

HB

204

<TARGET><BILL>HB 204</BILL><SUBJECT>HB
204</SUBJECT><COMM>SFIN28</COMM></TARGET>

Adopted 4/16/14

28-LS0463\Y
Bullard
4/15/14

SENATE CS FOR CS FOR SS FOR HOUSE BILL NO. 204(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:
Referred:

Sponsor(s): **REPRESENTATIVES AUSTERMAN, Edgmon, Kerttula, Peggy Wilson, Feige, Kreiss-Tomkins, Gattis, Tammie Wilson, Nageak, LeDoux, Gara, Tuck, Hughes, Tarr**

SENATORS Stevens, Micciche, Stedman, Dyson, Egan, Olson, McGuire, Bishop

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to a product development tax credit for certain salmon and herring**
2 **products; providing for an effective date by amending the effective date of sec. 3, ch. 57,**
3 **SLA 2003; and providing for an effective date."**

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

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

6 (a) A taxpayer that is a fisheries business may claim a [SALMON] product
7 development tax credit of 50 percent of qualified investment in new property first
8 placed into service in a shore-based plant or on a vessel in the state in the tax year.

9 *** Sec. 2.** AS 43.75.035(b) is amended to read:

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

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

14 (2) be claimed for property first placed into service after December 31,

1 2020 [2015].

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

3 (c) If the property for which a tax credit is claimed is installed on a vessel, the
4 amount of qualified investment under (a) of this section is determined by multiplying
5 the investment cost of the qualified investment property by a fraction, the numerator
6 of which is the weight of raw salmon or raw herring processed on the vessel by the
7 taxpayer in the state in the tax year in which the property is first placed into service,
8 and the denominator of which is the weight of raw salmon or raw herring processed
9 on the vessel by the taxpayer in and outside of the state in the tax year in which the
10 property is first placed into service.

11 * **Sec. 4.** AS 43.75.035(d) is amended to read:

12 (d) An unused credit under this section may be carried forward and applied
13 against the tax liability incurred on salmon and herring in the following three tax
14 years.

15 * **Sec. 5.** AS 43.75.035(g) is amended to read:

16 (g) If, during a tax year, property for which a credit was claimed under this
17 section is disposed of by the taxpayer, ceases to be qualified investment property, or is
18 removed from service in the state, the tax due under this chapter is increased by the
19 recapture percentage of the aggregate decrease in the credit allowed under this section
20 for all prior tax years that would have resulted solely from reducing to zero the credit
21 allowed for the qualified investment property under this section. The amount of tax
22 credit attributable to the qualified investment that is carried forward from prior tax
23 years is terminated as of the first day of the tax year in which the qualified investment
24 property is disposed of by the taxpayer, ceases to be qualified investment property, or
25 is removed from service in the state. For purposes of this subsection,

26 (1) the recapture percentage during the year in which the property is
27 first placed into service or during the first year following the year in which the
28 property is first placed into service is 100 percent;

29 (2) the recapture percentage during the second year following the year
30 in which the property is first placed into service is 75 percent;

31 (3) the recapture percentage during the third year following the year in

1 which the property is first placed into service is 50 percent;

2 (4) the recapture percentage during the fourth or subsequent year
3 following the year in which the property is first placed into service is zero percent;

4 (5) qualified investment property used on a vessel is considered to
5 have been removed from the state on the first day of a tax year in which the proportion
6 of raw salmon or raw herring processed in the state on the vessel is less than 50
7 percent of total weight of raw salmon or raw herring processed on the vessel in and
8 outside of the state.

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

10 (i) The department shall develop and implement procedures by which a
11 taxpayer that is a fisheries business may submit the taxpayer's proposed investment to
12 the department and request a preliminary determination of whether the investment
13 qualifies for the [SALMON] product development tax credit under this section. A
14 preliminary determination by the department that the taxpayer's submission qualifies
15 for the credit is binding, unless the department determines that the taxpayer has made
16 a material misrepresentation in the taxpayer's submission.

17 * **Sec. 7.** AS 43.75.035(j)(3) is amended to read:

18 (3) "qualified investment" means the investment cost to purchase or
19 convert [IN] depreciable tangible personal property with a useful life of three years or
20 more to be used predominantly to perform an ice making, processing, packaging, or
21 product finishing function that is a significant component in producing value-added
22 salmon or herring products, including canned salmon products in can sizes other
23 than 14.75 ounces or 7.5 ounces [BEYOND GUTTING OF THE SALMON]; in this
24 paragraph, "property"

25 (A) includes

26 (i) equipment used to fillet, skin, portion, mince,
27 form, extrude, stuff, inject, mix, marinate, preserve, dry, smoke,
28 brine, package, freeze, scale, grind, separate meat from bone, or
29 remove pin bones [FILLETING, SKINNING, PORTIONING,
30 MINCING, FORMING, EXTRUDING, STUFFING, INJECTING,
31 MIXING, MARINATING, PRESERVING, DRYING, SMOKING,

1 BRINING, PACKAGING, BLAST FREEZING, OR PIN BONE
2 REMOVAL EQUIPMENT];

3 (ii) new parts necessary for, or costs associated with,
4 converting a canned salmon line to produce can sizes other than
5 14.75 ounces or 7.5 ounces [TO CONVERT AN EXISTING CAN
6 SEAMER TO POP-TOP CAN PRODUCTION];

7 (iii) conveyors used specifically in the act of producing
8 a value-added salmon or herring product; [AND]

9 (iv) ice making machines;

10 (v) new canning equipment for herring products;

