

HB

253

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred: March 26, 1993

FURTHER REFERRALS:

Date of Committee Action: 4/7/93

The FINANCE Committee considered:

HB 253

HOUSE BILL NO. 253

FISHERIES BUSINESS TAXES

"An Act amending the basis for determining refunds to local governments under the program of shared fisheries taxes; and providing for an effective date."

RECOMMENDATIONS: [] the same title
 be replaced with _____ [] a new title

[] have attached amendments(s)

do pass

[] do not pass

[] no recommendations

[] individual recommendations

[] additional referral to the _____ Committee

ADOPTS: _____ letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept)

APPROVES PREVIOUS: (Dept/Date)

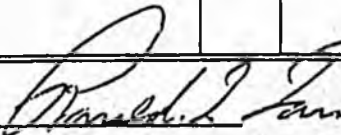
fiscal impact See

[] fiscal note(s) _____

[] zero fiscal note _____

[] zero fiscal note(s) _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	DNP	NR	AM
<i>Ronald J. Larson</i>	X	<i>Ben Grussendorf</i>	X		
<i>Mark Hanley</i>	X	<i>John Hoffman</i>	✓		
<i>Terry Martin</i>	X	<i>Richard Foster</i>	X	X	
<i>Scott Parnell</i>	X				
<i>Ben Theriault</i>	X				
<i>Tom Brown</i>	X				
<i>Spide Navarre</i>	✓				



 CHAIRMAN'S SIGNATURE

Corrected BRU/comp.
4-21-93

FISCAL NOTE

STATE OF ALASKA
1993 LEGISLATIVE SESSION

BILL NO. HB 253

Revision Date: 4/20/93

Dept. Affected: Revenue

Title: Fisheries Business Taxes

BRU: Shared Taxes

Component: Fish Tax

Sponsor: House Finance

Requestor: House Rules

COMPONENT SERIAL NO. 107

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY94	FY95	FY96	FY97	FY98	FY99
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
TOTAL OPERATING	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)

CAPITAL						
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REVENUE FUND SOURCE:						
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year (FY93) impact: \$ 0

ANALYSIS: (Attach a separate page if necessary)

(See Attached)

Prepared by: Larry E. Meyers, Director
 Division: Income and Excise Audit Division
 Approved by Commissioner: Darrel J. Rexwinkel
 Agency: Department of Revenue

Phone: 465-2320
 Date: April 20, 1993
 Date: April 20, 1993

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Analysis

This bill decreases the percentage amount used as the basis for sharing fisheries business taxes to municipalities under AS 43.75 for purposes of defraying the costs to the state of enforcement and administration of the shared tax program. Under this bill, 95% of revenues collected would be subject to sharing rather than the entire amount. Since the state shares 50% of fisheries business tax revenues, municipalities would receive 47.5% ($50\% \times 95\%$) of fisheries business taxes collected within the municipality rather than current 50%. Municipalities would effectively receive 2.5% less revenues.

FY 92 fisheries business taxes are estimated to be \$40 million. Assuming that fisheries business tax revenues maintain the same level through FY 99, the state will withhold an estimated \$1 million ($\$40 \text{ million} \times 2.5\%$) each fiscal year to cover the costs of administering the fisheries business tax program. The estimated total amount shared to municipalities per year would be \$19 million rather than \$20 million.

Back-up

Distribution of the state's fish tax collected in FY 92 by borough and by city. A total of \$30.1 million was collected, of which \$14.5 was distributed to Alaska's boroughs and cities.

