approved under AS 43.75.032  
27 for a capital expenditure involving a shore-based fisheries business  
28 facility or cooperative seafood industrial park located or to be  
29 located in a municipality, the municipality may adopt an ordinance

1 direct the department to reduce the municipality's refund under this  
2 section over a period of not more than five [THREE] years by an amount  
3 not exceeding 25 percent of the capital expenditure.

4 \* Sec. 6. Section 7, ch. 79, SLA 1986, is repealed and reenacted to  
5 read:

6 Sec. 7. AS 43.75.130(c), 43.75.140(1), 43.75.140(7), and 43.75.-  
7 140(8) are repealed January 1, 1996.

8 \* Sec. 7. Section 8, ch. 79, SLA 1986, is amended to read:

9 Sec. 8. AS 43.75.034 is repealed February 15, 1996 [1992].

10 \* Sec. 8. Section 10, ch. 79, SLA 1986, is amended to read:


11 Sec. 10. Section 3 of this Act takes effect January 1, 1996  
12 [1992].

13 \* Sec. 9. APPLICABILITY TO EXISTING CREDITS. (a) The provisions of  
14 this Act apply to extend from three years to five years a tax credit  
15 claimed by a fisheries business under AS 43.75.032 and 43.75.130 for a tax  
16 year beginning after December 31, 1986, and before the effective date of  
17 this Act.

18 (b) Notwithstanding the time limitation for adoption of an ordinance  
19 imposed by AS 43.75.130(c), a municipality that, on or before the effective  
20 date of this Act, has adopted an ordinance directing the Department of  
21 Revenue to reduce the municipality's fisheries tax refund under AS 43.75.-  
22 130(c) for a period of not more than three years may amend the ordinance  
23 and direct the Department of Revenue to reduce that refund for a period of  
24 not more than five years.

25 \* Sec. 10. Sections 1 - 5 of this Act are retroactive to January 1,  
26 1987.

27 \* Sec. 11. This Act takes effect immediately under AS 01.10.070(c).  
28  
29



CHUGACH FISHERIES, INC.

FEB 10 1989

4241 - 21st AVENUE WEST, SUITE 204  
SEATTLE, WA 98199  
PHONE (206) 284-0804

January 10, 1989

Representative Bette Cato  
P.O. Box 775  
Valdez, AK 99686

Dear Representative Cato:

The purpose of this letter is to ask for your support in promoting the extension of the capital improvement tax credit program. I understand that review of the program is set for legislative session scheduled in January.

The program had allowed our company a chance to improve our ability to produce a better quality product as well as open new markets and in turn received higher value for our product. Our added capital expenditures had brought positive contributions to the Alaskan business communities as well as increased local employment.

I am aware of the fact that you're one of the original supporter of the program therefore counting on you for your continued support to our industry.

Thank you in advance for your support.

Very truly yours,  
Chugach Fisheries, Inc.



Larry Cambronero  
V.P. Operations

# STATE OF ALASKA

## DEPARTMENT OF REVENUE

STEVE COWPER, GOVERNOR

STATE OFFICE BUILDING  
P.O. BOX SA  
JUNEAU, ALASKA 99811-0400

January 20, 1989

The Honorable Tim Kelly  
President of the Senate  
P. O. Box V  
Juneau, AK 99811

Dear Mr. President

The following is a report of the Fisheries Business Tax Credit Program. In accordance with AS 43.75.034 the Alaska Department of Revenue must present a report not later than the 15th day of the legislative session on the Fisheries Business Tax Credit Program under AS 43.75.032.

This program allows fisheries businesses to reduce their tax liability by up to 50% each year over a three year period. This is a temporary program which allows for capital expenditures made in tax years 1987 through 1989 to be claimed as credits on tax returns through tax year 1991.

Qualifying expenditures must be approved by the Department of Revenue in advance and must "increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or contribute to the development of a cooperative seafood industrial park in the state" (AS43.75.032(a)).

The municipality in which the capital improvements are made may grant the fisheries business an additional credit of 25%. This reduces the municipality's share of the tax that they would ordinarily receive. The total credit taken against the business tax liability each year still may not exceed 50%.

