

S B

74



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 480-6259

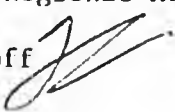
DURING SESSION:

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PIIILOF ISLANDS • SIUMAGIN ISLANDS

TO: Senator Al Adams
Chairman
Senate Community and Regional Affairs Committee

FROM: Senator Fred F. Zharoff 

DATE: March 7, 1989

RE: Senate Bill 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."

SB 74 extends the existing Fisheries Business Tax Credit Program an additional two years.

The tax credit allows seafood processors in Alaska to apply for a credit of up to 50 percent of their state fish taxes for improvements made to their shorebased plants that "increase product diversity, or production efficiency and capacity, or improve product quality". Under present law, the credit may only be taken for three consecutive years.

The program has been a tremendous success in encouraging processors to upgrade their shorebased plants. The timing has been crucial. The groundfish resources of the U.S. 200 mile limit recently passed from the economic control of the foreign fishing fleets to the domestic processing industry. Many shorebased processors have taken advantage of the credit to renovate their plants for groundfish processing.

Because many processors are still in the middle of their capital expenditure programs and because of stiff competition from offshore processors, I would like to see the processors have the benefit of a five year tax credit. The funds the state returns to the industry -- \$6.7 million in fiscal year 1988 -- are a long-term investment. The upgraded processing plants will be able to provide jobs and produce income for the state for decades to come.

The following backup information is attached:

1. Sectional analysis.
2. Letter from Commissioner Hugh Malone, Dept. of Revenue, reporting on the past year's tax credit program, dated Jan. 20, 1989.
3. Resolution of support from the Southwest Alaska Municipal Conference.

4. Letter from Mr. Larry Cambronero of Chugach Fisheries, Inc., dated Jan. 10, 1989.
5. Legislative priority list from the City of King Cove (see page 3), dated Jan. 10, 1989.
6. Research report from the Senate Advisory Council.
7. Copy of the 1986 tax credit law.

During the interim, I mailed a four page survey to all the shorebased processors in Alaska, requesting information on how they used the tax credit. I am in the process of compiling the results of that survey, and will provide them to the committee as soon as they are available.



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P.O. BOX 406, KODIAK, ALASKA 99616 (907) 486-6269

DURING SESSION

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 485-3473 • 485-3474

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILLIAMNA • PIIILOF ISLANDS • SHUMAGIN ISLANDS

SECTIONAL ANALYSIS

Senate Bill 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."

SECTION 1

Amends 43.75.032(a) to allow a fisheries business to claim a fisheries tax credit for a maximum of five consecutive years, rather than the three consecutive years allowed by present law. Extends the period during which a processor may begin the credit from 1989 to 1991.

SECTION 2

Deletes reference to three-year tax credit period and replaces it with reference to five-year period.

SECTION 3

Deletes reference to three-year tax credit period and replaces it with reference to five-year period.

SECTION 4

The current law only allows a taxpayer to claim tax credits for up to 50 percent of their business tax liability. The section raises the cap to 75 percent in order to allow municipalities, if they so wish, to also participate in the tax credit. The 50 percent tax liability cap will remain in effect for processors who do not receive a municipal tax credit.

SECTION 5

Allows a municipality to offer a tax credit for not more than five years, rather than the three years now allowed in present law.

SECTION 6

Changes the repeal dates in the current law to reflect a five-year credit rather than a three-year credit.

SECTION 7

Changes a repeal date in the in current law to reflect a five-year credit rather than a three-year credit.

SECTION 8

Changes an effective date in the current law to reflect a five-year credit rather than a three-year credit.

SECTION 9

APPLICABILITY TO EXISTING CREDITS.

Allows municipalities to extend any tax credits they may have already offered from three years to five years.

SECTION 10

Retroactive clause. Makes the five-year tax credit retroactive to the start of the program, Jan. 1, 1987.

SECTION 11

Immediate effective date.

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.

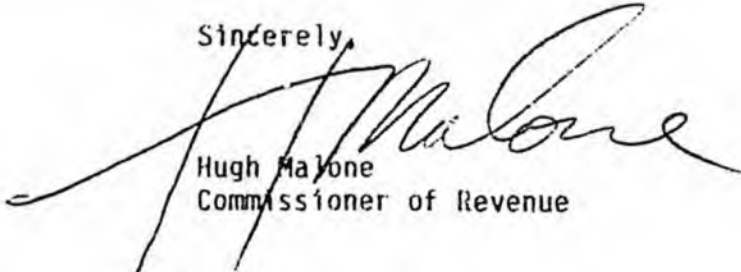
The Honorable Tim Kelly
January 20, 1989
Page 2

One city granted the additional credit available for municipal participation in 1987. This did not reduce the 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
89-17

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		\$1,062,702.00		
CORDOVA		\$902,100.00		
CORDOVA			\$79,550.00	COMPUTER
CORDOVA		\$832,802.00	\$61,650.00	INVENTORY CONTROL/NPA
DILLINGHAM		\$682,400.00		
EGBEK		\$26,250.00		
EGBEK		\$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		
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		
PORT GRAHAM		\$124,623.00	\$25,739.00	COMPUTER
PT BAILEY		\$494,000.00		
S IIAKNEK		\$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	



