

SB

245

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 1/29/10

FURTHER: Finance

DATE TURNED
IN TO OFFICE: _____

Resources Committee considered SENATE BILL NO. 245

SB 245 SALMON PRODUCT DEVELOP. TAX CREDIT

"An Act relating to the salmon product development tax credit; and providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, and by sec. 4, ch. 8, SLA 2008."

and recommends:

- be replaced with SCS or CS _____ (_____)
- adopt previous SCS or CS _____ (_____)
- attached amendment(s)
- adopt _____ Letter of Intent
- further referral to _____ Committee

SENATE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<hr/>	
HOUSE BILL:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	3/26	✓			

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
	WAGNER	✓			
	French	✓			
	[unclear]	✗			
CO-CHAIR:	McLure	✓			
CO-CHAIR:	Wielechowski	✓			

FISCAL NOTE

STATE OF ALASKA
2010 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 245
 (S) Publish Date: 4/6/10

Identifier (file name): SB245-REV-TAX-03-26-10 Dept. Affected: Revenue
 Title Salmon Product Development Tax Credit RDU Taxation and Treasury
 Sponsor Senate Finance Committee Component Tax Division
 Requester _____ Component Number 2476

Expenditures/Revenues (Thousands of Dollars)

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

	Appropriation Required	Information						
		FY 2011	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
OPERATING EXPENDITURES								
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	0.0	0.0
CAPITAL EXPENDITURES								
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	(2,400.0)	(2,400.0)	

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts								
1003 GF Match								
1004 GF								
1005 GF/Program Receipts								
1037 GF/Mental Health								
Other Interagency Receipts								
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2010) cost: _____

POSITIONS

Full-time								
Part-time								
Temporary								

ANALYSIS: (Attach a separate page if necessary)

See Attached.

Prepared by: Tim Cottongim, Revenue Audit Supervisor
 Division Tax Division
 Approved by: Ginger Blaisdell, Director
Administrative Services Division

Phone (907) 465-3695
 Date/Time 03-26-10; 12:41pm
 Date 03-26-10; 2:36pm

FISCAL NOTE #1

**STATE OF ALASKA
2010 LEGISLATIVE SESSION**

BILL NO. SB 245

ANALYSIS CONTINUATION

Bill Language:

This bill extends the existing salmon product development tax credit, for investment in processing equipment used to produce value-added salmon products, by four years through 2015. The salmon product development tax credit allows taxpayers to take a credit against their fisheries business tax liability for 50% of qualified investment in new value-added salmon processing equipment. Credits may be applied against 50% of the fisheries business tax liability on salmon processed in Alaska in the year generated and the three subsequent years .

Revenues:

Although it is difficult to determine the number of taxpayers who would take advantage of this tax credit, the DOR would expect reduced fisheries business tax collections in the years added. The department would expect the fisheries business tax to decrease by \$2.4 million for each additional year the credit is extended.

Expenditures:

The provisions of this bill could be implemented with existing state resources. No additional personnel or resources would be needed.

ALASKA STATE LEGISLATURE

SENATE FINANCE COMMITTEE

Senator Bert Stedman, Co-Chair
State Capitol, Room 516
Juneau, AK 99801-1182
(907) 465- 3873 - Phone
(907) 465-3922 - Fax
Senator_Bert_Stedman@legis.state.ak.us



Official Business

Senator Lyman Hoffman, Co-Chair
State Capitol, Room 518
Juneau, AK 99801-1182
Phone - (907) 465- 4453
Fax - (907) 465- 4523
Senator_Lyman_Hoffman@legis.state.ak.us

SPONSOR STATEMENT SB 245

An Act Relating to the Salmon Product Development Tax Credit

SB 245 extends the deadline for salmon processors in Alaska to receive a salmon product development tax credit. The program allows applicants to claim a credit on their annual fisheries business tax for the purchase of eligible equipment. Credits received may not exceed 50% of a taxpayer's liability. Under current law, processors can claim the credit for property first placed into service by December 31, 2011. This bill would extend the program's sunset date to December 31, 2015, allowing the processors ample time to continue their long-range investment planning.

The salmon product development tax credit was a key recommendation of the Joint Legislative Salmon Industry Task Force. First enacted in 2003, the credit was part of an effort by Alaska's elected leaders and the fishing industry to develop innovative value-added salmon products. Since then it has stimulated some important changes in Alaska's commercial fishing industry. New processing equipment eligible for the tax credit enables businesses to offer a more diverse complement of Alaska salmon products which helps increase overall customer acceptance. Modern equipment also helps increase efficiency of processing operations and improves throughput, meaning that quality has improved. This tax credit also encourages in-state processing of our salmon which is critical to job creation and retention in fishing communities.

