

HB

217

HFIN

FILE

(11)

HOUSE COMMITTEE REPORT

Date Referred to Committee: April 29, 1999

FURTHER REFERRALS:

Date of Committee Action: 5/4/99

The FINANCE Committee considered:

HB 217

HOUSE BILL NO. 217

FISHERY COOPERATIVE CONTRACTS

"An Act relating to obligations and payments to the state under fishery cooperative contracts; and providing for an effective date."

recommends it be replaced with the following committee substitute _____ the same title a new title

additional referral to _____ Committee
 attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____ APPROVES PREVIOUS: (Dept/Date) _____
 fiscal note(s) DOR _____ fiscal note(s) _____

zero fiscal note(s) _____ zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS	DP	DNP	NR	AM
<i>Gene Theriault</i> Theriault	X			
<i>Ed Mulder</i> Mulder	X			
<i>Jim Kohring</i> Kohring			X	
<i>John Davies</i> Davies	X			
<i>Ben Grussendorf</i> Grussendorf	X			
<i>Paul E. Moses</i> Moses	X			
<i>W. Williams</i> Williams	X			
<i>J. Foster</i> Foster	X			

CHAIR'S SIGNATURE Gene Theriault Ed Mulder

FISCAL NOTE

**STATE OF ALASKA
1999 LEGISLATIVE SESSION**

BILL NO. HB 217

Revision Date/Time (Note if correction) _____ Dept. Affected Revenue
 Title Fishery Cooperative Contracts BRU Revenue Operations
 Component Income and Excise Audit
 Sponsor (H) FIN
 Requester (H) FIN Component Serial No. 113

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES** (increase)	256.2-512.5	256.2-512.5	256.2-512.5	256.2-512.5	256.2-512.5	256.2-512.5
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	0.0	0.0	0.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of current year (FY99) cost: 0.0

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS:

** The estimated revenue increase is due to provisions of the American Fisheries Act. The bill provides for how these payments will be remitted to the State. Because there is no precise data on the amount of BSAI pollock that is landed outside of the State, we have provided a range instead of a point estimate. Please see attached for further analysis.

Prepared by Brett Fried, Economist Phone 465.3072
 Division Income and Excise Audit Date/Time April 30, 1999
 Approved by Wilson L. Condon Date April 30, 1999
 Commissioner Wilson L. Condon
 Agency Department of Revenue

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**SECTIONAL ANALYSIS BY THE DEPARTMENT OF REVENUE OF HB 217 –
FISHERY COOPERTIVE CONTRACTS**

SECTION ANALYSIS

Section 1 amends AS 43.77 by adding AS 43.77.015 to categorize payments made to the state under federal fishery cooperative contracts. Pursuant to recently enacted federal law, the American Fisheries Act, cooperatives are required to execute contracts with its members who must agree to make payments to Alaska for pollock harvested in the Alaska pollock fishery that is not landed in Alaska. The payments are to be equal to the amount that would have been due had the product been landed in Alaska and subject to the Landing Tax. The bill provides that these payments are to be deposited by the department in the separate account maintained in the general fund for landing taxes, and treated as tax revenue collected for revenue sharing purposes. This allows for the payments to be shared with municipalities in the routine manner upon appropriation.

The amount of the obligation imposed by contract is treated as if it were a tax for purposes of AS 43.77.020. This imposes the obligation upon the cooperative members to file necessary state "as if" Landing Tax returns and to remit the proper payment. However, the payments are not taxes for other intents, such as for assessment, interest, penalty, and collection purposes.

Section 2 provides that the bill has an immediate effective date.

OPERATION EXPENSES

The Department of Revenue does not anticipate increases in cost due to the provisions of this bill.

REVENUES

The American Fisheries Act changed the structure of the Bering Sea and Aleutian Islands (BSAI) pollock fishery. Catcher processors fishing in the BSAI have signed a fishery cooperative contract that was authorized by the American Fisheries Act. Consequently, they must also make payments to the State for any BSAI pollock harvested in the pollock fishery but not landed in the State. Prior to passage of the American Fisheries Act this pollock was not subject to Alaska fish taxes.