RECEIVED JAN 30 1989

Southwest Alaska Municipal Conference

Putting Resources to Work For People

1007 West 3rd Avenue, Suite 201 • Anchorage, Alaska 99501 • (907) 274-7555

RESOLUTION NO. 88-37

A RESOLUTION OF THE SWAMC REQUESTING THE AMENDMENT AND EXTENSION OF AS 43.75.032 WHICH AUTHORIZES STATE FISHERIES BUSINESS TAX CREDITS TO FISH PROCESSORS.

WHEREAS, AS 43.75.032 enables an onshore fish processor to receive a State Fisheries Business Tax Credit for capital improvements to the fish processing plant, and

WHEREAS, this credit has assisted many onshore fish processors in Southwest Alaska to upgrade and expand processing facilities, which has assisted long-term economic development of the region and the State; and

WHEREAS, the initial legislation authorized the tax credits for only a three year period and expires on January 1, 1992; and

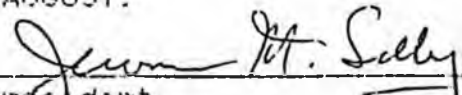
WHEREAS, legislation was introduced in 1988 to extend the credit to a five year period and the expiration date an additional 2 years, but this legislation was not adopted; and

WHEREAS, the municipalities in Southwest Alaska believe the tax credit program has resulted in economic development in their community and that extending the credit would better enable the onshore fish processing industry to capitalize on the increase in bottomfish and other fisheries development.

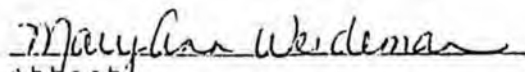
NOW THEREFORE BE IT RESOLVED that the SWAMC requests that the State Fisheries Business Tax Credit authorized in AS 43.75.032 allow credits for a period of five years and that the expiration date be extended an additional two years.

BE IT FURTHER RESOLVED that SWAMC requests that the legislature allow local municipalities to give an additional 25% credit.

PASSED AND ADOPTED THIS 28TH DAY OF AUGUST.



President



Attest

CHUGACH FISHERIES, INC.



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

RECEIVED JAN 13 1989

January 10, 1989

Senator Fred F. Zharoff
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Senator Fred F. Zharoff

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.

A handwritten signature in cursive script that reads "Larry Cambronero". The signature is written in dark ink and is positioned above the typed name.

Larry Cambronero
V.P. Operations

RECEIVED JAN 12 1989

CITY OF KING COVE

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

January 10, 1989

Honorable Fred Zharoff
Alaska State Senate
P. O. Box V
Juneau, AK 99811

RE: City King Cove 1989 Legislative Priorities

Dear Senator Zharoff:

The King Cove City Council, at its December 21 meeting established the City's priorities for this legislative session. The City's priorities are outlined below. The City will provide more specific information on its number one harbor development capital project priority following its January 11 Council Meeting.

CAPITAL PROJECT PRIORITIES

1. The City's number one capital project priority is to further the development of its boat harbor. The priority developments include construction of a 150-ton boat haulout facility for \$1.1 million; construction of an inner or outer harbor dock, cost range of \$750,000 to \$1.8 million; and, providing central water service to the harbor, estimated cost of \$420,000. Each of these projects will expand the range of services that can be provided at the harbor and will support the local and regional fishing industry.

The Aleutians East Borough has awarded the City \$300,000 and the City can contribute about \$200,000 to assist in constructing its preferred harbor project. The City Council will select its preferred project to begin constructing this calendar year at its January 11 meeting. The City will be seeking additional monies from the State to complete its number one priority. The City will provide you additional information following its January 11 meeting. Furthering development of its small boat harbor has been the City's number one capital project priority for the last four years and remains such in FY89.

2. The second highest capital project priority for the City is upgrading the City-owned and operated electrical system. The City's existing power generation and electrical distribution system is inefficient and in need of replacement. The City has pursued construction of a hydroelectric project as a long-term solution to its power generation needs, but its immediate efforts must focus on replacing about one-third of its distribution

Honorable Fred Zharoff
January 10, 1989
Page 2

system. The City is working with the firm of Reeve Engineers to complete engineering and construction cost estimates for this work and should have a detailed estimate by early February. A preliminary estimate is \$250,000.

An alternative the City has discussed with your staff is reappropriating the \$150,000 in Jobs Bill monies the City received last year for the hydroelectric transmission/distribution line to the priority distribution system replacements. The City is writing the Department of Administration to request the use of these monies for this purpose, but if the Department rejects the request, we would like to pursue reappropriation of the monies.

The City can financially participate in the capital project(s) it pursues and hopes to use State legislative appropriations to complete the project. Also, the City suggests that the State consider use of bond monies to assist in constructing the projects.