Distribution to Boroughs

Aleutians East	\$1,780,831.67
Anchorage	86,426.06
Bristol Bay	1,403,630.88
Haines	178,612.64
Juneau	32,139.76
Kenai	499,981.74
Ketchikan	242,817.76
Kodiak	1,005,663.88
-Lake & Peninsula	-391,237.54
NW Arctic	2.32
North Star	5.09
Sitka	440,237.54

Distribution to Cities

Akutan	\$588,202.55
Atka	851.25
Bethel	64,549.23
Chignik	145,636.73
Clark's Point	120,817.58
Cordova	334,651.50
-Craig	29,279.50
Dillingham	186,761.89
Emmonak	35,051.16
False Pass	12,788.81
Homer	93,158.41
-Hoonah	53,377.10
Kenai	132,875.73
Ketchikan	215,780.04
King Cove	341,478.44
Kodiak	616,602.39
Larson Bay	55,399.82
Old Harbor	1,121.21
-Pelican	-163,111.01
-Petersburg	-599,514.12
Saint George	116,408.96
Saint Mary's	1,274.58
Saint Paul	1,140,370.45
Sand Point	110,624.56
Seward	153,392.71
Togiak	99,567.78
Unalaska	2,475,196.65
Valdez	249,495.51
Whittier	38,066.16
Wrangell	53,102.42
-Yakutat	-170,979.38
All other cities	6,108,476.56

Extra-Municipal Shared Fish Tax Program
Municipalities within Fisheries Geographic Area

FMA 1: Pribilof Islands Area

St. Paul
St. George

FMA 2: Aleutians Islands Area

Aleutians East Borough
Atka
Unalaska
Akutan

FMA 3: Alaska Peninsula Area

Aleutians East Borough
Lake & Peninsula Borough
False Pass
Cold Bay
King Cove
Sand Point

FMA 4: Chignik Area

Lake & Peninsula Borough
Chignik

FMA 5: Bristol Bay Area

Aleknagik
Clark's Point
Bristol Bay Borough
Dillingham
Ekwok
Lake & Peninsula Borough
Manokotak
New Stuyahok
Newhalen
Nondalton
Pilot Point
Togiak

FMA 6: Lower Kuskokwim Area

Akiak
Atnautluak
Bethel
Cheformak
Eek
Goodnews Bay
Kasigluk
Kwethluk
Quinhagak
Mekoryuk
Napakiak
Napaskiak
Newtok

FMA 6 (continued):

Nightmute
Nunapitchuk
Platinum
Quinhagak
Toksook Bay
Tununak

FMA 7: Upper Kuskokwim Area

Aniak
Chuathbaluk
Lower Kalskag
Mcgrath
Nikolai
Tuluksak
Upper Kalskag

FMA 8: Lower Yukon Area

Alakanuk
Emmonak
Holy Cross
Hooper Bay
Kotlik
Marshall
Mountain Village
Pilot Station
Russian Mission
Scammon Bay
Sheldon's Point
St. Mary's

FMA 9: Middle Yukon Area

Allakaket
Anvik
Bettles
Galena
Grayling
Hughes
Huslia
Kaltag
Koyukuk
Nulato
Ruby
Shageluk

FMA 10: Upper Yukon Area

Eagle
Fairbanks
Fairbanks North Star Borough
Fort Yukon
Nenana
Tanana

Extra-Municipal Shared Fish Tax Program
Municipalities within Fisheries Geographic Area

FMA 11: Norton Sound-Point Clarence

Brevig Mission
Elim
Gambell
Golovin
Koyuk
Nome
Savoonga
Shaktolik
Stebbins
St. Michael
Teller
Unalakleet
Wales
White Mountain

FMA 12: Kotzebue-Northern Area

Ambler
Buckland
Deering
Diomed
Kiana
Kivalina
Kobuk
Kotzebue
Norvik
Point Hope
Selawik
Shishmaref
Shungnak

FMA 13: Kodiak Area

Kodiak Island Borough
City of Kodiak
Ouzinkie
Port Lions
Larsen Bay
Old Harbor
Akhiok

FMA 14: Cook Inlet Area

Municipality of Anchorage
Kenai Peninsula Borough
City of Kenai
Soldotna
Kachemak
Homer
Seldovia
Seward

FMA 15: Prince William Sound Area

Cordova
Valdez
Whittier

FMA 16: Yakutat Area

Yakutat Borough

FMA 17: Northern Southeast Area

Angoon
Haines Borough
Haines
Hoonah
City & Borough of Juneau
Pelican
Skagway
Tenekee Springs