Although Alaska's salmon industry is beginning to recover from years of low values caused by factors such as competition from fish farming, the industry continues to be challenged by the recent economic depression, changes in the marketplace, and increasing labor and energy costs. Extending the tax credit beyond its current sunset date of December 31, 2011 will allow the industry to continue the progress that is being made in developing and producing salmon products that will keep Alaska's fisheries competitive in world markets. The state should continue to support one of our most important basic industries by extending the salmon product development tax credit through passage of SB 245.

Annual Alaska Salmon Production

Finished Product Weight, thousands of pounds

	2002*	2003	2004	2005	2006	2007	2008
Sockeye							
canned	33,386	49,092	63,322	54,716	53,689	53,084	41,539
fresh H&G	5,589	9,052	16,217	15,685	15,154	23,818	13,188
fresh fillet	2,369	153	733	1,027	1,678	3,218	1,400
froz H&G	48,446	64,013	84,480	96,864	80,625	89,668	76,550
froz fillet	1,323	1,779	3,952	5,910	11,752	11,505	13,100
roe	2,393	4,091	4,388	6,238	4,732	5,404	4,446
Pink							
canned	114,627	158,778	123,662	159,526	88,177	123,294	91,091
fresh H&G	1,019	1,458	1,629	1,145	4,139	3,969	1,586
fresh fillet	**	**	-	**	**	**	**
froz H&G	30,571	42,963	49,603	96,271	59,280	107,588	53,268
froz fillet	**	5,868	6,094	9,757	2,705	9,163	3,058
roe	7,767	12,960	9,609	16,380	8,459	14,648	9,185

Source: AK Dept of Revenue, Alaska Salmon Price Report

canned includes standard ASPR can sizes & 'other'

* Due to ASPR confidentiality issues later resolved, 2002 reflects the sum of disclosable data rather than total production data

Share of Species Production

	Sockeye						
canned	36%	38%	37%	30%	32%	28%	28%
fresh H&G	6%	7%	9%	9%	9%	13%	9%
fresh fillet	3%	0%	0%	1%	1%	2%	1%
froz H&G	52%	50%	49%	54%	48%	48%	51%
froz fillet	1%	1%	2%	3%	7%	6%	9%
roe	3%	3%	3%	3%	3%	3%	3%
	Pink						
canned	74%	72%	65%	56%	54%	48%	58%
fresh H&G	1%	1%	1%	0%	3%	2%	1%
fresh fillet	-	-	-	-	-	-	-
froz H&G	20%	19%	26%	34%	36%	42%	34%
froz fillet	-	3%	3%	3%	2%	4%	2%
roe	5%	6%	5%	6%	5%	6%	6%

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected.

TAX TYPE	FY 2006	FY 2005	FY 2004
FISHERIES BUSINESS			
Established			
Shore-based	\$22,489,848	\$17,934,554	\$18,480,806
Floating	5,583,427	4,430,655	4,635,435
Cannery	4,115,868	3,573,861	3,069,518
Developing			
Shore-based	8,553	2,246	133,286
Floating	<u>6,117</u>	<u>521</u>	<u>540</u>
Total Tax	32,203,813	25,941,837	26,319,585
Prepayments	3,735,334	2,199,514	4,662,239
Penalties and Interest	24,450	153,357	87,197
License Fees	15,001	14,724	16,613
Less Credits			
A.W. "Winn" Brindle	(132,909)	(135,700)	(169,121)
Alaska Education	(300,000)	(300,000)	(302,500)
Salmon Product Development and Utilization	<u>(3,058,516)</u>	<u>(2,314,258)</u>	<u>(1,369,408)</u>
Total Receipts	<u>32,487,173</u>	<u>25,559,474</u>	<u>29,244,605</u>
Fisheries Business Tax Shared			
Direct to Municipalities	(15,268,647)	(13,485,788)	(12,672,941)
DCCED* Municipal Allocation	<u>(1,867,596)</u>	<u>(1,738,224)</u>	<u>(1,725,251)</u>
Amount Retained by State	<u>\$15,350,930</u>	<u>\$10,335,462</u>	<u>\$14,846,413</u>
DEC Seafood Processor License Fees	<u>\$540,723</u>	<u>\$400,670</u>	<u>\$402,050</u>
* Department of Commerce, Community and Economic Development			
MINING LICENSE			
Tax Before Credits	\$18,759,872	\$10,467,238	\$3,326,281
Less Credits			
Alaska Special Industrial Incentive	0	0	0
Mineral Exploration Incentive	0	0	0
Alaska Education	<u>(121,876)</u>	<u>(150,000)</u>	<u>(101,597)</u>
Total Receipts	<u>\$18,637,996</u>	<u>\$10,317,238</u>	<u>\$3,224,684</u>