11 and

12 (vi) equipment used to transform salmon or herring
13 byproduct that is discarded as waste into saleable product;

14 (B) does not include

15 (i) vehicles, forklifts, conveyors not used specifically in
16 the act of producing a value-added salmon or herring product, cranes,
17 pumps, or other equipment used to transport salmon or herring, or
18 salmon or herring products, knives, gloves, tools, supplies and
19 materials, equipment, other than ice making machines, that is not
20 processing, packaging, or product finishing equipment, or other
21 equipment, the use of which is incidental to the production, packaging,
22 or finishing of value-added salmon or herring products; [OR]

23 (ii) the overhaul, retooling, or modification of new or
24 existing property, except for new parts necessary for, or costs
25 associated with, converting a canned salmon line to produce can
26 sizes other than 14.75 ounces or 7.5 ounces; or

27 (iii) property used predominantly to produce a
28 salmon or herring product that is not taxed under this chapter [TO
29 CONVERT AN EXISTING CAN SEAMER TO POP-TOP CAN
30 PRODUCTION];

31 * Sec. 8. AS 43.75.035(j)(6) is amended to read:

1 (6) "value-added salmon or herring product" means the product of a
 2 salmon or herring that is processed beyond heading, gutting, or separation in a
 3 manner that [MATERIALLY] enhances the value or quality of the salmon or herring
 4 product, such as shelf-stable, retort pouched, smoked, pickled, or filleted salmon,
 5 ikura, leather, [OR] jerky, or a saleable product made from waste byproduct of
 6 salmon or herring; "value-added salmon or herring product" does not include a
 7 salmon or herring or salmon or herring product that

8 (A) has been subjected to only one or more of heading, gutting,
 9 freezing, or packaging [, QUALITY ASSURANCE PRACTICES, OR
 10 VALUE RETENTION PRACTICES];

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

13 (C) [IS CANNED, EXCEPT FOR SALMON PRODUCTS IN
 14 A POP-TOP CAN; OR

15 (D)] is produced out of the state.

16 * **Sec. 9.** Section 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, sec. 4, ch. 8,
 17 SLA 2008, and sec. 3, ch. 102, SLA 2010, is amended to read:

18 Sec. 7. Section 3, ch. 57, SLA 2003, takes effect on the earlier of the
 19 following:

20 (1) January 1, 2021 [2019]; or

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

23 (A) a court has entered final judgment that AS 43.75.035 or
 24 43.75.036, added by sec. 1, ch. 57, SLA 2003, violates the commerce clause
 25 contained in art. I, sec. 8, United States Constitution; and

26 (B) the time for an appeal of that judgment has expired, or, if
 27 an appeal was taken, a final order on the appeal has been entered that
 28 AS 43.75.035 or 43.75.036, added by sec. 1, ch. 57, SLA 2003, violates the
 29 commerce clause contained in the United States Constitution.

30 * **Sec. 10.** This Act takes effect immediately under AS 01.10.070(c).

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSSSHB 204(FIN)
Fiscal Note Number: 2
(S) Publish Date: 4/9/14

Identifier: HB204SS-DOR-TAX-02-05-2014
Title: SALMON & HERRING PRODUCT DEV'T TAX
CREDIT
Sponsor: AUSTERMAN
Requester: (H) Fisheries

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues	***	***	***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Updated for sponsor substitute.

Prepared By:	Johanna Bales, Deputy Director, and Alexei Painter, Economist	Phone:	(907)465-8222
Division:	Tax	Date:	02/05/2014 03:30 PM
Approved By:	Angela M. Rodell, Commissioner	Date:	02/05/14
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSSSHB 204(FIN)

Analysis

Bill Language:

This bill amends AS 43.75.035 making several changes to the salmon product development tax credit, which is a credit against the Fisheries Business Tax for qualified investments in property to create value-added salmon products. This bill amends the credit to: (1) include herring in addition to salmon; (2) expand the definition of "qualified investment" to include "canned salmon products in can sizes other than 14.75 ounces or 7.5 ounces" in addition to producing value-added products; (3) add "new parts necessary for, or costs associated with, converting a canned salmon line to produce can sizes other than 14.75 ounces or 7.5 ounces" as qualified property; (4) add "equipment used to transform salmon or herring byproduct discarded as waste, into saleable products" as qualified property; and (5) extend the current sunset date of the credit from December 31, 2015 to December 31, 2020.

Revenues:

From fiscal years 2009-2013, the salmon product development credit ranged from \$71,598 to \$4,074,071 million, with a mean of \$2.2 million. Credit utilization will likely increase due to the addition of the two new types of qualified property. Total Fisheries Business Tax from salmon in FY 2009-2013 (before credits and municipal revenue sharing) ranged from \$14.9 million to \$22.1 million. Since the credit is capped at half of liability, the maximum impact of the credit would be from \$7.4 million to \$11.1 million. However, it is difficult to predict taxpayer behavior so a precise estimate of the cost of the credit is not possible.

It is also difficult to determine the impact of expanding the credit to herring. The herring fishery is smaller than the salmon fishery, which suggests that the impact on state revenue from adding herring to the credit may be smaller than the salmon credit.

	FBT Salmon Revenue	FBT Herring Revenue	SPD Credits Claimed
FY 2009	\$14,887,600	\$420,779	-\$3,121,697
FY 2010	\$15,271,157	\$833,735	-\$4,074,071
FY 2011	\$20,048,075	\$713,957	-\$2,057,255
FY 2012	\$22,138,544	\$369,472	-\$71,598
FY 2013	\$19,086,832	\$701,686	-\$1,832,081

Expenditures:

We anticipate the provisions within this bill can be implemented in the Tax Division using existing staff and resources.