FISHERIES PRIORITIES

1. Full-funding support for the Russel Creek hatchery is the City's number one fisheries development priority. King Cove fishermen have directly benefited from past hatchery production, including chum salmon, and believe the hatchery can play a major role in the continued health of the area's salmon fisheries.
2. The North Pacific Fisheries Management Council is preparing to limit access to the sablefish fishery. The City supports open access and implementation of a system that will allow King Cove fishermen to continue their participation in the sablefish fishery. Local fishermen have been investing monies in their boats to allow them to harvest sablefish, and the limited access systems proposed by the NPFMC could eliminate their participation. Area fishermen need State support for their position.
3. Amendments to the Marine Mammal Protection Act require a domestic observer program for vessels participating in the False Pass salmon fisheries. The City requests State support to minimize the detrimental impacts to local fishermen through implementation of a domestic observer program.

TAXATION PRIORITIES

Suggestion

1. The number one City priority is for the State to immediately pay all municipalities the full amount of the local share of calendar year 1987 State Fisheries Business Tax revenues due municipalities. To date, King Cove and other cities have only received about 65% of the total shared revenues they were supposed to receive in August, 1988. The late receipt of these monies is affecting the City's cash flow position. In addition, the City advocates the State adopting measures which require the State to fully share these revenues at the start of each fiscal year.

2. The City supports extending the State Fisheries Business tax credit program for onshore processors that invest in capital improvements. The extension has directly benefited the onshore processor located in King Cove and thus, the local fishing economy.

SERVICE PRIORITIES

S. W. ...

1. The City supports continued and full-funding for the community clinic grant program administered by Health and Social Services. The City has received \$40,000 over each of the last several years and this support is essential to the City providing mid-level practitioner services.

CP5

2. The City supports continuation of the VPSO program, particularly the VPSO position in King Cove. The VPSO performs vital public safety functions in the community, such as emergency management and fire protection. The VPSO is the only non-School District State funded position in King Cove.

By...

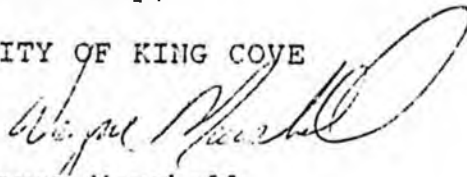
3. The City would like two additional trips per year from the M/V Tustemena and supports increased service to King Cove and other Alaska Peninsula communities. The ferry is a main link between the Southcentral Alaska and King Cove economies and the City would like to foster this relationship.

Honorable Fred Zharoff
January 10, 1989
Page 4

The City recognizes that the State budget will be very limited this year and only the best projects and programs can go forward. The City is prepared to work in partnership with the State to fund the City's desired priority capital project and will send information on the preferred project following the City's January 11 meeting. The City and I look forward to working with you to achieve the City's priorities.

Sincerely,

CITY OF KING COVE



Wayne Marshall
City Manager

WM/kd

cc: Harvey Mack, Mayor
King Cove City Council

Alaska State Legislature

Senate Advisory Council



PO. 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
Senior Analyst *RR*

DATE: November 22, 1988

SUBJECT: Fisheries Business Tax Credit and Revenue Sharing Programs
Research Request No. 83-003324

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 facilities¹, 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).

¹The 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.² 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.

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

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

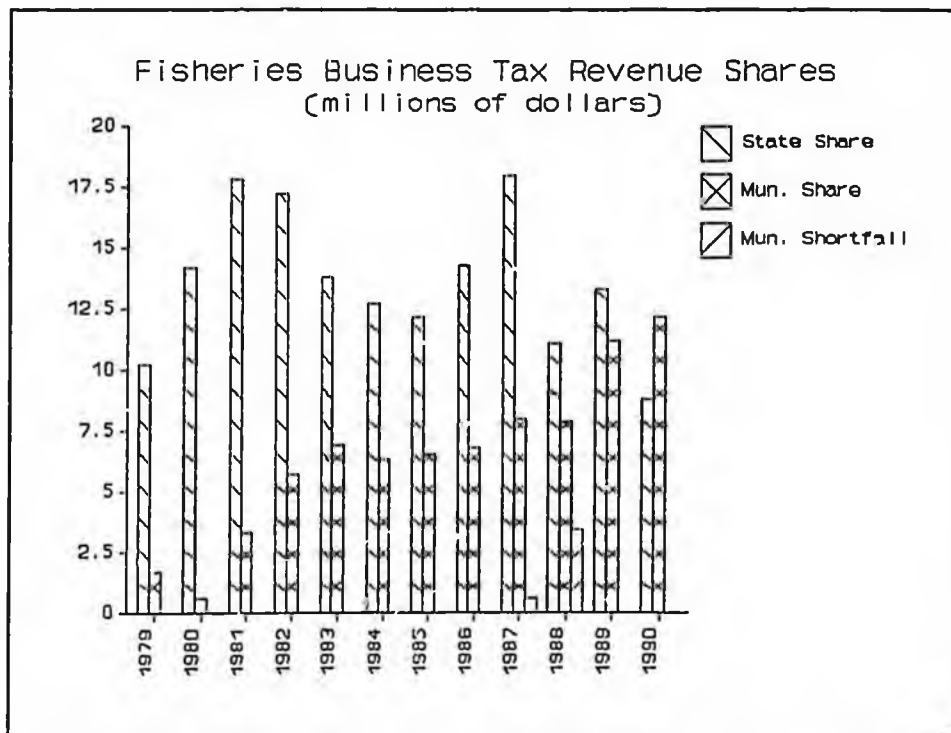


Figure 1 FY 1989 and FY 1990 shares estimated.