FMA 18: Central Southeast Area

City & Borough of Sitka
Port Alexander
Kake
Kupreanof
Petersburg
Wrangell

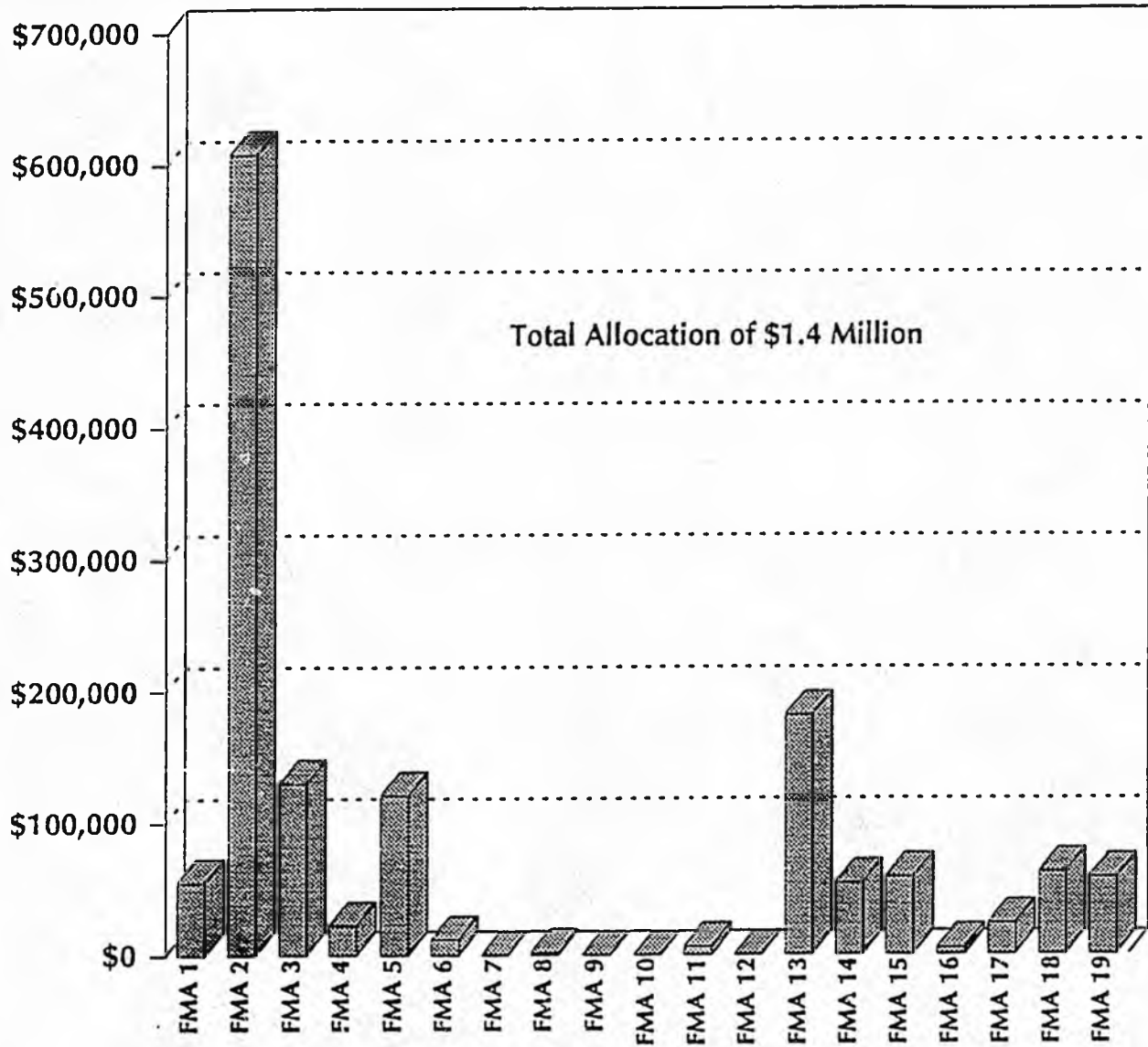
FMA 19: Southern Southeast Area

Coffman Cove
Craig
Hydaburg
Kasaan
Ketchikan Gateway Borough
City of Ketchikan
Klawock
Saxman
Thorne Bay