Representative Alan Austerman

Alaska State Legislature

Session:

State Capitol
Juneau, Alaska 99801
(907) 465-2487 | (800) 865-2487
(907) 465-4956 (fax)

Interim:

305 Center Ave, Suite 1
Kodiak, Alaska 99615
(907) 486-8872
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SALMON AND HERRING PRODUCT DEVELOPMENT TAX CREDIT HOUSE BILL 204

The Alaska Salmon Product Development Tax Credit has been in place since 2003 and is widely credited as a major factor of the increase in commercial value of Alaska salmon. The ASDTC is currently scheduled to sunset on December 31st, 2015.

There have been positive trends since this bill was enacted in 2003. We have seen increased product diversity, increased state revenues from the fisheries business tax and increased permit prices.

The current tax credit applies to investment in new property that meets a requirement for creating a value added salmon product. House Bill 204 extends the ability of industry to use this credit until 2020 and expands the credit for herring value-added processing.

Herring is an established fishery in Alaska and is a prime candidate to start utilizing more fully. If we expand out of the roe fishery and into the food fishery, there are significant economic development opportunities that will be developed. Up until now, the herring fishery has been an underutilized fishery where only about 10 percent of the fish is utilized and 90 percent has very little value.

Another impending burden to industry is the Environmental Protection Agency's efforts to force industry to eliminate seafood discharges containing solids into near shore waters. Many salmon processing facilities in Alaska currently grind and pump discharge. HB 204 would incentivize investment in equipment that would reduce the waste stream from salmon and herring processing thereby alleviating the pressure to comply with these burdensome mandates.

Currently, statute only allows investment in pop-top cans. HB 204 also provides industry the necessary flexibility to respond to changing market demands for can sizes. This bill responds to this limitation by expanding the credit to any new equipment to herring and also to produce can sizes other than 14.75 ounces or 7.5 ounces.

The continued growth of the Alaska seafood market is vital to increased revenues from our fisheries. House Bill 204 will further encourage in-state processing and expand market opportunities to processors. The extension of the tax credit will continue to spur economic development opportunities and create quality Alaska products. I urge your support for passage of this bill.

	FY 2013	FY 2012	FY 2011
FISHERIES BUSINESS TAX			
Established			
Shore-based	\$34,797,124	\$38,007,287	\$32,930,706
Floating	5,578,323	7,356,146	6,337,078
Cannery	6,478,824	5,151,867	6,347,450
Developing			
Shore-based	50,442	65,474	53,585
Floating	493	725	340
Total Tax	46,905,206	50,581,499	45,669,159
Prepayments	454,134	2,405,470	1,314,972
Penalties and Interest	(404,333)	995,246	157,442
License Fees	11,575	12,250	12,475
Less Credits			
Winn Brindle	(238,749)	(175,338)	(184,817)
Alaska Education Credit	(650,000)	(650,015)	(449,730)
Salmon Product Development	(1,832,081)	(71,598)	(2,057,255)
Total Receipts	44,245,752	53,097,514	44,462,246
Fisheries Business Tax Shared			
Direct to Municipalities	(23,165,321)	(24,576,578)	(22,216,898)
DCCED* Municipal Allocation	(1,898,248)	(2,075,432)	(2,153,491)
Amount Retained by State	\$19,182,183	\$26,445,504	\$20,091,857
* Department of Commerce, Community and Economic Development			
MINING LICENSE TAX			
General Fund			
Tax Before Credits	\$53,017,927	\$46,792,131	\$50,085,541
Penalties and Interest	32,361	6,926	(34,164)
Mineral Exploration Incentive Credit	(5,975,341)	(5,873,944)	(949,466)
Alaska Education Credit	(343,564)	(282,928)	(121,397)
Total Receipts - General Fund	46,731,382	40,642,185	48,980,514
Constitutional Budget Reserve Fund (CBRF)	56,308	53,648	607,605
Total Receipts - All Funds	\$46,787,690	\$40,695,833	\$49,588,119

Fisheries Business Tax Revenue and Tax Credits Claimed

	Gross Revenue from Tax	Other Revenue ¹	Tax Credits Claimed ²			Revenue Shared to Municipalities	Revenue Retained by State
			Salmon Product Development ³	Education ⁴	Winn Brindle ⁵		
FY 2004	26,319,585	4,766,049	(1,379,475)	(302,500)	(169,121)	(14,398,192)	14,846,413
FY 2005	25,941,837	2,367,595	(2,314,258)	(300,000)	(135,700)	(15,224,012)	10,335,462
FY 2006	32,203,813	3,774,785	(3,058,516)	(300,000)	(132,909)	(17,136,243)	15,350,930
FY 2007	29,910,171	5,730,415	415,745	(300,000)	(167,000)	(17,609,837)	17,979,494
FY 2008	35,909,264	4,212,265	(4,501,973)	(450,000)	(177,228)	(20,189,034)	14,803,294
FY 2009	42,151,283	3,848,796	(3,121,697)	(450,000)	(192,792)	(22,940,136)	19,295,454
FY 2010	32,653,241	3,939,291	(4,074,071)	(450,000)	(123,060)	(17,942,122)	14,003,279
FY 2011	45,669,159	1,484,889	(2,057,255)	(449,730)	(184,817)	(24,370,389)	20,091,857
FY 2012	50,581,499	3,412,966	(71,598)	(650,015)	(175,338)	(26,652,010)	26,445,504
FY 2013	46,905,206	61,376	(1,832,081)	(650,000)	(238,749)	(25,063,569)	19,182,183
FY 2014	*	*	*	*	*	*	*

