

SB

164

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FILE

FISCAL NOTE

STATE OF ALASKA
2005 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 164
(S) Publish Date: 4/18/05

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue 04
Title: Salmon Product Development Tax Credit RDU: Tax and Treasury
Component: Tax
Sponsor: Sen. Stedman
Requester: Sen Resources Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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 ()			(1,000.0)	(1,500.0)	(1,000.0)	(500.0)
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2005) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See page 2

Prepared by: Chuck Harmer Phone: 465-2320
Division: Tax Division Date/Time: 4/13/05 12:37 PM
Approved by: Tom Boutin, Deputy Commissioner Date: 4/13/2005
Agency: Revenue

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FISCAL NOTE # 1

STATE OF ALASKA
2005 LEGISLATIVE SESSION

BILL NO. SB 164

ANALYSIS CONTINUATION

The bill extends the existing credit for investment in processing equipment used to produce value-added salmon products by three years through 2008. The credit is the result of legislative recommendations of the Joint Legislative Salmon Task Force and was designed to encourage in-state processing of salmon beyond heading and gutting and the development of value-added salmon products in the state. Credits may be applied against tax in the year generated and the three subsequent years. Use of the credit in any tax year is limited to one half of the fisheries business tax on salmon that is processed in the state.

Based on credit claims for the most recent tax year (2004) we project investments generating \$1.5 million of credits in each of the three tax years 2006-2008. These credits will be applied against tax only after pre-existing credits have been used or expired. We project that the credits arising under this bill will be used against fisheries business tax liabilities for 2008-2010 to reduce receipts during FY08-FY11.

The bill also clarifies the definitions of qualified investment and value-added salmon products. These clarifications will improve taxpayer's ability to make investment decisions and avoid unanticipated liabilities.

AD w/o

~~Withdrawn~~

24-LS05891S

CS FOR SENATE BILL NO. 164(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-FOURTH LEGISLATURE - FIRST SESSION

BY THE SENATE FINANCE COMMITTEE

Offered: 4/29/05
Referred: Rules

Sponsor(s): SENATOR STEDMAN

Conceptual Amend 2:
delete all language
other than salmon
extend the salmon
for 3 years, other
than to provide
necessary to

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to the salmon product development tax credit; providing for an
2 effective date by amending an effective date in sec. 7, ch. 57, SLA 2003; and providing
3 for an effective date."

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

5 * Section 1. AS 43.75.035(b) is amended to read:

6 (b) The amount of the tax credit applied against taxes under this section may
7 not

8 (1) exceed 50 percent of the taxpayer's tax liability incurred under this
9 chapter for processing of salmon during the tax year; or

10 (2) be claimed for property first placed into service after December 31,
11 2008 [2005].

12 * Sec. 2. AS 43.75.035(i)(3) is amended to read:

13 (3) "qualified investment" means the investment cost in depreciable
14 tangible personal property with a useful life of three years or more to be used

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predominantly to perform a processing, packaging, or product finishing function that is a significant component in producing [PRODUCE] value-added salmon products beyond gutting of the salmon; in this paragraph, "property"

(A) includes

(i) filleting, skinning, portioning, mincing, forming, extruding, stuffing, injecting, mixing, marinating, preserving, drying, smoking, brining, packaging, blast freezing, or pin bone removal equipment; and

(ii) new parts to convert an existing can seamer to pop-top can production;

(B) does not include

(i) vehicles, forklifts, conveyors, cranes, pumps or other equipment used to transport salmon or salmon products, knives, gloves, tools, supplies and materials, equipment that is not processing, packaging, or product finishing equipment, or other equipment the use of which is incidental to the production, packaging, or finishing of value-added salmon products; or

(ii) the overhaul, re-tooling, or modification of new or existing property, except for new parts to convert an existing can seamer to pop-top can production;

* Sec. 3. AS 43.75.035(i) is amended by adding a new paragraph to read:

(6) "value-added salmon product" means the product of a salmon that is processed beyond heading, gutting, or separation in a manner that materially enhances the value of the salmon product, such as shelf-stable, retort pouched, smoked, pickled, or filleted salmon, ikura, leather, or jerky; "value-added salmon product" does not include a salmon or salmon product that

(A) has been subjected to only one or more of heading, gutting, freezing, packaging, quality assurance practices, or value retention practices;

(B) is salmon skeins or other unprocessed salmon products whether fresh or frozen; or

(C) is produced out of the state.