In order to estimate the amount of pounds of pollock harvested in the BSAI but not landed in the State, we compared historical Department of Revenue BSAI pollock data to National Pacific Management Council data. DOR pounds of pollock were 16% to 18% less than those identified by the National Pacific Marine Council. Although these differences could be due to different factors (including how unprocessed pounds are calculated), we used this historical information to estimate two scenarios: (1) pollock landed outside the State accounts for 10% of total pollock landed and (2) pollock landed outside the State

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accounts for 20% of pollock landed. Using these two scenarios the amount of new revenue coming into the State as a result of the American Fisheries Act would be from \$256,000 to \$512,000. There is, however, no method for adjusting these historically based numbers to reflect the new reality of the cooperative fishery. The pace of fishing has been altered by the fact that the catcher processors no longer compete with each other to maximize their share of the pollock. This could result in changes to the amount of pollock landed in Alaska. Additionally if motherships sign a fishery cooperative contract then payments should increase.

Alaska Department of Revenue
Income and Excise Audit Division

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<u>Assumptions</u>	<u>1999</u>
Total Allowable Catch in the BSAI for pollock in metric tons	992,000
Metric Tons to Pounds conversion factor	2,205
Total Allowable Catch in the BSAI for 1999 in pounds	2,187,360,000
CDQ Allocation (10% of TAC)	218,736,000
Total Non-CDQ allowable catch	1,968,624,000
Bering Sea Catcher-Proc. Percent Discards Pollock 1998	2.5%
Percentage of CDQ to Catcher Processors	85.0%
Percentage to Motherships	10.0%
Percentage to Catcher Processors	40.0%
Percentage to Inshore Processors	50.0%
Price Pollock per pound	0.09
Tax rate	3.0%
Scenario 1: Last Load Percentage	10.0%
Scenario 2: Last Load Percentage	20.0%

BSAI POLLOCK "LAST LOAD" - ANNUAL REVENUE FY 2000-FY2005				
Pounds of Pollock	Value (@ \$.09/lb.)	Tax Revenue (@ 3% tax rate)	Last Load Scenario 1	Last Load Scenaric 2
949,040,820	\$85,413,674	\$2,562,410	\$256,241	\$512,482

Sources: North Pacific Fishery Management
 Council, National Marine Fisheries Service and
 Department of Revenue Fishery Resource Landing
 Tax and Fisheries Business Tax Returns.

SPONSOR STATEMENT / SECTIONAL ANALYSIS

HB 217 - Obligations & Payments To The State Under Fishery Cooperative Contracts

House Bill 217 grants specific statutory authority to the Department Of Revenue, necessary to collect payments in lieu of taxes which are required under the American Fisheries Act of 1998.

The AFA provided for payments in lieu of commercial fishery landing taxes, as part of fishing cooperative contracts for the at-sea pollock fishery. Once nine factory trawlers were removed from the fishery, remaining vessels were allowed to form these cooperatives in order to fish on a more flexible schedule, and with more attention to safety and by-catch restrictions.

Senator Ted Stevens and others recognized that the use of coops could have unintended impacts upon the state and its coastal communities. Among these was the potential loss of landing tax revenues due to the possible shift in landing sites of fish product to Seattle and other ports.

To avoid the loss of landing tax revenue, the following section was included in the AFA of 1998:

"Any contract filed under subsection (a) shall include a contract clause under which parties to the contract agree to make payments to the State of Alaska for any pollock harvested in the directed pollock fishery which is not landed in the State of Alaska, in the amounts which would otherwise accrue had the pollock been landed in the State of Alaska subject to any landing taxes established under Alaska law."

House Bill 217 continues the landing tax unchanged, with the State of Alaska collecting the revenues, but would additionally assure that payments in lieu of taxes are processed as intended in current state law.

Section 1 (a): Adds a new section to AS 43.77 which provides the authority for the state to deposit the collected payments in lieu of landing taxes into a new account for that purpose.

(b): Provides that the payment-in-lieu-of-taxes obligation in the cooperative fishing contract should be treated as a fishery landing tax obligation for collection as tax revenue.

Section 2: Immediate effective date.

HB 217 / Rp. Carl E. Moses (staff: tim benintendi)
CEM/tb