Figure 4 - Revenue Collections Detail

Listed in order of total amount of revenue collected

TAX TYPE	FY 2007	FY 2006	FY 2005
FISHERIES BUSINESS			
Established			
Shore-based	\$21,838,661	\$22,489,848	\$17,934,554
Floating	4,461,717	5,583,427	4,430,655
Cannery	3,603,230	4,115,868	3,573,861
Developing			
Shore-based	4,040	8,553	2,246
Floating	<u>2,523</u>	<u>6,117</u>	<u>521</u>
Total Tax	29,910,171	32,203,813	25,941,837
Prepayments	5,546,512	3,735,334	2,199,514
Penalties and Interest	169,178	24,450	153,357
License Fees	14,725	15,001	14,724
Less Credits			
A.W. "Winn" Brindle	(167,000)	(132,909)	(135,700)
Alaska Education	(300,000)	(300,000)	(300,000)
Salmon Product Development and Utilization	<u>415,745</u>	<u>(3,058,516)</u>	<u>(2,314,258)</u>
Total Receipts	<u>35,589,331</u>	<u>32,487,173</u>	<u>25,559,474</u>
Fisheries Business Tax Shared			
Direct to Municipalities	(16,079,365)	(15,268,647)	(13,485,788)
DCCED* Municipal Allocation	<u>(1,530,472)</u>	<u>(1,867,596)</u>	<u>(1,738,224)</u>
Amount Retained by State	<u>\$17,979,494</u>	<u>\$15,350,930</u>	<u>\$10,335,462</u>

* Department of Commerce, Community and Economic Development

COMMERCIAL PASSENGER VESSEL

Total Receipts	\$15,981,734		
Taxes Shared to Municipalities	(744,580)		
Amount Transferred to Regional Cruise Ship Impact Fund	<u>(3,995,434)</u>	Not Applicable	Not Applicable
Amount Retained by the State of Alaska	<u>\$11,241,720</u>		

Figure 3 - Revenue Collections Detail

Listed in order of total amount of revenue collected

TAX TYPE	FY 2008	FY 2007	FY 2006
ALCOHOLIC BEVERAGES			
Liquor	\$18,719,422	\$17,323,104	\$16,642,283
Beer	13,317,219	13,063,186	13,155,523
Wine	5,140,482	4,852,715	4,616,542
Beer (small breweries)	801,127	797,543	810,080
Penalties, Interest and Refunds	<u>186,950</u>	<u>1,916</u>	<u>648</u>
Total Receipts	38,165,200	\$36,038,464	\$35,225,076
Amount transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	<u>(19,080,505)</u>	<u>(18,018,504)</u>	<u>(17,612,538)</u>
Amount Retained in General Fund	<u>\$19,084,695</u>	<u>\$18,019,960</u>	<u>\$17,612,538</u>
FISHERIES BUSINESS			
Established			
Shore-based	\$24,865,940	\$21,838,661	\$22,489,848
Floating	5,769,466	4,461,717	5,583,427
Cannery	5,218,570	3,603,230	4,115,868
Developing			
Shore-based	54,486	4,040	8,553
Floating	<u>802</u>	<u>2,523</u>	<u>6,117</u>
Total Tax	35,909,264	29,910,171	32,203,813
Prepayments	3,694,083	5,546,512	3,735,334
Penalties and Interest	504,207	169,178	24,450
License Fees	13,975	14,725	15,001
Less Credits			
A.W. "Winn" Brindle	(177,228)	(167,000)	(132,909)
Alaska Education	(450,000)	(300,000)	(300,000)
Salmon Product Development and Utilization	<u>(4,501,973)</u>	<u>415,745</u>	<u>(3,058,516)</u>
Total Receipts	34,992,328	35,589,331	32,487,173
Fisheries Business Tax Shared			
Direct to Municipalities	(18,268,399)	(16,079,365)	(15,268,647)
DCCED* Municipal Allocation	<u>(1,920,635)</u>	<u>(1,530,472)</u>	<u>(1,867,596)</u>
Amount Retained by State	<u>\$14,803,294</u>	<u>\$17,979,494</u>	<u>\$15,350,930</u>