Withdrawn
Concept Amend. 1
delete

1 * Sec. 4. AS 43.75.035(i)(6) is amended to read:

2 (6) "value-added salmon product" means the product of a salmon that
3 is processed beyond heading, gutting, or separation in a manner that materially
4 enhances the value of the salmon product, such as shelf-stable, retort pouched,
5 smoked, pickled, or filleted salmon, ikura, leather, or jerky; "value-added salmon
6 product" does not include a salmon or salmon product that

7 (A) has been subjected to only one or more of heading, gutting,
8 freezing, packaging, quality assurance practices, or value retention practices;

9 (B) is salmon skeins or other unprocessed salmon products
10 whether fresh or frozen; [OR]

11 (C) is canned, except for salmon products in a pop-top can;

12 or

13 (D) is produced out of the state.

14 * Sec. 5. Section 7, ch. 57, SLA 2003, is amended to read:

15 Sec. 7. Section 3 of this Act takes effect on the earlier of the following:

16 (1) January 1, 2012 [2009]; or

17 (2) the date of the attorney general's notification to the lieutenant
18 governor and to the revisor of statutes that

19 (A) a court has entered final judgment that AS 43.75.035 or
20 43.75.036, added by sec. 1 of this Act, violates the commerce clause contained
21 in art. I, sec. 8, United States Constitution; and

22 (B) the time for an appeal of that judgment has expired, or, if
23 an appeal was taken, a final order on the appeal has been entered that
24 AS 43.75.035 or 43.75.036, added by sec. 1 of this Act, violates the commerce
25 clause contained in the United States Constitution.

26 * Sec. 6. The uncodified law of the State of Alaska is amended by adding a new section to
27 read:

28 AVAILABILITY OF CREDIT FOR CONVERSION TO POP-TOP CAN
29 PRODUCTION. The amendment of AS 43.75.035(i)(3), by sec. 2 of this Act, to provide that
30 new parts to convert an existing can seamer to pop-top can production is a qualified
31 investment for purposes of AS 43.75.035 applies to new parts first installed on existing can

1 seaming equipment on or after January 1, 2005.

2 * Sec. 7. Section 4 of this Act takes effect January 1, 2006.

3 * Sec. 8. Except as provided in sec. 7 of this Act, this Act takes effect immediately under

4 AS 01.10.070(c).

ALASKA STATE LEGISLATURE

SESSION

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Juneau, Alaska 99801-1182
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(907) 465-3922 Fax
(877) 463-3873 Toll Free
Senator_Bert_Stedman@legis.state.ak.us



INTERIM

50 Front Street
Ketchikan, AK 99901-6442
Phone (907) 225-8088
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SENATOR BERT K. STEDMAN

SPONSOR STATEMENT CSSB 164(FIN)

“An Act relating to the salmon product development tax credit; providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003; and providing for an effective date.”

Senate Bill 164 extends the deadline for salmon processors to receive a salmon product development tax credit. Under current law (AS 43.75.035), processors can claim the credit only for property first placed into service by the end of this calendar year (December 31, 2005). SB 164 would give processors three more years (until December 31, 2008) to claim the credit. The legislation also clarifies what types of items are eligible for the tax credit, to more effectively achieve the legislature's goal of encouraging Alaska's seafood processors to develop innovative value-added salmon products.

In 2003, the legislature passed and the Governor signed legislation that allows processors to claim a credit on the tax liability on new equipment they have purchased to add value to salmon using innovative processing techniques. The bill (HB 90) that became this law was proposed by the Joint Legislative Salmon Industry Task Force, and was part of an effort by Alaska's elected leaders and the fishing industry to create incentives for the industry to take investment risks and produce new salmon products that add value to our salmon. It has worked: a number of processors have taken advantage of this tax credit. SB 164 extends the deadline for applying for the credit for another three years, to the end of 2008. In addition, the bill defines the kind of investment that qualifies for the credit, making it clear that processors should be producing new, innovative salmon products in order to benefit from this program. The legislation has been drafted in consultation with the Tax Division of the Department of Revenue, incorporating lessons learned in the first two years of administering the credit, to ensure that management and enforcement are efficient and effective.