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.³ 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).

³The \$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.

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.



LAWS OF ALASKA

1986

Source

SCS_CSHB_58(Fin) and S

Chapter No.

79

AN ACT

Relating to the fisheries business tax; and providing for an effective date.

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

THE ACT FOLLOWS ON PAGE 1, LINE 9

UNDERLINED MATERIAL INDICATES TEXT THAT IS BEING ADDED TO THE LAW AND BRACKETED MATERIAL IN CAPITAL LETTERS INDICATES DELETIONS FROM THE LAW; COMPLETELY NEW TEXT OR MATERIAL REPEALED AND RE-ENACTED IS IDENTIFIED IN THE INTRODUCTORY LINE OF EACH BILL SECTION.

Approved by the Governor: June 5, 1986
Actual Effective Date: Sections 1, 2, and 4 - 8 take effect
July 1, 1986; section 3 takes effect January 1, 1992

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AN ACT

Relating to the fisheries business tax, and providing for an effective date.

* Section 1. AS 43.75.015(a) is amended to read:

(a) A person engaged in a fisheries business is liable for and shall pay the tax levied by this section on the value of each of the following fisheries resources processed during the year at the rate set out after each:

(1) salmon canned at a shore-based fisheries business [CANNERY] - four and one-half percent;

(2) salmon processed by a shore-based fisheries business, except salmon for which the tax is due under (1) of this subsection, and all other fisheries resources processed by a shore-based fisheries business - three percent;

(3) fisheries resources processed by a floating fisheries business - five percent.

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

Sec. 43.75.032. FISHERIES BUSINESS TAX CREDITS. (a) A fisheries business is entitled to a credit of not more than 50 percent of the business tax liability under AS 43.75.015 for capital expenditures made during the tax year that (1) increase product diversity, or production efficiency and capacity, or improve product quality, at a shore-based fisheries business facility in the state, or (2) contribute to the development of a cooperative seafood industrial park in the

state, if an application for the credit is approved by the department in advance of the capital expenditure. A fisheries business may claim a credit under this subsection for a maximum period of three consecutive years. An applicant for the credit may elect to begin the three-year period with any tax year from 1987 through 1989. A tax credit under this subsection may not be approved for more than 50 percent of a capital expenditure, plus any increase required under (b) of this section.

(b) The amount of a credit under (a) of this section for a capital expenditure involving a shore-based fisheries business facility or cooperative seafood industrial park located or to be located in a municipality shall be increased by the amount by which the municipality's fisheries business tax refund is reduced under AS 43.75.130(c). The total amount of a credit increase under this subsection during a three-year period may not exceed 25 percent of the amount of the capital expenditure.

(c) The portion of a capital expenditure that is eligible for a credit under this section but is not claimed during a single tax year may not be carried back to a prior tax year but is available for the computation as a credit under this section for a subsequent tax year within the three-year period elected under (a) of this section.

(d) Within 10 days after submitting an application for a credit under (a) of this section the applicant shall send a copy of the application to the municipality, if any, in which the shore-based fisheries business facility or cooperative seafood industrial park for which the expenditure is to be made is located or is to be located.

(e) A fisheries business is entitled to a credit of not more than five percent of the business tax liability under AS 43.75.015 for contributions made during the tax year to the A. W. "Winn" Brindle

memorial scholarship account (AS 14.43.250). A fisheries business may claim a credit under this subsection for the 1987 tax year and subsequent tax years. A tax credit under this subsection may not be approved for more than 100 percent of a scholarship contribution.

(f) The total tax credits that may be claimed under this section for a tax year for capital expenditures and scholarship contributions combined may not exceed 50 percent of the taxpayer's business tax liability under AS 43.75.015 for that tax year.

(g) The department may not approve a tax credit under this section if

(1) the property for which the capital expenditure was made was the subject of a previous capital expenditure by another taxpayer for whom a corresponding tax credit under this section has been approved;

(2) the property for which the capital expenditure was made was sold or transferred between fisheries businesses having substantial common ownership; or

(3) the fisheries business claiming the credit is in arrears in the payment of a fisheries business tax under AS 43.75.015; for purposes of this paragraph, a taxpayer is not in arrears if the payment is under administrative or judicial appeal.

(h) The department shall prepare an application form for a credit under this section.

(i) The department shall approve or disapprove an application for a credit under this section not later than 60 days after receiving the application.