* Department of Commerce, Community and Economic Development

Figure 3 - Revenue Collections Detail

Listed in order of total amount of revenue collected

TAX TYPE	FY 2009	FY 2008	FY 2007
FISHERIES BUSINESS			
Established			
Shore-based	\$30,223,448	\$24,865,940	\$21,838,661
Floating	6,809,487	5,769,466	4,461,717
Cannery	5,069,742	5,218,570	3,603,230
Developing			
Shore-based	48,357	54,486	4,040
Floating	<u>249</u>	<u>802</u>	<u>2,523</u>
Total Tax	42,151,283	35,909,264	29,910,171
Prepayments	3,523,354	3,694,083	5,546,512
Penalties and Interest	311,942	504,207	169,178
License Fees	<u>13,500</u>	<u>13,975</u>	<u>14,725</u>
Less Credits			
Winn Brindle	(192,792)	(177,228)	(167,000)
Alaska Education Credit	(450,000)	(450,000)	(300,000)
Salmon Product Development and Utilization Credit	<u>(3,121,697)</u>	<u>(4,501,973)</u>	<u>415,745</u>
Total Receipts	<u>42,235,590</u>	<u>34,992,328</u>	<u>35,589,331</u>
Fisheries Business Tax Shared			
Direct to Municipalities	(21,304,498)	(18,268,399)	(16,079,365)
DCCED* Municipal Allocation	<u>(1,635,638)</u>	<u>(1,920,635)</u>	<u>(1,530,472)</u>
Amount Retained by State	<u>\$19,295,454</u>	<u>\$14,803,294</u>	<u>\$17,979,494</u>
* Department of Commerce, Community and Economic Development			
ALCOHOLIC BEVERAGES			
Liquor	\$18,609,636	\$18,719,422	\$17,323,104
Beer	12,971,806	13,317,219	13,063,186
Wine	5,512,824	5,140,482	4,852,715
Beer qualifying for reduced tax rate	914,888	801,127	797,543
Penalties, Interest and Refunds	<u>487,207</u>	<u>186,950</u>	<u>1,916</u>
Total Receipts	<u>\$38,496,361</u>	<u>\$38,165,200</u>	<u>\$36,038,464</u>
Amount transferred to Alcohol and Other Drug Abuse Treatment and Prevention Fund	(18,968,874)	(19,080,505)	(18,018,504)
Amount Retained in General Fund	<u>\$19,527,487</u>	<u>\$19,084,695</u>	<u>\$18,019,960</u>

PSPA
PACIFIC SEAFOOD PROCESSORS ASSOCIATION
Est. 1914

RECEIVED
FEB - 8 2010

February 8, 2009

Senator Lesil McGuire, Co-Chair
Senator Bill Wielechowski, Co-Chair
Senate Resources Committee
State Capitol
Juneau, AK 99801-1182

**RE: Request for scheduling and passage of SB 245 –
Extension of the Salmon Product Development Tax Credit**

Dear Senators McGuire and Wielechowski:

On behalf of the Pacific Seafood Processors Association, a trade association of seafood processing companies with operations in many communities throughout Alaska, I am writing in strong support of SB 245 and to request that this important legislation be scheduled for a hearing and action in the Senate Resources Committee as soon as possible.

The legislature constructed the existing Salmon Product Development Tax Credit program tightly to accomplish very specific goals. It is proving to be very successful in accomplishing its intended purpose of encouraging and enabling Alaska salmon processors to develop and produce value-added salmon products in Alaska. This, in turn, is helping Alaska's salmon industry keep pace with evolving consumer demands and keep Alaska salmon competitive on world markets. It is a program that essentially pays for itself by increasing the value and marketability of Alaska salmon.

The attached 1-page document briefly describes some of the improvements that have been made with the help of this program. Many of the new product forms developed and improvements and expansions made in recent years would not have happened, or would have been significantly delayed, without the incentive and assistance provided by the tax credit program. The attached page also describes ways our member companies anticipate utilizing the tax credit program in upcoming years if it is extended.

Alaska's seafood industry, operating in remote areas of Alaska, is dealing with extremely high energy costs, the worldwide economic downturn, and other enormous challenges. Yet, the industry's future, and the future economic benefits Alaska's fisheries provide to fishermen, communities, and the state, depend on continued progress in developing and expanding value-added product forms and capacity. Extension of the Salmon Product Development Tax Credit Program will play an important role in maintaining the continued development and competitiveness of the Alaska salmon industry.

Extending this very effective program makes good sense for Alaska. We urge quick scheduling and passage of SB245.

Thank you very much for your consideration.