Senate Bill 164 is supported by many Alaskan salmon processors and fishermen as a valuable tool in improving the quality and net worth of our wild salmon.

Contact: Tim Barry, Aide to Senator Bert Stedman at (907) 465-3873

DISTRICT A

Ketchikan • Sitka • Petersburg • Wrangell

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

April 29, 2005

SUBJECT: Sectional summary of CSSB 164(FIN), An Act relating to the salmon product development tax credit (Work Order No. 24-LS0589\S)

TO: Senator Bert Stedman
Attn: Tim Barry

FROM: George Utermohle 
Legislative Counsel

You have requested a sectional summary of CSSB 164(FIN), an Act relating to the salmon product development tax credit.

As a preliminary matter, note that a sectional summary of a bill is not an authoritative interpretation of the bill. The bill itself is the best statement of its contents.

Section 1 of the bill amends AS 43.75.035(b) to extend until December 31, 2008, the period during which new property may be first placed into service to qualify for the salmon product development tax credit.

Section 2 of the bill amends AS 43.75.035(i)(3) by modifying the definition of "qualified investment" to further describe the kinds of tangible personal property that may qualify for the salmon product development tax credit.

Section 3 of the bill amends AS 43.75.035(i) by adding a definition of "value-added salmon product."

Section 4 of the bill amends AS 43.75.035(i)(6), which was added by sec. 3 of the bill, to amend the definition of "value-added salmon product" to exclude canned salmon products other than salmon products in pop-top cans. This section takes effect January 1, 2006.

Section 5 of the bill amends sec. 7, ch. 57, SLA 2003 by delaying the repeal of the salmon product development tax credit until January 1, 2012.

Section 6 of the bill provides that the credit for certain costs associated with the conversion of an existing can seamer to pop-top can production applies to parts first installed on existing seaming equipment on or after January 1, 2005.

Senator Bert Stedman
April 29, 2005
Page 2

Section 7 of the bill provides that sec. 4 of the bill takes effect January 1, 2006.

Section 8 of the bill provides that, except for sec. 4 of the bill, the bill takes effect on the day after the bill becomes law.

GU:jad
05-242.jad



MEMORANDUM

Frank H. Murkowski, Governor

DATE: April 15, 2005

TO: Senator Bert Stedman

FROM: Glenn Haight, Fisheries Development Specialist, Office of Economic Development

Re: Impact of value-added processing equipment on overall investment

CC: Chuck Harlamert, Chief Tax Division, Department of Revenue
Sally Saddler, Legislative Liason, Office of the Commissioner/DCCED

You asked if seafood processor investments into equipment eligible under AS 43.75.035(b) leads to related investments. The quick answer to your question is yes. Purchase of eligible equipment by an Alaska processor often indicates a significant departure from an existing product line such as head & gut, can, round, into new product like fillets, burgers, pouched, etc.

The Office of Economic Development is currently administering over seventy equipment and infrastructure grants through the Fisheries Revitalization Strategy. Over fifty of these grants were to seafood processing operators or seafood related businesses. A number of the grantees sought equipment that could qualify under the salmon tax credit program. Table 1 lists several tax credit qualified investments and the number of purchases supported by the Revitalization Strategy.

Table 1

Equipment	# Purchased
Blast Freezer	17
Fillet Machine	13
Labeler	1
Lox Slicer	1
Mincer	1
Pinbone Machine	18
Smoker	9
Vacuum Packer	17

Through our review of applications and grant administration related to these equipment purchases, we are able to see what it takes to make the eligible equipment productive.

DCCED COMMENTS

The size of the additional investment depends on a number of factors including the existing condition of a plant and the existence of other equipment. Collateral

- Plant layout reconfiguring,
- Increased electrical and water capacity which may require plant improvements (boilers, plumbing, labor/services, drainage improvements, compressors),
- Ineligible, but essential, equipment, including headers, gutters, insulated totes, new tables, trim lines, sanitation improvements,
- Other tools and supplies, like knives, sharpeners, and other hand tools.

Value added equipment also increases economic activity in Alaska.

- Increased processing stretches out the amount of work performed by processing workers. Increasing permanent jobs in seafood processing may increase employment in the plants by Alaska residents.
- Maintenance of value added equipment requires greater work skills leading to higher paying jobs.
- Increasing the amount of economic activity in Alaska directly increases power and other utility use, locally purchased supplies and other direct expenses.
- Increases in value added activity usually requires more inputs, thereby increasing freight activity that should lower freight charges for other products, including consumer goods.