¹Prepayments, penalties, interest and license fees

²Does not reduce municipal share

³AS 43.75.035 allows credit on qualifying expenditures used predominantly to produce value added salmon products

⁴AS 43.75.018 allows credit for cash contributions to qualifying education programs and institutions

⁵AS 43.75.032 allows credit for cash contributions to A.W. "Winn" Brindle memorial education loan account

*No data available - tax returns not due until March 31, 2014

Prepared by Department of Revenue
Statistics from Annual Reports



Alaskan Seafood Processing Effluent Guidelines Notice of Data Availability

Summary

The purpose of this notice is to make available for public review and comment data and information gathered recently by the Environmental Protection Agency (EPA) from seafood processing facilities in Alaska and other publicly available sources. These data relate to the applicability of and discharge requirements for the Alaskan seafood subcategories of the Canned and Preserved Seafood Processing effluent limitations guidelines (40 CFR Part 408).

This notice provides preliminary results of analyses of the data and information. It also provides preliminary indications of how these results may be reflected in EPA's final response to petitions submitted in 1980 by certain members of the Alaskan seafood processing industry, and in amended effluent limitations guidelines (ELGs) applicable to certain Alaskan seafood processing discharges which EPA is considering whether to promulgate in final form.

EPA will accept comments until January 6, 2014. It is important to take advantage of this opportunity to comment on this notice so that EPA hears from a broad range of stakeholders. EPA expects interested parties to comment now to inform Agency decision-making.

Background

In the 1970s, EPA issued ELGs establishing limits for seafood processing facilities in Alaska based on location. The ELGs were different for processors in non-remote and remote areas.

In "non-remote" locations, EPA based ELGs on a process that screens the solids from the waste stream. The only discharge is liquid wastewater.

In "remote" locations, EPA based the ELGs on grinding the processing solids to reduce their size. Once ground, the wastewater, containing the ground solids, is discharged to near shore waters.

In 1980, the Alaska seafood processing industry sent a petition to EPA asking it to reconsider the non-remote limits set in the ELGs. In response to the petition, EPA temporarily suspended the stricter limits for Anchorage, Cordova, Juneau, Ketchikan and Petersburg and instead allowed processors in those areas to use the limits for remote locations.

In 1981, EPA issued a proposed response and amendments to the ELGs denying most of the industry's petition and requesting comment on additional locations that may have similar characteristics to the non-remote locations. EPA also continued the suspension of the ELGs until a final response to the petition is issued. EPA has yet to take final action on its proposal.

In 2010, EPA began the process leading to a final decision on a response to the petition and amendments to the existing regulation. As a result, EPA recently gathered new data and information and performed supporting analyses to update the 1981 proposal.

Why is EPA Concerned About These Discharges Today?

Discharging seafood processing wastewater containing solids into near shore waters is an environmental and human health concern. Some impacts include:

- ◆ *Degraded water quality*
- ◆ *Floating solids and scum*
- ◆ *Large piles of persistent waste on seafloor*
- ◆ *Gas eruptions from waste piles*

-
- ◆ *Negative effects on tourism, local residents and recreation*
 - ◆ *Attraction of nuisance species*

How Will Today's Notice Affect Seafood Processing Discharges?

Today's notice does not impose or change any requirements. It simply provides new information and data and preliminary indications of how these results may be reflected in EPA's final response to the industry petitions and in amended ELGs applicable to certain Alaskan seafood processing discharges.

In particular, today's notice indicates that EPA may reinstate the originally promulgated ELGs for all non-remote locations based on screening. EPA is also soliciting comments on possibly extending the definition of non-remote to additional locations, including Dutch Harbor, Sitka, the Kenai Peninsula, and possibly others that have similar characteristics such as Naknek.

The newly collected data demonstrate that these technologies are feasible, available, and affordable in all of these locations. In addition, the data demonstrate that requirements based on screening will halt the formation and persistence of underwater piles of seafood waste that have occurred over the past 30 years and will have a positive long-term impact on the affected communities in these areas.

For More Information

You can view the Federal Register Notice at <http://water.epa.gov/scitech/wastetech/guide/seafood>. In addition, the notice and supporting documentation is available at <http://www.regulations.gov> under Docket ID: EPA-HQ-OW-2011-0999.

You may also contact Lindsay Guzzo at (206) 553-0268 or Guzzo.Lindsay@epa.gov or Donald Anderson at (202) 566-1021 or Anderson.Donaldf@epa.gov.

SPDC Equipment

Qualified Equipment

1. Fillet machines
2. Fillet portioners
3. Fillet trimming machines
4. Pin bone removal equipment
5. Skinning machines
6. Active trim line conveyors
7. Fillet washers
8. Fillet driers
9. Filler glazers
10. Vacuum packaging machines
11. Blast freezers
12. Plate freezers
13. Ice machines
14. Labelers
15. Printers
16. Smokehouse equipment
17. Roe separators
18. Roe washers
19. Roe dryers
20. Roe agitators
21. Brine makers
22. Tray sealers
23. Oil separators
24. Decanters
25. Retorts
26. Spice applicators
27. Parts to convert conventional canned production to pop-top