Extra Territorial Fish Tax Sharing — Projected FMA Allocations
 (Based on Department of Revenue 1992 Fish Tax Returns)
 (Available Funding = \$1.4 million)

Fisheries Management Area	Pounds of Fish Processed	FMA Percentage of Statewide Processing	Estimated FMA Allocation
FMA 1	92,622,520	3.95%	\$55,240
FMA 2	1,019,161,953	43.42%	\$607,822
FMA 3	218,142,517	9.29%	\$130,099
FMA 4	37,970,026	1.62%	\$22,645
FMA 5	202,152,087	8.61%	\$120,562
FMA 6	19,720,655	0.84%	\$11,761
FMA 7	202,086	0.01%	\$121
FMA 8	2,812,669	0.12%	\$1,677
FMA 9	135,454	0.01%	\$81
FMA 10	289,319	0.01%	\$173
FMA 11	10,878,723	0.46%	\$6,488
FMA 12	0	0.00%	\$0
FMA 13	304,572,365	12.97%	\$181,645
FMA 14	90,883,336	3.87%	\$54,202
FMA 15	98,329,053	4.19%	\$58,643
FMA 16	8,303,046	0.35%	\$4,952
FMA 17	39,151,486	1.67%	\$23,350
FMA 18	104,473,295	4.45%	\$62,307
FMA 19	97,640,066	4.16%	\$58,232
FMA Totals	2,347,440,657	100.00%	\$1,400,000

Estimated FMA Allocations



"Extra-Territorial" Fish Tax Sharing Program Program Concepts

This program was created by a new law that provides for an annual sharing of fish tax collected outside municipal boundaries ("extra-territorial") to municipalities which can demonstrate they "suffered significant effects from fisheries business activities." This program will operate separately from the existing state fish tax program which shares tax revenues collected from inside municipal boundaries.

Certain aspects of the new program are specified or defined in the law; however, the detailed programmatic procedures and allocation formula were left for the Department of Community and Regional Affairs to develop and adopt in regulations. The following presents a description of how the new program would work as proposed at this time. We would appreciate any comments which you might have about any part of the program as proposed.

Program Eligibility

To be eligible for an allocation under this program, applicants must:

- 1) be a municipality (city or borough); and,
- 2) must be able to demonstrate the municipality suffered significant effects as a result of fisheries industry activity in the community.

Program Funding

The new law provides for an annual funding level for this program equal to half the amount of state fisheries business tax revenues collected outside of municipal boundaries during the previous calendar year. This amount will vary from year-to-year. Based on Department of Revenues 1992 fish tax returns, it is estimated that the first year funding level will be about \$1.5 million. This funding is subject to actual appropriation by the legislature

The law requires that the available funding be allocated in two stages:

first stage: the available funding will be allocated among 19 fisheries management areas based on the pounds of fish and shellfish processed in each fisheries management area compared to the pounds of fish and shellfish processed in the whole state during the calendar year. For example, if an area processed 10% of all the fish and shellfish processed in the whole state during a given year, then that area would receive 10% of the funding available for this program for that year. A listing of the 19 fisheries management areas and the cities within those areas is attached. A table and graph presenting a rough estimate of the allocation that may be going to each of these areas, based on 1992 tax returns, is also attached.

second stage: the funding available within each fisheries management area will be allocated among the municipalities in that area based on the level of fishing industry significant effects suffered by each municipality compared to the level of effects experienced by the other municipalities in that fisheries management area.

What does the term "suffered significant effects" mean?

In the second stage allocation, program funding will be allocated among the municipalities in a fisheries management area based on the significant effects suffered by each municipality in the area during a given calendar year (called the "base" year). But what effects of the fishing industry does a municipality "suffer" from, which of these effects are significant, and how are these effects to be measured to provide for a fair sharing of program funding.