Long term benefits include bringing equipment manufactures to relocate certain operations in the State to lower their costs. Increasing efficiencies within the seafood industry allows Alaska production to compete more favorably with low labor cost countries, like China and Thailand. Increasing production over a longer period may require greater local cold storage capacity. Customer driven value-added lots of seafood prepared out of frozen product may increase shipments by air and road to the domestic market, providing important back haul on carriers operating under capacity.

This is a brief qualitative reply to a very important question. The Office may be able to provide a more quantitative report with additional time. If you have any questions regarding this information, please do not hesitate to contact me at 907-465-5464.

Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway
Juneau, AK 99801



Phone 907-586-6652

Fax 907-586-5648 E-mail: seafa@gcl.net

April 7, 2005

Senator Wagnor
Senate Resources
Alaska State Legislature
Juneau, AK 99801

Support for SB 164

The Southeast Alaska Fishermen's Alliance supports SB 164, which would provide a tax credit to encourage the industry to invest in new value-added salmon products and salmon utilization. This tax credit has existed the last two years and has helped many processors and direct marketers by providing a tax break for expensive machinery that updates and adds value to our salmon resources.

It is important for the salmon industry to look at investments that will help change the products that we offer in the marketplace to meet current consumer demands. We need to produce more convenient food products such as filleting, meal ready products and we need technology that will help use the lower quality, lower value salmon in a form rather than offering it in the marketplace as frozen, headed and gutted fish.

This legislation was originally discussed and supported by the Salmon Industry Task Force, processors and fishing associations as a way to help the salmon industry move forward. The work towards modernizing our processing plants is not finished and the tax credit will help to continue to encourage innovation and thinking outside of the traditional means.

The Southeast Alaska Fishermen's Alliance is a non-profit membership based fishing organization representing our members involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska. Please feel free to call us regarding commercial fishing issues if we may be of any help to you or your staff.

Sincerely,

A handwritten signature in black ink that reads "Kathy Hansen".

Kathy Hansen
Executive Director

SUPPORT LETTERS

OCEAN BEAUTY

SEAFOODS, INC.

April 7, 2005

Senator Bert Stedman
Alaska State Capital, Room 30
Juneau, AK 99801-1182

RE: *Senate Bill 164*

Dear Senator Stedman:

I am pleased to advise you of Ocean Beauty Seafoods, Inc. support of Senate Bill 164, which relates to a salmon product tax credit for the production of value-added salmon.

Ocean Beauty has made significant investments in Value-Added capacity at our Excursion Inlet and Alitak plants in the past year. In both plants we have added equipment that allows us to produce once-frozen PBO fillets. At Excursion Inlet we have also added a state-of-the-art mincing operation that gives us the ability to expand production of burgers and sausages made from Alaskan wild salmon.

Producing once-frozen fillets in Alaska has enabled us to improve product quality, and in the process create jobs and increase the price paid to the fishing fleet. Installing the Excursion Inlet mincing operation expands overall production capacity, giving us the freedom to purchase more fish, and also gives us the ability to keep the plant open later in the season. In both cases, incremental jobs are created, and the mincing operation also extends jobs later into the season.

A 2003 study by the McDowell Group estimated that the economic impact on Southeast Alaska of the Excursion Inlet plant alone at \$23.8 million annually – and this estimate was made before the new VA equipment was in place. A current estimate would be considerably higher.

Do not hesitate to contact me, if I can provide additional information on this matter.

Sincerely,

Mark Palmer

Mark Palmer
Executive Vice-President

Cc: Tim Barry, Office of Senator Bert Stedman
Reed Stoops



UNITED FISHERMEN OF ALASKA

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April 12, 2005

Senator Thomas Wagoner, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol (Mail Stop 3100)
Juneau AK 99801-1182

Dear Senator Wagoner,

United Fishermen of Alaska (UFA) supports Senate Bill 164 regarding salmon product development tax credits for value-added equipment.