Sincerely,


Mary McDowell, Vice President

Attachment

222 Seward Street, Suite 200
Juneau, AK 99801
Phone (907) 586-6366
Fax (907) 586-4618
www.pspafish.net

Past use of the Salmon Product Development Tax Credit

The Salmon Product Development Tax Credit Program has been very effective in advancing the goal of increasing in-state value-added processing. The credit has enabled and encouraged seafood companies to make investments in equipment that they would otherwise have had to delay or forego. In many cases, the credit has enabled companies to begin producing value-added product forms they had not previously produced.

Since enactment of the program, PSPA member companies have purchased and put into production a wide variety of value-adding equipment, such as:

- skinless/boneless fillet equipment
- roe separating equipment
- smoking equipment
- equipment to produce boneless/skinless salmon in pop-top ("easy-open") cans
- equipment to produce sockeye ikura
- equipment for packaging ikura in vacuumed sealed packages

The credit has enabled companies to increase capacity of pounds purchased from fisherman and improve quality by adding fillet lines and investing in coolers, blast freezers, and upgrading and increasing freezer capacity.

Anticipated future use of the tax credit

Continuation of the Salmon Product Development Tax Credit would be extremely helpful in maintaining the momentum of the expansion of in-state, value-added processing, and allow companies to plan for future capital investment in their salmon operations around the state and keep Alaska salmon competitive in evolving world markets.

Customers continually want more user-friendly products. The salmon fillet market, for example, has grown tremendously in the last few years and the market has not shown any signs of over supply. It takes some risk and a few years for companies to assess how their investments in value-added processing are paying off and then additional time to gear up and gather financial resources to make additional investments. A tax credit that makes such investments feasible in a shorter timeframe benefits Alaska harvesters, processors, communities, and the state.

If this tax credit program remains available, our member companies anticipate utilizing it in upcoming years for such things as additional filleting equipment; salmon sausage equipment; salmon oil refining equipment; equipment for producing skinless/boneless products; freezing capacity upgrades and increases, portioning equipment, vacuum packing equipment, and salmon roe processing equipment.

222 Seward Street, Suite 200
Juneau, AK 99801
Phone (907) 586-6366
Fax (907) 586-4618
www.pspafish.net



February 8, 2010

Senator Lesil McGuire, Co-Chairman
Senator Bill Wielechowski, Co-Chairman
Senate Resources Committee
State Capitol
Juneau, Alaska 99801-1182

THE TENTH FLOOR
2200 SIXTH AVENUE
SEATTLE, WA 98121-1820
206.728.6000
OPERATION FAX 206.441.9090
SALES FAX 206.728.1855

Dear Senator McGuire and Senator Wielechowski:

It is my pleasure to introduce Peter Pan Seafoods, Inc. We were incorporated in 1950 as the successor to P.E. Harris Co., which began canning salmon in Alaska in 1912. Peter Pan Seafoods processes and sells various types of Alaskan seafood products. All of our raw seafood is purchased from independent fishermen participating in fisheries throughout Alaska. Our production facilities include: King Cove, Port Moller, Dillingham, and Valdez. Salmon products account for the largest portion of our sales; other major product lines include crab, halibut, cod, Pollock and black cod. Our products are sold primarily to wholesalers and distributors throughout the world.

Peter Pan Seafoods would like to ask you and the Senate Resources Committee to schedule and pass Bill HB245, the Salmon Tax Credit Bill. This bill simply extends for 3 more years an existing program that is proving very successful for the Alaskan salmon industry. We hope to continue the momentum and progress this program has afforded us in keeping our Alaskan salmon products competitive in the domestic and world markets.

We have been able to utilize the salmon tax credit at each of our Alaska production facilities. Both King Cove and Dillingham have added value added salmon fillet and ikura roe lines. In Port Moller, we expanded our value added salmon fillet operation; and in Valdez we added value added salmon fillet production, skinless boneless canned salmon and ikura roe. The progress we have achieved by adding and developing the value added salmon products in such a relatively short time is due to the Salmon Tax Credit.

The ever increasing costs of energy, labor, packaging and insurance are diverting the funds that could otherwise be invested into these sorts of improvements. It is imperative to our industry and Peter Pan Seafoods in particular that the salmon tax credit continue for another 3 years. There is more to be achieved in the development of the salmon value added program to ensure Alaska salmon products keep pace with evolving world markets. We urge the committee to take quick action in support of HB245, the Salmon Tax Credit.

Thank you and the Committee for your timely consideration of this issue.

Respectfully,

A handwritten signature in black ink that reads "Barry D. Collier". The signature is written in a cursive, flowing style.

Barry D. Collier
President and CEO
Peter Pan Seafoods, Inc.