In answering these questions, the department assumed the basic purpose of this new program is to provide financial assistance to municipalities which have experienced some kind of negative fiscal impact from the activities of the fishing industry in the community. Not all effects of the fishing industry on a community are negative. For example, the fishing jobs and the cash that these jobs bring to local businesses in the community are positive effects. Some clear examples of negative effects resulting from fisheries business activity are:

- a municipality's expenses in repairing a dock damaged by a fishing vessel;
- a municipality's costs of hiring extra police or medical staff to cover periods when fishing crew expand the municipality's "normal" population; and,
- a city's annual debt service payments towards repayment of a loan which was used to improve the city's water system to meet increased demands for fresh water by local fish processors.

The kinds of negative effects which a municipality might claim to have suffered are many. The department does not intend at this time to create a definitive list of specific negative effects which are acceptable for inclusion in this program. As the program is now envisioned, the responsibility will be on each municipality to demonstrate, document and justify its claims of negative impacts resulting from fisheries business activities. The department will include specific directions and some general guidelines in the application form with regard to the kinds of effects which are valid for this program and the kinds of supporting documentation expected of the applicant.

In general, the department holds that "significant effects" are those negative impacts for which the municipality can demonstrate the need for an expenditure of municipal funds. For example, a sudden population increase of 1,000 people is not in itself a negative effect. It is the impact on the city budget of dealing with these extra people that is the negative effect. Consequently, all claims of negative impact will have to be submitted in terms of the dollars needed to be spent by the municipality to address a significant effect of the fishing industry. These may be reflect actual city expenditures or they may represent expenditures which the city has determined to be necessary but for which the city is unable to pay.

How will the second stage allocation work?

After the "significant effects" have been established for each of the municipalities in a fisheries management area, the department will calculate the allocation for each municipality.

Under the proposed allocation formula, one half of the funding available within a fisheries management area would be divided up among participating municipalities on the basis of the relative dollar amount of impact in each municipality. The other half of the funding available to that area would be divided up among municipalities based on of the relative dollar amount of impact per capita in each community.

As an example of how the formula would work, the table below shows how one imaginary area's total allocation of \$400,000 would be distributed among the three municipalities in this area:

Example:

- Funding available for area = \$400,000
- Three communities in area

- one-half (\$200,000) distributed based on \$ of negative impact
- other-half (\$200,000) distributed based on \$ of negative impact per capita

Community	Population	\$ of impacts	\$ of impacts per capita	1st half of distribution	2nd half distribution	Total \$ Received by Community
city A	3,000	\$500,000	\$167	\$95,238	\$55,556	\$150,794
city B	1,500	\$500,000	\$333	\$95,238	\$111,111	\$206,349
city C	500	\$50,000	\$100	\$9,524	\$33,333	\$42,857
				\$200,000	\$200,000	\$400,000

The first half of the formula favors those municipalities which experienced larger impacts, regardless of the size of the community. The second half of the formula favors those communities which experienced large impacts relative to the size of the community. This ensures that smaller communities with significant impacts will receive a reasonable share of the funding available in the region.

The municipal populations used in determining the per capita value of impacts will be those populations which the department now determines for use in the State Revenue Sharing Program.

As now envisioned, the program regulations will also provide for the possibility of an alternative second stage allocation formula for use within a fisheries management area. Alternative formulas could be proposed by the municipalities within the fisheries management area. The department will consider using a proposed alternative method only if all the municipalities in the area agree to use the method, and if the method includes some measure of the relative effects of the fishing industry on the respective municipalities in the area.

What happens if a municipality occupies more than one Fisheries Management Area?

As noted above, the proposed program divides the state into 19 geographic areas for purposes of the stage one allocation. Under this plan, several boroughs occupy more than one area, and are therefore eligible to share in the funding available for the stage two allocation in each of these areas. In these cases, the borough will be responsible for distinguishing which impacts on the borough were caused by which fishing industry impacts in each area. Within each area, boroughs will only get credit for those negative impacts which occur in that area. In each area, the population used in determining the per capita impact on the borough will be the total borough population (as determined for the purposes of the State Revenue Sharing Program).