The attached spreadsheets give the details of the estimated expenditures approved for tax credit in 1988 and the actual credits taken for 1987. Total expenditures approved for the 1988 calendar year were \$62,484,038.00. Total expenditures denied were \$8,781,373.00. Generally, denials were for expenditures made prior to approval from the Department, or for expenditures that did not qualify for the credit. Actual credits taken against 1987 taxes which directly reduced FY88 State revenues totaled \$6,714,793.00.

The expenditures were made for the following types of equipment and facilities:

- plant modifications and facility upgrades;
- Baader filleting skinning machines;
- ice houses and refrigeration equipment;
- new and replacement of various pumps and cannery equipment;
- bottomfish and surimi processing equipment;
- forklifts, loaders, cranes, booms, etc.

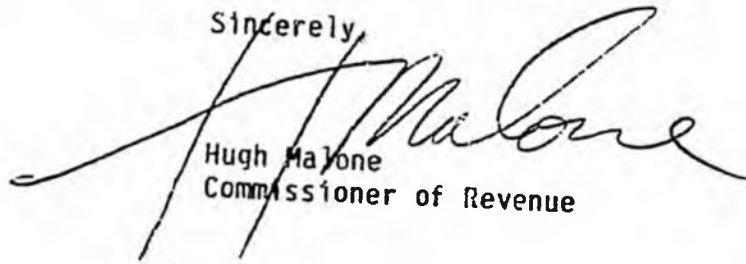
The Honorable Tim Kelly  
January 20, 1989  
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the c'ty's share of the tax because the tax liability did not exceed the amount of credit already granted by the state. In 1988 three cities participated by granting credit to four processors.

To date no business has sought approval of a credit for construction of an industrial seafood park.

If you have any further questions, please let us know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Hugh Malone".

Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
89-17

The Honorable Tim Kelly  
January 20, 1989  
Page 2

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To date, no business has sought approval of a credit for construction of an industrial seafood park.

If you have any further questions, please let us know.