In 2003, the Joint Legislative Salmon Industry Task Force introduced and passed HB 90. UFA supported this effort at that time as a way to help processors make necessary transition in product development efforts, towards products that can better compete in the changed global salmon markets. Many of these efforts have paid off in new products that are competing successfully in the marketplace. According to the USDA Agricultural Statistics Service, imports of salmon products to the U.S. declined in 2004, for the first time since 1992. UFA feels that the multi-faceted efforts of the Alaska State Legislature, Administration and federal support combined with fishermen and processors are making progress in securing our foothold in the US market while also increasing our salmon exports.

SB 164, with its specific emphasis on tax credits for equipment that adds value to salmon products, is one part of the formula that can result in a positive return on investment to the state. The state and communities will benefit through increased raw fish taxes based on the ex-vessel price to fishermen, if processors raise ex-vessel prices commensurate with the increased wholesale prices they are seeing from these combined efforts.

We appreciate the consideration of the Senate Resources Committee and encourage support of Senate Bill 164.

Sincerely,

Mark Vinsel
Executive Director



ICICLE

April 15, 2004

Senator Thomas Wagoner, Chair
Senate Resources Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

RE: SB 164 Extending salmon product development tax credit

Dear Senator Wagoner and Committee Members,

I wish to express our support for SB 164, an act that would extend the salmon product development tax credit program through 2008.

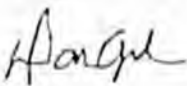
We utilized the salmon product development tax credit program in 2003 for the purchase of equipment that allows us to produce salmon roe (ikura) that is packaged using a modified atmosphere. These products have a much longer shelf life because they are not subject to oxidation and the formation of bacteria. In this form, the product has higher customer acceptance and can be available over a longer period of time to consumers.

In 2004, we used the salmon utilization tax credit program to install new equipment in the salmon meal and oil production plant at our Seward facility. The new equipment has enabled us to run more pounds of salmon through our facility, make products from salmon parts that would normally be part of our waste stream, and produce salmon oil with a higher quality and value than we were able to previously. In addition, it has allowed us to be more aggressive in purchasing salmon, opened up opportunities that would not have been available to us previously, and more fully utilize everything we purchase. This resulted in benefits for our company, our salmon fleet, the hatcheries, the community of Seward and the State of Alaska.

Properly applied, the salmon product development and utilization tax credit program is beneficial and can provide the incentive to make needed capital improvements a rational choice during economically challenging times.

I encourage your support of SB 164 and respectfully request you consider including tax credits for salmon meal and oil production equipment.

Sincerely,
ICICLE SEAFOODS, INC.


Don Giles
President & CEO

ICICLE SEAFOODS, INC.

2010 2737 A Seward Way • Seward, WA 99802



ICICLE

May 6, 2005

Representatives Ralph Samuels and Jay Ramras
Co-chairs, House Resources Committee
Alaska State Legislature
State Capitol (MS 3100)
Juneau, Alaska 99801-1182

RE: CS SB 164 Extending salmon product development tax credit

Dear House Resource Committee Members,

I wish to express our support for CS SB 164, an act that would extend the salmon product development tax credit program through 2008.

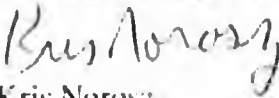
We utilized the salmon product development tax credit program in 2003 for the purchase of equipment that allows us to produce salmon roe (ikura) that is packaged using a modified atmosphere. These products have a much longer shelf life because they are not subject to oxidation and the formation of bacteria. In this form, the product has higher customer acceptance and can be available over a longer period of time to consumers.

In 2004, we used the salmon tax credit program to install new equipment in the salmon meal and oil production plant at our Seward facility. The new equipment has enabled us to run more pounds of salmon through our facility, make products from salmon parts that would normally be part of our waste stream, and produce salmon oil with a higher quality and value than we were able to previously. In addition, it has allowed us to be more aggressive in purchasing salmon, opened up opportunities that would not have been available to us previously, and more fully utilize everything we purchase. This resulted in benefits for our company, our salmon fleet, the hatcheries, the community of Seward and the State of Alaska.

Properly applied, the salmon product development tax credit program is beneficial and can provide the incentive to make needed capital improvements a rational choice during economically challenging times.

Your support of CS SB 164 would be most appreciated.

Sincerely,
ICICLE SEAFOODS, INC.


Kris Norosz
Government Affairs

PETERSBURG FISHERIES

A DIVISION OF ICICLE SEAFOODS, INC.

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