(j) In this section

(1) "cooperative" has the meaning given in AS 10.15.595.

(2) "seafood industrial park" means a seafood processing

center with facilities to land, handle, and process or to ship or transship to any location all marketable species of seafood; a seafood industrial park may contain commercial facilities to support the activities of the park, and the labor force and vessels that operate at or from the park;

Sec. 43.75.034. TAX CREDIT REPORT. Not later than the 15th legislative day of each regular legislative session the Department of Revenue, in conjunction with the Department of Commerce and Economic Development, shall submit to the legislature a report on the fisheries business tax credit program under AS 43.75.032. The report shall describe the expenditures for which a credit was approved during the previous tax year and, if possible, the increase in employment and processing capacity by the fisheries businesses for which the credit was approved.

* Sec. 3. AS 43.75.032 is repealed and reenacted to read:

Sec. 43.75.032. TAX CREDIT FOR SCHOLARSHIP CONTRIBUTIONS. (a) A fisheries business is entitled to a credit of not more than five percent of the business tax liability under AS 43.75.015 for contributions made during the tax year to the A. W. "Winn" Brindle memorial scholarship account (AS 14.43.250). A tax credit under this section may not be approved for more than 100 percent of a scholarship contribution.

(b) The department may not approve a tax credit under this section if the fisheries business claiming the credit is in arrears in the payment of a fisheries business tax under AS 43.75.015; for purposes of this subsection, a taxpayer is not in arrears if the payment is under administrative or judicial appeal.

(c) The department shall prepare an application form for a credit under this section.

(d) The department shall approve or disapprove an application for a credit under this section not later than 60 days after receiving the application.

* Sec. 4. AS 43.75.130 is amended by adding new subsections to read:

(b) For purposes of this section, tax revenue collected under AS 43.75.015 from a person entitled to a credit under AS 43.75.032 shall be calculated as if the person's tax had been collected without applying the credit.

(c) Within 60 days after a credit is approved under AS 43.75.032 for a capital expenditure involving a shore-based fisheries business facility or cooperative seafood industrial park located or to be located in a municipality, the municipality may adopt an ordinance directing the department to reduce the municipality's refund under this section over a period of not more than three years by an amount not exceeding 25 percent of the capital expenditure.

* Sec. 5. AS 43.75.140 is amended by adding new paragraphs to read:

(9) "capital expenditures" includes the price paid for equipment and the cost of improvements made to depreciable property, but does not include expenditures that are deducted entirely for federal income tax purposes in the year in which they accrued or were paid; in this paragraph, "equipment" and "depreciable property" have the meaning given in regulations adopted by the commissioner of commerce and economic development;

(10) "product diversity" means the processing of nontraditional fish or other seafood species or products;

(11) "product quality" means the handling of fish or other seafood species or products in order to increase product sales or value.

* Sec. 6. The first tax credit report under AS 43.75.034, enacted by

Chapter 79

1 sec. 2 of this Act, is due February 2, 1987, and shall describe the expen-
2 ditures for which a credit was approved during 1986 for the 1987 tax year.

3 * Sec. 7. AS 43.75.130(c) and 43.75.140(9) - (11) are repealed
4 January 1, 1992.

5 * Sec. 8. AS 43.75.034 is repealed February 15, 1992.

6 * Sec. 9. Sections 1, 2, and 4 - 8 of this Act take effect July 1,
7 1986.

8 * Sec. 10. Section 3 of this Act takes effect January 1, 1992.
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SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 4.06.89
IN ACCORDANCE WITH UNIFORM RULE 23

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

FURTHER RESOURCES
FINANCE

1/9/89

DATE TURNED INTO OFFICE 4.11.89

Mr. President:

C&RA Committee considered SB 74

amending and extending the fisheries business tax credit; relating to fisheries business tax refunds to municipalities; efd.

and recommended:

[] replace with CS _____ [] same title

[] attached amendment(s) and [] new title

[] _____ letter of intent adopted

[] do pass

[] do not pass

[] no recommendation

[] individual recommendations

[] further referral to _____

FISCAL NOTE(S) attached [] zero

[] appropriation no FN attached

REVENUE

[] fiscal impact

[] Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

Mike Symandi

Do NOT PASS
Do NOT Pass
Do not pass

Al Adams - Do NOT Pass

Chairman signature and recommendation

[] Committee backup attached

**C&RA COMMITTEE
THURSDAY
MARCH 23, 1989**

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.

FISCAL: FY 91 LOSS OF REVENUE OF \$6700K

SPONSOR: ZHAROFF

THE NEXT BILL BEFORE THE COMMITTEE IS SENATE BILL 77, AN ACT AMENDING AND EXTENDING THE FISHERIES BUSINESS TAX CREDIT, RELATING TO FISHERIES BUSINESS TAX REFUNDS TO MUNICIPALITIES AND PROVIDING FOR AN EFFECTIVE DATE.