Sincerely,

Hugh Malone  
Commissioner of Revenue

HM:SK:mga  
Enclosures  
0228R



1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED

PAGE 1

ENCLOSURE 2

| LOCATION OF FACILITY | \$ AMOUNT PENDING | \$ AMOUNT APPROVED | \$ AMOUNT DENIED | REASON FOR DENIAL        |
|----------------------|-------------------|--------------------|------------------|--------------------------|
| AKUTAN               |                   | \$403,000.00       |                  |                          |
| ALITAK               |                   | \$98,000.00        |                  |                          |
| ANCHORAGE            |                   | \$430,000.00       |                  |                          |
| ANCHORAGE            |                   | \$381,600.00       |                  |                          |
| BETHEL               |                   | \$51,000.00        |                  |                          |
| CHIGNIK              |                   | \$491,543.00       | \$305,000.00     | NO PRIOR APPROVAL        |
| CORDOVA              |                   |                    | \$23,830.00      | MESSHALL                 |
| CORDOVA              |                   | \$1,062,702.00     |                  |                          |
| CORDOVA              |                   | \$902,100.00       |                  |                          |
| CORDOVA              |                   |                    | \$79,550.00      | COMPUTER                 |
| CORDOVA              |                   | \$832,802.00       | \$61,650.00      | INVENTORY CONTRL/NPA     |
| DILLINGHAM           |                   | \$682,400.00       |                  |                          |
| EBEGIK               |                   | \$26,250.00        |                  |                          |
| EBEGIK               |                   | \$110,500.00       |                  |                          |
| EKUK                 |                   | \$1,836,997.00     |                  |                          |
| FLOATERS             |                   |                    | \$360,000.00     | FLOATERS                 |
| GUSTAVUS             |                   | \$60,000.00        |                  |                          |
| GUSTAVUS             |                   | \$5,050.00         |                  |                          |
| HAINES               |                   | \$39,000.00        |                  |                          |
| HOMER                |                   | \$239,300.00       |                  |                          |
| HOMER                |                   |                    | \$5,557.00       | NO PRIOR APPROVAL        |
| JUNEAU               |                   | \$8,000.00         |                  |                          |
| JUNEAU               |                   | \$589,000.00       |                  |                          |
| KASILOF              |                   | \$774,413.00       | \$93,707.00      | VARIOUS                  |
| KASILOF RVR          |                   | \$381,600.00       |                  |                          |
| KENAI                |                   |                    | \$9,000.00       | SKIFF/MOTOR              |
| KENAI                |                   | \$437,225.00       | \$14,500.00      | RADIO EQUIP              |
| KENAI                |                   |                    | \$3,000,000.00   | BUY EXISTING FCLTY       |
| KENAI                |                   | \$996,558.00       |                  |                          |
| KENAI                |                   |                    | \$42,864.00      | NO PRIOR APPROVAL        |
| KENAI                |                   | \$460,000.00       | \$10,000.00      | TRUCK/RADIO              |
| KENAI                |                   | \$1,256,450.00     | \$364,600.00     | VARIOUS                  |
| KENAI                |                   | \$192,626.00       |                  |                          |
| KENAI                |                   | \$241,450.00       |                  |                          |
| KETCHIKAN            |                   | \$186,260.00       |                  |                          |
| KETCHIKAN            |                   | \$617,105.00       |                  |                          |
| KODIAK               |                   | \$422,590.00       | \$20,000.00      | TRUCK/PHONE/PAVING       |
| KODIAK               |                   | \$1,635,000.00     | \$15,000.00      | VEHICLE                  |
| KODIAK               | \$6,000.00        | \$32,600.00        | \$15,000.00      | COMPUTER                 |
| KODIAK               |                   | \$1,136,600.00     |                  |                          |
| KODIAK               |                   | \$4,215,000.00     |                  |                          |
| KODIAK               |                   | \$218,800.00       | \$18,000.00      | NO PRIOR APPROVAL        |
| KODIAK               |                   | \$935,000.00       | \$1,085,000.00   | WAREHOUSE/TRUCK OVERHAUL |
| KODIAK               |                   | \$450,000.00       |                  |                          |
| KODIAK ISL           |                   | \$244,300.00       | \$189,900.00     | COMPUTER                 |
| NAKNEK               |                   | \$417,075.00       | \$38,592.00      | BUNKHOUSE/MESSHALL       |
| NAKNEK               |                   | \$1,303,000.00     | \$291,300.00     | TRUCK/BKHS/BULLDZR       |
| NORTH POLE           |                   | \$57,140.00        |                  |                          |
| FELICAN              |                   | \$59,100.00        |                  |                          |
| PETERSBURG           |                   | \$1,944,600.00     |                  |                          |
| PETERSBURG           |                   | \$70,350.00        |                  |                          |
| PORT GRAHAM          |                   | \$124,623.00       | \$25,739.00      | COMPUTER                 |
| PT BAILEY            |                   | \$494,000.00       |                  |                          |
| S NAKNEK             |                   | \$801,460.00       |                  |                          |

1988 FISHERIES BUSINESS TAX CREDIT  
EXPENDITURE AMOUNTS APPROVED/DENIED

PAGE 2

ENCLOSURE 2

| LOCATION OF FACILITY | \$ AMOUNT PENDING | \$ AMOUNT APPROVED | \$ AMOUNT DENIED | REASON FOR DENIAL   |
|----------------------|-------------------|--------------------|------------------|---------------------|
| SEWARD               |                   | \$3,121,000.00     |                  |                     |
| SEWARD               |                   | \$1,347,472.00     |                  |                     |
| SITKA                |                   | \$252,250.00       | \$14,500.00      | VARIOUS             |
| SITKA                |                   | \$60,624.00        |                  |                     |
| STERLING             |                   |                    | \$156,963.00     | NO PRIOR APPROVAL   |
| STERLING             |                   | \$235,000.00       |                  |                     |
| STERLING             |                   |                    | \$75,000.00      | OFFICE/STORE        |
| TOGIAK               |                   | \$30,969.00        |                  |                     |
| TOGIAK               |                   | \$163,000.00       |                  |                     |
| UNALASKA             |                   | \$605,213.00       | \$647,581.00     | NO PRIOR APPROVAL   |
| UNALASKA             |                   | \$16,500,000.00    |                  |                     |
| UNALASKA             |                   |                    | \$1,198,740.00   | BUNKHOUSE           |
| VALDEZ               |                   | \$5,459,500.00     | \$610,000.00     | BUNKHOUSE/LOCKER RM |
| VALDEZ               |                   | \$5,470,721.00     |                  |                     |
| WRANGELL             |                   | \$104,000.00       |                  |                     |
| WRANGELL             |                   | \$13,000.00        |                  |                     |
| YAKUTAT              |                   | \$747,000.00       | \$9,800.00       | VARIOUS             |
| TOTALS               | \$6,000.00        | \$62,484,038.00    | \$8,781,373.00   |                     |