Disqualified Equipment

1. Forklifts
2. Totes
3. Tote dumpers
4. Feed hoppers
5. Workstands
6. Heading machines
7. Gutting machines
8. Tables
9. Knives
10. Spare parts
11. Pocket conveyors
12. Scrap or waste conveyors
13. Conveyors that only provide transportation
14. Blast freezers for predominately H&G
15. Plate freezers for predominantly green roe
16. Ice machines for predominantly H&G
17. Scales
18. Wall panels
19. Light fixtures
20. Plumbing
21. Building construction
22. Purchase price of a vessel
23. Pumps
24. Box strapping machines
25. Waste grinders
26. Canning machines
27. Metal detectors
28. Dud detectors
29. Retorts for conventional canning
30. Fish meal plant



UNITED FISHERMEN OF ALASKA

Mailing Address: PO Box 20229, Juneau AK 99802-0229

Physical Address: 410 Calhoun Ave Ste 101, Juneau AK 99801

Phone: (907)586-2820 **Fax:** (907) 463-2545

Email: ufa@ufa-fish.org **Website:** www.ufa-fish.org

March 12th, 2014

Representative Alan Austerman
State Capitol Room 505
Juneau AK 99801-1182
Via email: Rep.Alan.Austerman@akleg.gov

RE: Support for HB 204, salmon & herring product development tax credit.

Dear Representative Austerman,

United Fishermen of Alaska (UFA) supports HB 204 regarding product development tax credits for salmon and herring value-added processing equipment, and we thank you for the introduction of the bill.

In 2003, the Joint Legislative Salmon Industry Task Force introduced and passed HB 90 for new product development to reverse the decline in Alaska salmon value, and in 2006 and 2008 extended the tax credit. UFA has supported this effort as a way to help processors transition product development efforts towards products that can better compete in fast changing global markets. Since then a variety of new salmon products are competing successfully in the marketplace, and once again our salmon are in demand. Alaska salmon fishermen and communities are benefiting from increased ex-vessel and wholesale prices, and we applaud the legislature for this success.

The global seafood market is fast changing and extremely competitive. We support opportunities to introduce new products and increase the value of Alaska's seafood through innovation and utilization of byproducts. With tightening EPA regulations in Alaska, we support efforts to encourage byproduct development. HB 204 also adds herring products which are seeing an increase in demand in the world market. The changes made in HB 204 address changing market demands by adding the ability to modify existing salmon canning to accommodate smaller can sizes.

United Fishermen of Alaska (UFA) is the statewide commercial fishing trade association, representing 36 commercial fishing organizations participating in fisheries throughout the state and its offshore federal waters. We encourage passage of HB 204.

Sincerely,

Julianne Curry
Executive Director

**Summary of Tom Sunderland's testimony to the Alaska House Fisheries Committee on HB 204.
Testimony given Thursday, February 6, 2014**

Ocean Beauty Seafoods is a shoreside processor with six plants in Alaska. Our hope is to use this tax credit to modernize our shoreside facilities that can salmon and herring. I am going to give a market-based testimony based on salmon.

The first thing to know about the existing Salmon Product Development Tax Credit is that it worked. It was successful in helping lift the industry out of a time of low value by helping processors to diversify product offerings, and through that product diversification, diversify markets. As a result the industry is far less vulnerable to being held hostage by overreliance on either a single market, such as Japan, or a single product form, such as traditional canned salmon.

This bill is necessary to defend these gains. We are now seeing the market push back against the higher prices our products now command. It is not the case that we can forever raise prices – consumers at some point will resist. They don't necessarily see the value in a tall can of red salmon or a four ounce package of smoked sockeye that approaches \$10.

Consumers don't buy these types of products by the pound, as they do fresh fish, but buy based on absolute price as they do with other packaged goods. Consider the examples of canned tuna or even breakfast cereal – those items routinely and successfully downsize their packaging as a way of mitigating absolute price on the shelf. Tuna is now sold in the US primarily in 5oz cans. The Australian tuna market is dominated by 95g (3.3 ounce) cans. They can do this much more easily than we can due to the year-round nature of their business and their location on road systems. We need this tax credit to give us the ability to respond to this market pressure and reduce the size of the cans and the shelf price. If we don't do this we risk becoming an irrelevant product to many consumers and retail customers.

While price is a primary motivator for this, price is not the only driver of this change. This move toward smaller cans is also driven by permanent household demographic changes: smaller households don't require as much food as larger ones. A smaller can is more convenient, results in less waste, costs less, and is therefore more attractive in most ways.

Gaining value from currently worthless byproduct is one of the best weapons we could have to defend the industry's price gains. We can't always expect the value of the flesh to appreciate, or to maintain current levels, but converting byproduct into saleable product is a pure win for the Alaskan industry and could hedge against price declines.

Byproduct utilization also provides us with the added benefit of keeping the EPA off of our back as they inevitably change remote discharge regulations. Every pound of byproduct we are able to manufacture into saleable product helps Alaska both directly through added value and by helping the industry deal with these new regulations.

Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway

Juneau, AK 99801

Phone: 907-586-6652

Fax: 907-523-1168

Email: seafa@gci.net

Website: <http://www.seafa.org>



February 5, 2014

Alaska State Legislature
House Fisheries Committee
Representative Paul Seaton, Chair
State Capitol
Juneau, AK 99811

RE: Support HB 204

Representative Paul Seaton, Chair and Fisheries Committee Members,

Southeast Alaska Fishermen's Alliance (SEafa) supports HB 204. We are a multi-gear/multi-species membership based commercial fishing association. We represent our membership mainly involved in the salmon, crab, shrimp and longline fisheries of Southeast Alaska/Yakutat.