THIS BILL EXTENDS THE EXISTING FISHERIES BUSINESS TAX CREDIT PROGRAM FOR TWO YEARS. THE TAX CREDIT IS ONE THAT ALLOWS SEAFOOD PROCESSORS TO APPLY FOR A CREDIT OF UP TO 50% OF THEIR STATE FISH TAXES FOR IMPROVEMENTS MADE TO THEIR SHOREBASED PLANTS. CURRENTLY THE CREDIT CAN BE ONLY USED FOR THREE YEARS.

SENATOR ZHAROFF, THE BILL'S SPONSOR IS HERE TO SPEAK FURTHER.

STEVE KETTLE FROM REVENUE

PRELIMINARY RESULTS - 3/14/89
SURVEY ON THE USE OF THE FISHERIES BUSINESS TAX CREDIT
SEN. ZHAROFF

43 companies with onshore plants responded out of a possible 127.
33 percent return

These companies returned surveys for 64 processing plants, out of a possible 165. 39 percent of Alaska's onshore plants

The companies that responded are estimated to account for 75 percent of the seafood processing capacity in Alaska.

92 percent of the plants used the tax credit, 8 percent did not.

77 percent hired additional workers because of improvements with the tax credit, 22 percent did not, 1 percent switched existing workforce from seasonal to year-round employment.

77 percent used the tax credit to process new species or new products, 23 did not.

88 percent increased their production capacity with the tax credit, 12 percent had no increase.

14 percent used the tax credit to diversify from a canning to a freezing operation, 86 percent answered no or not applicable. 52 percent of the plants that answered no already had freezing facilities.

39 percent -- because of the tax credit -- invested in onshore plants rather than floating processors, 61 percent answered not a factor or not applicable.

34 percent said that they were able to pay fishermen more for their product because of improvements made with the tax credit, 58 percent said it had no effect on prices, 8 percent said question was not applicable, 2 percent did not know.

47 percent said they increased the length of their operating season because of tax credit improvements, 45 percent said it had no impact, 4 percent said not applicable, and 4 percent said they would increase operating season in the future.

79 percent said they spent money from tax credit improvements in the communities in which they operate (labor, construction materials, etc.), 5 percent did not, 9 percent did not know the amount, and 7 percent said not applicable.

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: An Act Amending and Extending the Fisheries Business Tax Credit
Sponsor: Zharoff etc.
Requestor: CRA, Res. 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)	(13000)	(13700)	(13700)	(13700)	(13700)

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*
Division: Income and Excise Audit

Phone: (907) 465-2320
Date: March 14, 1989

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: March 14, 1989

Distribution (by preparer):

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

SECTIONAL ANALYSIS

Section 1 extends the maximum period for which a fisheries business may receive a credit against their fish tax liability from three to five years.

Section 2 also extends the maximum period of time from 3 to 5 years the amount a municipality may increase the fish tax credit by foregoing up to one-half of their share of fish tax collections.

Section 3 extends the unused credit carryover to correspond to the 5 year election period in Section 1.

Section 4 increases the maximum amount of credit that may be claimed to 75% of the taxpayers total tax liability if a municipality participates in the credit program. Current law provides a 50% maximum whether or not a municipality participates.

Section 5 makes a technical change to adopt the five year credit period.

Section 6-8 provides a sunset provision on the fish tax credit of December 31, 1995.

Section 9 provides transition rules allowing municipalities to adopt an ordinance conforming to the change in this bill.

SB 74/CURRENT LAW COMPARATIVE ANALYSIS

	<u>SB 74</u>	<u>CURRENT LAW</u>
1. AUTHORIZED PERIOD FOR EXPENDITURE	1987-1991	1987-1989
2. PERIOD CREDIT AVAILABLE	1987-1995	1987-1991
3. CARRY-OVER PROVISION	5 year	3 year
4. POTENTIAL FISCAL IMPACT	\$74.5 Million	\$35.2 Million
5. MAXIMUM CREDIT AVAILABILITY *	75 % tax liability	50% tax liability

* requires municipal approval and participation

BILL ANALYSIS

The present fish tax credit program has been widely utilized by the shorebased fisheries processing industry. Nearly \$136 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 74

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 create tax credits, an estimated \$74.5 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) The Department believes that many of the expenditures have been made and will be made in the future regardless of whether a credit is offered.
- 4) Shorebased fisheries businesses already fully constructed are put at a competitive disadvantage against those new entries to the market.