# Alaska State Legislature

Senate Advisory Council



P.O. Box V  
State Capitol  
Juneau, Alaska 99811  
Phone: (907) 465-3114

## MEMORANDUM

TO: Senator Arliss Sturgulewski  
Alaska State Senate

ATTENTION: Frank Hoffman

FROM: Richard Rainery *RR*  
Senior Analyst

DATE: November 22, 1988

SUBJECT: Fisheries Business Tax Credit and Revenue Sharing Programs  
Research Request No. 88-003324

You have requested information concerning the consequences of implementing the Fisheries Business Tax credit program and the results of the municipal revenue sharing feature of the same tax, including the provision calling for phased activation of full revenue sharing for newly formed boroughs. While tax revenues derived from the sale of raw fish have been shared by the State of Alaska with the municipalities of origin for a number of years now, both the tax credit program and the new borough share phase-in are recent amendments to the law. As such, information concerning their influence on the seafood industry and municipal finances and economies is still sketchy. Your question is rather broad and while this memorandum will touch on all aspects of the tax credit and revenue sharing programs, the subject is broad as well. I refer you to a recent draft Senate Advisory Council report, Community Fisheries Development, which includes a discussion of state fisheries taxation policy for additional information. Copies have been provided to your office.

### I. Fisheries Business Tax Credit Program

Credits against the tax liabilities of seafood processing industry firms were made available for calendar years beginning in 1986. A firm may claim a credit of up to 50% of annual tax liability for the costs of certain capital investments at shoreside facilities. Eligible improvements, which must be approved in advance by the Alaska Department of Revenue (ADOR), include facilities which diversify products, increase efficiency, quality, and capacity or development of cooperative seafood industrial parks. The full amount of an approved credit may be applied against up to three years' tax liabilities. The basic intent of the tax credit, as well as some other aspects of the tax's structure, is to encourage expansion of existing facilities into new processes

and products and to entice new processing capacity to locate on Alaskan terra firma rather than operating at sea, which is the predominant trend at present, particularly in the groundfish fisheries.

Has the provision of the tax credit lured the seafood industry ashore? Within the near future there will be some fifty U.S. factory trawlers (most in excess of 200 feet in length) operating in the Alaskan Exclusive Economic Zone (EEZ), up from none just a few years ago. There are plans for at least two 600 foot processing vessels as well. These ships will not be replacing existing shore based capacity, but displacing the foreign processing components of at sea joint ventures as the "Americanization" of the EEZ continues. That process should be complete within about two years. It is predicted that 80% of the bottomfish catch will be processed at sea. A variety of factors assure that floating processing will predominate. Combined operations are more profitable, transshipment to tramp freighters is more efficient than calling at shore, better quality products are assured by immediate processing of catches, and suitable sites for plants are scarce on the Bering Sea coast. These are not absolutes, there are factors which favor shore based facilities<sup>1</sup>, but no reversal in the trend of the last few years is apparent yet.

Measuring the economic benefits of tax incentives in general is a difficult task. Despite the proliferation of special tax treatment for a variety of industries in states across the nation, rare has been the rigorous analysis of the economic effect of an incentive. Nor have state governments made concerted efforts to assess the revenue impacts of incentives. This is generally the case in Alaska. The fisheries business tax credit program is still too new to judge fairly and completely. It is true that, since the credit was implemented, processing companies have filed for and received approval from ADOR for a huge amount of expenditures for qualifying improvements. These are recorded in Table 1. It should be noted that these data are preliminary and "unaudited". Their value lies in their representation of gross magnitude rather than as a precise rendering of circumstances.