Southeast Alaska Fishermen's Alliance supports HB 204 which will extend the salmon production development tax credit to 2020 and adding herring as well as salmon. This has been a good program over the years in helping to increase the value of salmon and we believe will have the same benefits to the herring fishery. The bill also encourages the utilization of development opportunities of salmon and herring by-catch.

Sincerely,

A handwritten signature in cursive script that reads "Kathy Hansen". A long horizontal line extends from the end of the signature to the right.

Kathy Hansen
Executive Director



PACIFIC SEAFOOD PROCESSORS ASSOCIATION

Est. 1914

24 February 2014

Representative Alan Austerman, Co-Chairman
Representative Bill Stoltze, Co-Chairman
House Finance Committee
State Capitol
Juneau, Alaska 99801-1182

Dear Representatives Austerman and Stoltze,

Thank you, both, for taking up SSHB 204 – Extension of the Salmon Product Development Tax Credit.

I am writing to you, and Committee members, to express our association's strong support for this bill. Our member companies operate seafood processing plants throughout Alaska, from Ketchikan to Togiak. The Salmon Product Development Tax Credit has a proven track record of encouraging the production of value added salmon products in Alaska.

In years past our members have used the credit to make capital investments in a variety of equipment, including filet machines, vacuum packers, and ice machines, raising both the quality and value of our finished products. This has enabled the industry to meet changing market demands and to strengthen the Alaska Seafood brand in national and international markets. Raising the value of salmon products benefits harvesters, processors, coastal communities, and the state of Alaska.

That being said, it is important to renew this successful legislation to ensure Alaska protects the gains made in the market place over the past decade. Encouraging the industry to optimize the value of Alaska's natural resources not only makes good financial sense, but reflects sound public policy. Having the capacity to produce higher value products provides industry with the ability to better cope with seasonal variations in harvest levels as well as downturns in domestic and international economies.

Passing SSHB 204 this session will provide processors with the certainty needed in planning for major capital expenditures. Extending the credit for five years, along with the additional provisions in SSHB 204, will encourage and enable our members and other processors to react quickly to advancements in processing equipment technology and emerging markets.

Please let me know if there is any additional information I can provide to you about our members' use of and support for this legislation. Again, thank you, for taking up this important issue.

Sincerely,

John V. O'Shea
Vice President - Alaska

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



CORPORATE OFFICE:
2101 4th Ave., Ste. 1700
Seattle, WA 98121
Ph: (206) 682-5949
Fx: (206) 682-1825

DUTCH HARBOR PLANT:
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Dutch Harbor, AK 99692
Ph: (907) 581-1660
Fx: (907) 581-1293

KODIAK PLANT:
P.O. BOX 2367
Kodiak, AK 99615
Ph: (907) 486-4112
Fx: (907) 486-5588

Anchorage Office:
3940 Arctic Blvd, Suite 104
Anchorage, AK 99503
907-562-2005 / C 907-343-9779

February 24, 2014

Representative Alan Austerman, Co-Chairman
Representative Bill Stoltze, Co-Chairman
House Finance Committee
State Capital
Juneau, AK 99801-1182

Dear Representatives Austerman and Stoltze,

I am writing on behalf of Westward Seafoods in support of SSHB 204, Extension of the Salmon Product Development Tax Credit. This is a very worthwhile program that has benefitted our company in the past.

Westward Seafoods operates two fish processing plants in Alaska, one in Dutch Harbor and the other in Kodiak. While salmon and herring make up only a small portion of our product mix, this program has been beneficial to our Kodiak plant years ago. We are constantly stretching our capital budgets to make improvements in our production lines. SSHB 204 is a desirable tool for making advancements in salmon and herring processing for the seafood industry.

Passing SSHB 204 this year will continue a very worthwhile program providing opportunities for the seafood industry to make advances in product values offered to our customers. SSHB 204 encourages advancement of products and processes that benefit fishers, processors, customers, and the State. Please let me know if I can be of assistance.

Sincerely,

Sinclair Wilt
Vice President, Fisheries Specialist

cc: Vince O'Shea, PSPA

P.O. Box 189
NAKNEK, ALASKA 99633

www.bristolbayboroughak.us



TELEPHONE
(907) 246-4224
FAX
(907) 246-6633

Bristol Bay Borough

RESOLUTION NO. 2014-06

A RESOLUTION OF THE BRISTOL BAY BOROUGH ASSEMBLY SUPPORTING THE PASSING OF STATE SENATE HOUSE BILL (SSHB) 204 FOR THE EXTENSION OF THE SALMON PRODUCT DEVELOPMENT TAX CREDIT.

WHEREAS, this tax credit will promote the development of value-added salmon and herring products, leading to greater product diversity; and

WHEREAS, this tax credit stimulates product development of underutilized specie herring, salmon and waste byproducts; and

WHEREAS, this program softens the financial impact of potential changes to EPA effluent guidelines in non-remote locations; and

WHEREAS, this tax credit has incentivized investment to produce canned salmon in sizes appropriate for today's market conditions; and

WHEREAS, this investment incentive will create opportunities for further diversification of the product and further use of the renewable resource; and

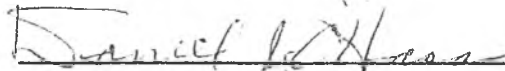
WHEREAS, this tax credit will increase the availability of value added products ensuring future opportunities for fishermen of this region; and

WHEREAS, tax credit will provide for long term capital investment of processors located within the Borough; and

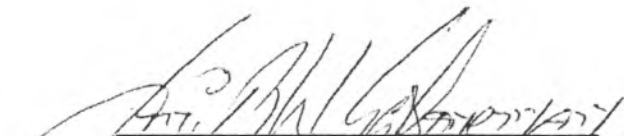
THEREFORE LET IT BE RESOLVED, that the Bristol Bay Assembly supports SSHB 204 for the extension of the Salmon Product Development Tax Credit.