PROJECTED REVENUE IMPACT
 FISHERIES BUSINESS TAX CREDIT (AS 43.75.032)

STEVEN E. KETTEL

INCOME & EXCISE AUDIT
 MARCH 14, 1989

\$ in millions

TAX YEAR FISCAL YEAR	EXISTING CREDIT PROGRAM				PROGRAM UNDER SB74						PROGRAM TOTALS	SB74 TOTALS
	1987 1988	1988 1989	1989 1990(a)	1990 1991	1991 1992	1992 1993	1993 1994	1994 1995	1995 1996			
APPROVED EXPENDITURES	55.5	62.4	38.4	40.0	40.0	N/A	N/A	N/A	N/A	236.3	100	
CREDIT APPROVED	27.7	31.2	19.2	20.0	20.0	N/A	N/A	N/A	N/A	118.1		
CREDIT APPLIED (REVENUE LOSS)	6.7	11.0	11.8	12.4	13.0	13.7	13.7	13.7	13.7	109.7	74.5	
CREDIT AVAILABLE FOR CARRYFORWARD	21.0	41.2	48.6	56.2	63.2	49.5	35.8	22.1	8.4			

SUMMARY

FISHERIES TAX LIABILITY BEFORE CREDIT APPLIED	29.2	(b)32.1	33.7	35.4	37.2	39.0	39.0	39.0	39.0	323.6	
CREDIT APPLIED	(6.7)	(11.0)	(11.8)	(12.4)	(13.0)	(13.7)	(13.7)	(13.7)	(13.7)	(109.7)	
MUNICIPAL SHARE	(14.6)	(16.0)	(16.8)	(17.7)	(18.6)	(19.5)	(19.5)	(19.5)	(19.5)	(161.7)	
GENERAL FUND SHARE	7.9	5.1	5.1	5.3	5.6	5.8	5.8	5.8	5.8	52.2	

(a) TY 1989 expenditures to 3/10/89 amount to 18.4 million. Balance of calendar year expenditures at 20 million. TY 1991 through 1992 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 1996.

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	\$13,888,000.00	\$6,844,000.00	\$0.00	\$0.00	\$0.00	\$0.00		\$6,844,000.00
1987	ALITAN	\$170,000.00	\$60,000.00	\$196,737.00	\$70,366.00	\$139,756.02			
1987	CHIGNIK	\$351,500.00	\$175,750.00	\$290,021.00	\$145,010.50	\$152,365.50	\$145,010.50		\$0.00
1986	COPCOVA	\$950,826.00	\$475,413.00	\$839,172.00	\$419,586.00	\$217,263.00	\$217,263.00		\$217,263.00
1986	COPCOVA	\$965,929.00	\$482,964.50	\$965,928.61	\$482,964.32	\$327,540.39	\$327,540.39		\$155,423.93
1987	COPCOVA	\$382,647.00	\$191,323.50	\$386,206.00	\$193,103.00	\$91,360.00	\$91,360.00		\$101,743.00
1987	CRAIG	\$385,000.00	\$192,500.00	\$495,871.16	\$246,935.58	\$67,011.88	\$67,078.51		\$179,857.07
1987	EVUK	\$435,645.00	\$217,822.50	\$608,203.00	\$304,101.50	\$91,916.30			
1987	EXCURSION INLET	\$282,237.00	\$141,118.50	\$687,135.00	\$343,567.50	\$85,472.58			
1986	HOONAH	\$195,515.00	\$97,757.50	\$349,420.62	\$174,714.31	\$47,265.70	\$47,265.70		\$127,448.61
1986	JUNEAU	\$5,000.00	\$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	KASLOF	\$190,000.00	\$95,000.00	\$190,000.00	\$95,000.00	\$25,436.00	\$25,437.02		\$69,472.98
1986	KENAI	\$550,810.00	\$275,405.00	\$275,203.00	\$130,601.50	\$21,470.72	\$21,470.72		\$101,580.19
1986	KENAI	\$234,400.00	\$117,200.00	\$241,349.61	\$120,674.81	\$103,319.00	\$103,319.00		\$17,555.00
1986	KENAI	\$49,553.00	\$24,776.50	\$49,803.34	\$24,941.67	\$24,776.67	\$24,776.67		\$0.00
1986	KENAI	\$88,400.00	\$44,200.00	\$88,400.47	\$44,200.24	\$15,044.30	\$15,044.30		\$29,155.93
1987	KENAI	\$381,500.00	\$190,750.00	\$383,500.00	\$191,750.00	\$157,042.26	\$157,042.26		\$34,707.74
1987	KENAI	\$96,629.00	\$48,314.50	\$119,766.00	\$59,883.00	\$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	\$4,226,633.65	\$2,113,316.83	\$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	\$140,209.33	\$140,209.33		
1987	KODIAK	\$160,438.00	\$80,219.00	\$139,770.19	\$69,885.10	\$69,800.21	\$68,478.00		
1987	KODIAK	\$1,118,087.40	\$559,043.70	\$1,318,204.92	\$659,102.46	\$318,435.25	\$318,735.25		\$340,600.00
1987	KODIAK	\$1,472,527.00	\$736,263.50	\$1,472,527.00	\$736,263.50	\$690,948.76	\$690,948.76		\$15,314.74
1987	KODIAK	\$777,670.00	\$388,835.00	\$754,837.39	\$377,418.70	\$244,126.00	\$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		\$3,934.58
1986	NAKNEK	\$82,940.00	\$41,470.00	\$49,553.34	\$24,776.67	\$24,776.67	\$24,776.67		\$0.00
1987	NAKNEK	\$68,000.00	\$34,000.00	\$63,001.00	\$31,500.50	\$197,118.97			
1987	NAKNEK	\$239,126.00	\$119,563.00		\$0.00				
1987	NAKNEK	\$106,500.00	\$53,250.00	\$101,431.71	\$50,715.86	\$50,715.86	\$0.00		\$50,715.86
1987	PETERSBURG	\$2,706,847.00	\$1,353,423.50	\$2,706,847.00	\$1,353,423.50	\$142,439.84	\$68,038.00		\$0.00
1987	PETERSBURG	\$399,500.00	\$199,750.00	\$284,879.67	\$142,439.84	\$42,638.27	\$42,638.27		\$0.00
1987	PETERSBURG	\$77,000.00	\$38,500.00	\$85,276.74	\$42,638.37				
1986	PORT BAILEY	\$364,653.00	\$182,326.50	\$45,901.00	\$22,950.50	\$57,713.88			
1987	S. NAKNEK	\$36,639.00	\$18,319.50	\$0.00	\$0.00	\$0.00	\$0.00		\$18,319.50
1987	SEWARD	\$618,087.00	\$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	TOGIAK	\$139,395.00	\$69,697.50	\$69,697.50	\$34,848.75	\$40,535.09	\$40,970.40		\$28,727.13
1986	UNALASKA	\$12,483,742.00	\$6,241,871.00	\$16,898,360.00	\$8,449,180.00	\$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		\$22,729,372.85
* 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	HESSHALL
CORDOVA		\$1,062,702.00		
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		\$5,050.00		
HAINES		\$39,000.00		
HOMER		\$239,300.00		
HOMER			\$5,557.00	NO PRIOR APPROVAL
JUNEAU		\$8,000.00		
JUNEAU		\$589,000.00		
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
HAKNEK		\$417,075.00	\$38,592.00	BUNKHOUSE/HESSHALL
HAKNEK		\$1,303,000.00	\$291,300.00	TRUCK/BKNSR/BULLDZR
NORTH POLE		\$57,140.00		
FELICAN		\$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 HAKNEK		\$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		
ATKA		\$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		
11/10/88	1989	DRY BAY (YAKUTAT AREA)	\$38,000.00		
11/10/88	1989	YAKUTAT	\$112,200.00	\$45,000.00	EMPLEE SHWRS&GENERATOR
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	\$382,516.00	\$500,000.00	BKHS/STRG BLDG
01/10/89	1989	JUNEAU		\$5,000.00	PRIOR EXPEDITURE
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	USANIK BAY	\$370,574.00	\$83,876.00	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		\$78,500.00	OFFICE/SPLY STORG/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	DREDGING
02/22/89	1989	KODIAK	\$8,344.00	\$5,955.00	ELEVATOR DOORS
02/28/89	1989	KENAI	\$20,000.00		
02/28/89	1989	KODIAK	\$211,125.00		
03/07/89	1989	JUNEAU	\$50,000.00		
03/09/89	1989	VALDEZ	\$97,000.00		
03/09/89	1989	JUNEAU	\$125,000.00		