When lobbying for the enactment of the credit program, processing interests were careful not to claim that sensational growth of shore based processing capacity would result, but asserted that it was a necessary element in any meaningful attempt to spark such expansion. Approved applications for credits now exceed \$113 million in amount for calendar years 1987 and 1988. This represents a significant percentage of the assessed value of existing shore plants, perhaps as much as one third. Comprehensive estimates on statewide assessed values are not available, but a partial survey in 1987 identified about \$210,000,000 in capital assets (see Community Fisheries Development).

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<sup>1</sup>The fisheries business tax rate structure favors shore plants and capital and labor costs are lesser on land.

Table 1  
Fisheries Business Tax Credit Investments  
(Calendar Years 1987 and 1988)

|                      | 1987   | 1988*  | Both Years |
|----------------------|--------|--------|------------|
| Approved Expenditure | \$55.2 | \$58.6 | \$113.8    |
| Potential Credit     | 27.6   | 29.3   | 56.9       |
| Actual Expenditure   | 37.6   | 39.9#  | 77.5       |
| Actual Credit        | 18.8   | 19.9#  | 38.7       |
| Credit Claimed       | 6.7    | 14.4   | 21.1       |

Source: ADOR, 1988.

\* As of November 1988.

# Estimates based on 1987 patterns.

Annual tax collections have ranged between about \$15 million and \$25 million since Fiscal Year 1980. One-half of total tax liabilities represents the upper limit on credits, if all processors had been eligible for the full 50%. It is not surprising that actual credits have been less than the approved level thus far; individual company tax bills are small enough that most larger credit amounts will have to be spread out over three years to be fully used. Credits claimed on 1987 tax returns reduced state revenues by \$6.7 million, only about one third the value of credits earned. 1988 expenditures are forecast to be only slightly higher than those of 1987, but credits will be more than double 1987 levels principally due to carryover from that year. State revenues have declined as a result. Increased harvest values have kept collections relatively high, but will not counterbalance the loss of income resulting from use of credits and the state's portion after revenue sharing has substantially decreased (see the next section for more details).

The fundamental issue, in light of this information, is whether the investments in question would have been made in the absence of the credit. The answer to that question is not clear. It presupposes knowledge of the innermost workings of corporate decisionmaking that is not usually available to government researchers. Certainly, it has been the position of business in general that tax incentives are meaningful and oftentimes essential elements in

certain decisions.<sup>2</sup> I certainly cannot dispute that position in this case. It is, however, not the claim of the Alaskan processing industry that these investments would not have occurred absent the credit. Rick Lauber, vice-president of the Pacific Seafood Processors Association (PSPA), says that he would not make that assertion. He does say that the level of investment since the enactment of the credit has surprised him, both the amount and the number of processors participating (over 40 in both years). He believes that the credit has definitely influenced the timing of investments. Given the rapid development of the Bering Sea bottomfish industry, that circumstance may be the real benefit of the credit, permitting the capture of a portion of the harvest for shore plants before the domestic processing sector becomes fully developed. It would seem, however, that the shore plant sector was in a "fish or cut bait" situation and in order to compete had to invest to adapt to the new fisheries and markets. The credit surely made those investments more attractive.

Mr. Lauber cited one case in which the credit was instrumental in a decision for a major expansion of one shore plant, although perhaps in an unforeseen manner. A major Aleutian processor had determined to expand capacity and diversify, but was debating whether to do so at an existing shore plant or to add to its fleet of floating processors. The plans of the newly formed Aleutians East Borough to assess a 2% tax on the sale of raw fish would have been the straw that tipped the scale in favor of at sea processing had it not been for the availability of the fisheries business tax credit. As a result, a \$14 million dollar expansion to the firm's shore plant went forward.