ADOPTED AND APPROVED BY THE ASSEMBLY OF THE BRISTOL BAY BOROUGH, NAKNEK, ALASKA THIS 3RD DAY OF MARCH, 2014. AYES 5 NAYS 0.




Daniel J. O'Hara, Mayor

ATTEST:


Tani R W Schoneman, Borough Clerk



February 26, 2014

Representative Alan Austerman, Co-Chairman
Representative Bill Stoltze, Co-Chairman
House Finance Committee
Alaska State Capitol
Juneau, Alaska 99801-1182

Dear Representatives Austerman and Stoltze:

Thank you both for taking up SSHB 204-Extension of the Salmon Product Development Tax Credit. I represent Alaska General Seafoods and Leader Creek Fisheries. Our companies operate processing plants in Naknek and Ketchikan. I want you to know that since its inception the Salmon Product Development Tax Credit has provided us with the incentive to make multiple investments in equipment in all of our plants. We have directly increased the value of our finished products through the acquisition of multiple complete fillet lines, freezing installations, ice making equipment and salmon roe equipment.

Our industry is constantly under pressure to provide our customers around the world with products that meet today's busy consumers' needs for more convenient product forms and for products of the highest quality. As a result, I have no doubt at all that in order to remain competitive in the marketplace, our companies will continue to re-tool our processing lines for the foreseeable future. Such investments require planning for capital investment in our facilities for the long term. Having the certainty that a five year extension of bill will bring provides us with the confidence we need to make such investment plans.

I want to express my strong support for this bill and my appreciation for your foresight in sponsoring it.

Sincerely,

A handwritten signature in cursive script that reads "Gordon Lindquist".

Gordon Lindquist,
Vice President,

Alaska General Seafoods
6425 NE 175th Street,
Kenmore WA, 98028

Leader Creek Fisheries
PO Box 17013
Seattle WA, 98127

February 17, 2014

Representative Alan Austerman
Representative Bill Stoltze
Ch-chairs, House Finance Committee



RE: Support for HB 204

Dear Representatives Austerman and Stoltze,

On behalf of the Alaska Fisheries Development Foundation (AFDF), I would like to offer our support for HB 204 – Salmon and Herring Product Development Tax Credit.

AFDF is a collaboration of harvesters, processors, and support sector businesses which work to create opportunities out of challenges for Alaska's seafood industry. Since 1978, AFDF has worked on the issue of fish waste utilization starting with helping the industry produce surimi from pollock waste. This work continued with research on fish oils beginning in the 1980's which has been utilized by the industry to create omega-3 fish oil from salmon heads: http://www.afdf.org/salmon-byproduct-and-coproduct-research/#peer_reviewed_two. Most recently, AFDF sponsored the *Innovation Summit* and a "Processor Symposium" in Juneau with guest speaker, Thor Sigfusson, from the Iceland Ocean Cluster to discuss models for private development of high-value products from fish waste.

HB 204 will create an incentive for the seafood industry to take on the risk and investment necessary to increase the value received for Alaska's seafood resources. For example, over the past 15 years, the amount of seafood harvested in Iceland has declined by nearly half, however, the value received for its seafood has nearly doubled due to improved quality and utilization of fish waste in the creation of new products (via Sigfusson's presentation at the *Innovation Summit*).

Alaska produces over 2 billion pounds of fish waste each year. Consequently, an opportunity exists to increase the value received from its seafood by creating high value products from fish waste. ***All entities touched by the seafood industry will benefit from the increased value of this resource*** (e.g. harvesters, processors, support businesses, communities and the State of Alaska).

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Julie Decker".

Julie Decker, Executive Director

Alaska Fisheries Development Foundation
P.O. Box 111125, Anchorage, AK 99511-1125 - Ph: 907-276-7315
www.afdf.org

Board of Directors

Jan Jacobs – President
Harvester, Region IV-BSAI
American Seafoods Company

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Harvester, Region II-PWS/CI
F/V Lady Simpson

**Ekaterina Ratzlaff –
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Jim Beaton
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Alaska Whitefish Trawlers
Association

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Trident Seafoods

ALASKA

NORTH TO OPPORTUNITY

HB 204

DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF ECONOMIC DEVELOPMENT

02/27/2014



ALASKA
NORTH TO OPPORTUNITY

HB 204



Alaska produces over
95% of all salmon in
U.S. yet represents
under 1/3rd of global
wild salmon supply



