

**SB**

**164**

# ALASKA STATE LEGISLATURE

## SESSION

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## INTERIM

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**SENATOR BERT K. STEDMAN**

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## **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*

*Pelican • Elfin Cove • Port Alexander • Seward • Meyers Chuck • Thorne Bay • Coffman Cove • Hollis*



# 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 PDU 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          |            |            |            |            |            |            |
| <b>TOTAL OPERATING</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

|                             |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|
| <b>CAPITAL EXPENDITURES</b> |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|

|                               |  |  |                  |                  |                  |                |
|-------------------------------|--|--|------------------|------------------|------------------|----------------|
| <b>CHANGE IN REVENUES ( )</b> |  |  | <b>(1,000.0)</b> | <b>(1,500.0)</b> | <b>(1,000.0)</b> | <b>(500.0)</b> |
|-------------------------------|--|--|------------------|------------------|------------------|----------------|

**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) |            |            |            |            |            |            |
| <b>TOTAL</b>                            | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> |

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 Harlamert  
 Division: Tax Division  
 Approved by: Tom Boutin, Deputy Commissioner  
 Agency: Revenue

Phone 465-2320  
 Date/Time 4/13/05 12:37 PM  
 Date 4/13/2005

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.

# LEGAL SERVICES

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

(907) 465-3887 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101

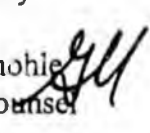
State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## 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

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April 7, 2005

Senator Wagner  
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

211 Fourth Street, Suite 110  
Juneau, Alaska 99801-1172  
(907) 586-2820  
(907) 463-2545 Fax  
E-Mail: [ufa@ufa-fish.org](mailto:ufa@ufa-fish.org)  
[www.ufa-fish.org](http://www.ufa-fish.org)

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.

4019-21<sup>st</sup> Avenue West • Seattle, WA 98199



# 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.

P.O. Box 1147 • Petersburg, AK 99833 • Tel: 907-772-4294 • Fax: 907-772-4472