A significant portion of ADOR approved expenditures are for bottomfish processing. According to Dick Reynolds of the Office of Commercial Fisheries Development in the Alaska Department of Commerce and Economic Development, the following rough categories of investment were approved in 1987:

- |  |                  |
|--|------------------|
| 1. Docks, unloading, and holding facilities      | - \$ 4.7 million |
| 2. Ice or refrigeration/freezing facilities      | - 7.4 million    |
| 3. Buildings or utilities                        | - 16.2 million   |
| 4. Standard finfish/shellfish species processing | - 4.1 million    |
| 5. Other value added processing                  | - 2.4 million    |
| 6. Bottomfish fillets                            | - 8.9 million    |
| 7. Surimi  | - 9.9 million    |
| 8. Other (including fishmeal and oil processing) | - 4.4 million    |

Approximately \$40 million of the \$58 million total was identified by Mr. Reynolds as capital improvements for bottomfish processing plants, so it would seem as though the money (if indeed all these planned investments come to fruition) is largely being spent in that developing sector as intended by law.

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<sup>2</sup>Although most research has suggested incentives are not necessary or are poorly designed, there are respectable arguments on both sides of the issue.

Senator Arliss Sturgulewski

November 22, 1988

Page 5

At present little concrete information is available on how these investments, actual or prospective, will affect the Alaskan seafood industry and the overall state economy. The industry is presently booming, with the value of catches to fishermen and processors increasing on an annual basis, despite the fact that fewer of the most highly valued species, salmon, have been landed in each of the last two years. Construction of refrigeration facilities will enable processors to adapt to changing markets in which frozen salmon are displacing canned fish and in which frozen bottomfish fillets are an increasing piece of the pie. Frozen fish are generally higher in value than canned products and the fact that they may as well be held in inventory during periods of product surfeit should help to strengthen somewhat the market position of processors of Alaskan fish.

At this point it would be speculative to attempt to determine whether there have been any employment gains attributable to the credit program. While the credit focusses on capital investment, it is certain that some increased employment will result from capacity growth and product diversification. Whether new jobs will be filled by Alaskans or non-residents is the question. Recently about 70% of shore based processing jobs have been filled by non-resident seasonal workers. Statewide, seafood processing employment increased by 100 jobs (less than 1%) between August (a peak month) 1987 and August 1988. The increase appears to have been centered in Southeast Alaska, where little bottomfish is processed. If there is a substantial increase in workforce at bottomfish plants, that may be more likely to benefit the site communities since most such plants will operate on a year-round basis as opposed to the seasonal nature of the established fisheries. Even if labor is imported, many non-residents may perforce become de facto residents.

Although the financing of construction of new facilities is eligible under the credit program, no applications for new plants have been made says John Hansen, supervisor of the audit office of the Income and Excise Tax Division of ADOR. All approved expenditures have been for existing or previously planned investments. Credit use has yet to affect much of maritime Alaska; eligible investment occurred in but 22 communities in 1987. Some 63% of the dollar value of approved 1987 applications were from only three communities (Akutan, Kodiak, and Unalaska) and 87% originated in but 10 communities. In 1988, the top three (Kodiak, Unalaska, and Valdez) accounted for 60% of approved value, while the top ten sites had 89%.

A final note on the credit program: Mr. Lauber of PSPA asserts that the program could be of added benefit to the state, particularly in terms of resident employment if a clarification to the law were made. The processors believe that the construction of employee housing should qualify for the credit. ADOR has not agreed and has not approved such expenditures. PSPA contends that if apartment or detached housing were eligible under the program, permanent residents could be attracted to Alaskan communities. Many communities in which plants are located are chronically short of housing. The

provision of decent housing combined with year-round employment could, in Mr. Lauber's opinion, help to ameliorate the transient, temporary nature of most processing employment. He believes that if companies operating factory trawlers and other at sea processing vessels could qualify for credits for investments in housing, a number of such vessels could be enticed to homeport in Alaska. Of the fifty or so factory trawlers licensed to fish the Alaskan EEZ, no more than ten are homeported in Alaska. Increasing that number would obviously strengthen local and regional fishing and support sector economies.