TOTALS \$18,379,694.40 \$1,312,033.97 \$19,691,728.37

Resolution of the Alaska Municipal League

Resolution No. 89-37

**A RESOLUTION REQUESTING THE AMENDMENT AND EXTENSION
OF AS 43.75.032, WHICH AUTHORIZES STATE FISHERIES
BUSINESS TAX CREDITS TO FISH PROCESSORS**

WHEREAS, AS 43.75.032 enables an onshore fish processor to receive a State Fisheries Business Tax Credit for capital improvements to a fish processing plant, and

WHEREAS, this credit has assisted many onshore fish processors in Southwest Alaska to upgrade and expand processing facilities, which has assisted long-term economic development of the region and the State, and

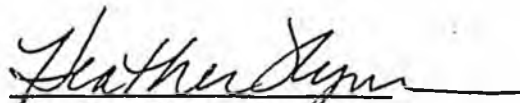
WHEREAS, the initial legislation authorized the tax credits for only a three-year period and expires on January 1, 1992, and

WHEREAS, legislation was introduced in 1988 to extend the credit to a five-year period and the expiration date an additional two years, but this legislation was not adopted, and

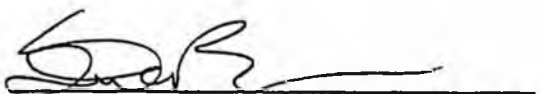
WHEREAS, the municipalities in Southwest Alaska believe the tax credit program has resulted in economic development in their communities and that extending the credit would better enable the onshore fish processing industry to capitalize on the increase in bottomfish and other fisheries development;

NOW, THEREFORE, BE IT RESOLVED that the Alaska Municipal League requests that the State Fisheries Business Tax Credit authorized in AS 43.75.032 allow credits for a period of five years and that the expiration date be extended an additional two years.

Adopted this 18th day of November 1988 in Fairbanks, Alaska.


Heather Flynn, President

ATTEST:


Scott A. Burgess, Executive Director