## II. The Fisheries Business Tax Revenue Sharing Program

The fisheries business tax has been a significant contributor to the state treasury (in relative terms) for only the last ten years. Total collections topped \$10 million dollars for the first time in FY 1979 and since FY 1981 have ranged from about \$19 million to \$26 million. Figure 1 displays state and municipal shares since FY 1979, with estimates for FY 1989 - 1990, and shortfalls in municipal shares for FY 1987 - 1988 when appropriations were insufficient for full funding. Since the 1981 amendment to the law which

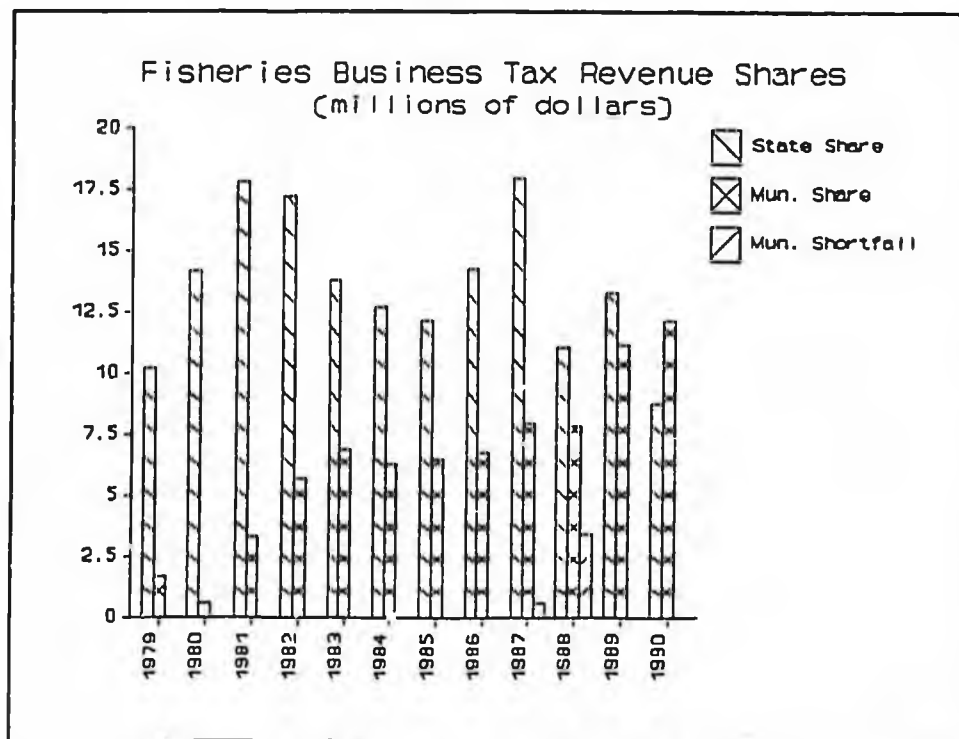


Figure 1 FY 1989 and FY 1990 shares estimated.

Source: ADOR, 1988.

increased the municipal share of locally generated revenues from 20% to 50%, municipal shares have been steadily rising. The proportion of state/municipal shares had settled into about a two thirds/one third pattern for the five years beginning in FY 1983. That relationship changed in FY 1988 as taxpayers began claiming credits. The state share dropped to only 49% of revenues with municipalities entitled to 51%, although the latter received only 35% as legislative appropriations were insufficient for full distribution.<sup>3</sup> Although total liabilities in FY 1988 were a record \$29.1 million, state revenues declined in absolute, as well as relative, terms, compared to the previous year. Strong harvests and good prices pushed up revenues, but the tax credit reduced the state share of the total by \$6.7 million for the year. Absent the credit, the rough FY 1983 - FY 1987 proportion of state/municipal shares would have prevailed.

ADOR projections of fisheries business tax revenues and the distribution of those revenues for the present and coming fiscal year (Elliot, pers. com., 1988) are as follows:

|                     |                  |
|---------------------|------------------|
| <u>FY 1989</u>      |                  |
| State share         | - \$13.3 million |
| Municipal share     | - 11.2 million   |
| Municipal shortfall | - 3.4 million    |
| Credits             | - 14.4 million   |

|                 |                  |
|-----------------|------------------|
| <u>FY 1990</u>  |                  |
| State share     | - \$ 8.8 million |
| Municipal share | - 12.2 million   |
| Credits         | - 8.9 million    |

The increased state share in FY 1989 reflects the high prices received by fishermen during 1988. The decline in FY 1990 is indicative of ADOR's opinion that those high prices will not be duplicated next year. The increase in the FY 1989 credit amount is the result of the carryover of approved but unclaimed FY 1988 credits (some \$23 million). As that carryover diminishes, the overall level of credits claimed is expected to decline in FY 1990. So for the period FY 1988 - FY 1990, the net state share of gross fisheries business tax collections is forecast to decline by \$30 million as a result of credits against the tax liabilities of processors. State revenues for the period are forecast to decline to levels comparable to those of FY 1979, before the present tax structure was adopted (FY 1989 must be regarded as an anomaly at present as inflated salmon prices raised the total ex-vessel value for those species for the 1988 calendar year by over 40% above the previous record).

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<sup>3</sup>The \$600,000 shortfall in FY 1987 distributions to municipalities was wiped out by a supplemental appropriation the following year. Supplemental funding for the FY 1988 shortfall has been requested by ADOR for FY 1990.

Senator Arliss Sturgulewski  
November 22, 1988  
Page 8

In 1987, the Alaska Legislature amended the revenue sharing formula for the fisheries business tax to provide for a phased implementation of the full share of revenues to be returned to newly formed boroughs for monies collected from organized municipalities within the boundaries of those boroughs. Under normal circumstances such monies are split evenly (25%/25%) between the community of origin and the encompassing borough. SB 162 altered the formula in AS 43.75.130 to give new boroughs a 5% share of revenue in the first year of operation, with the city retaining 45%. In each succeeding year, the borough share would increase by 5% and the city share decrease by 5% until the standard division came into effect at the commencement of the fifth calendar year of the borough's existence.

Only one borough, Aleutians East, has been incorporated since the effective date of the formula change. The Aleutians East Borough was incorporated on October 23, 1987, so the formula was applied only to the last quarter's tax receipts from the affected cities (Akutan, King Cove, and Sand Point). The borough has thus far received 5% of the revenues generated within those cities for just that final quarter of 1987. The formula amount was reduced further by the FY 1988 funding shortfall. Other municipalities received 70.39% of the revenue sharing funds due them; the Aleutians East Borough (and its constituent communities) received only 64.88% of the full entitlement as a result of their delayed submission of tax information to ADOR. Insufficient funding remained by that time to return the same portion of full funding to Aleutians East municipalities that was provided to the remainder of the state. The division of tax revenues (in thousands) generated in the borough for FY 1988 was as follows:

|                        |   |         |                       |
|------------------------|---|---------|-----------------------|
| Aleutians East Borough | - | \$ 6.2  | (shortfall - \$ 3.3)  |
| City of Akutan         | - | 244.3   | (shortfall - 132.2)   |
| City of King Cove      | - | 372.4   | (shortfall - 201.6)   |
| City of Sand Point     | - | 108.5   | (shortfall - 58.7)    |
| Total                  | - | \$731.4 | (shortfall - \$395.8) |

It may appear as though the borough's share is substantially less than a 5% share of one quarter's tax collections. This impression is the result of the seasonal nature of fishery harvests. The bulk of the value of harvests are taken during the spring and summer quarters. In the last quarter of 1987, raw fish sales in these three cities amounted to only 13% of the year's sum.

Please inform us if there is any additional information you wish on this topic.

# Alaska State Legislature

RECEIVED JAN 13 1989

SENATOR  
ARLISS STURGULEWSKI

Chairman, Senate Community and Regional Affairs Committee  
Vice-Chairman, Senate Judiciary Committee  
Member, Senate Resources Committee

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## Senate

MEMORANDUM

January 9, 1989

TO: Senator Zharoff

FROM: Senator Sturgulewski 

RE: SB 74 "An Act amending and extending the fisheries business tax credit relating to fisheries business tax refunds to municipalities, and providing for an effective date."

Earlier this year I requested the Senate Advisory Council to look into the impact of the Fisheries Business Tax Credit program. I am sending their report on to you in hopes that it will be useful background for SB 74.

Enclosure