ALASKA DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT



2

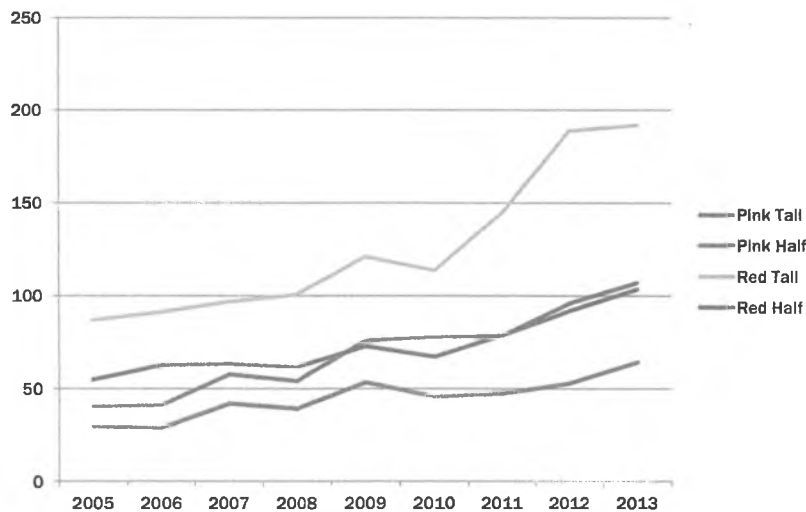
Key Benefits of Product Development Tax Credit

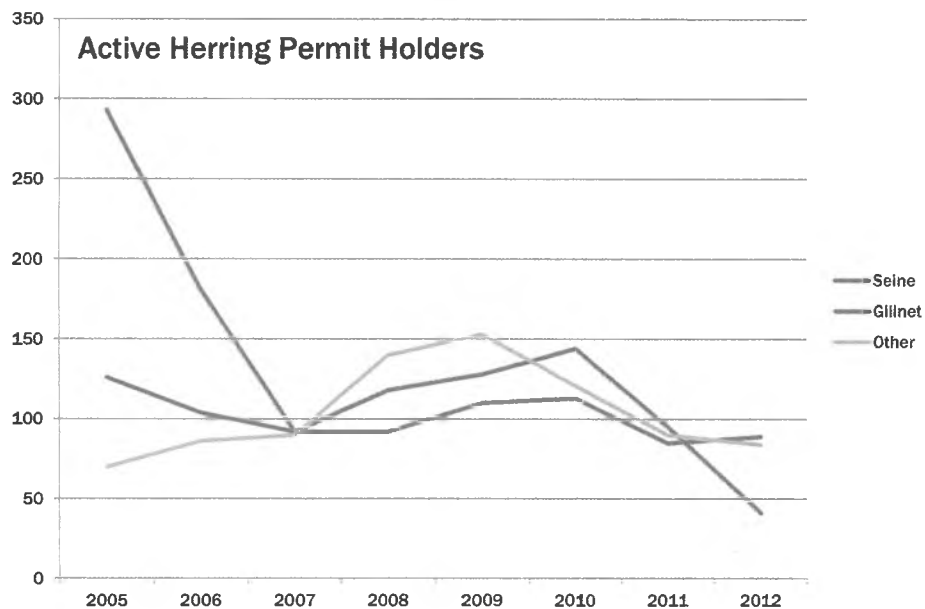
- Promotes development of value-added salmon and herring products, leading to greater product diversity
- Stimulates product development of underutilized specie (herring) and waste byproduct
- Softens financial impact of potential changes to EPA effluent guidelines in non-remote locations
- Incentivizes investment to produce canned salmon in sizes appropriate for today's market conditions



Challenge: Salmon Can Size

Too Many Ounces, Too Much \$\$\$ (*price per case*)



Challenge: Herring**Challenge: EPA**

- “Non-remote” seafood processing centers may be required to fine screen and collect waste, then barge or process
- Preliminary cost per pound estimates at select sites range from \$.21–\$.56/pound.



Waste-Byproduct Opportunities

Primary Products

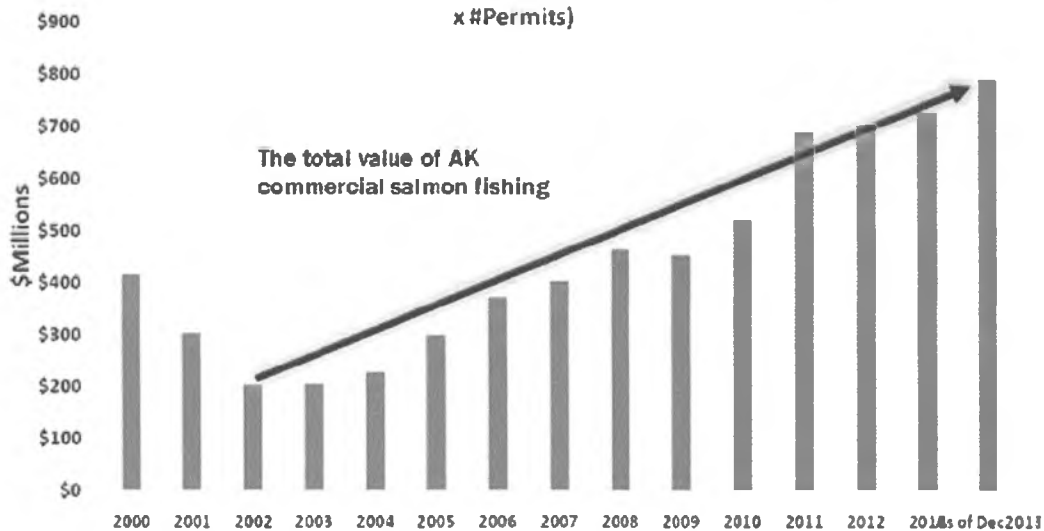
- Fish Meal
- Fish Oil
- Protein Isolates

Value- Added Products

- Nutritional Supplements- fish oil pills, Omega-3 acids
- Collagen- medicinal, nutrient, gelatin
- Enzymes- food additive, chemical applications
- Cosmetics- lotions
- Medical products- bandages
- Human foods- dried products
- Leather
- Pet food ingredients
- Livestock Feed
- Aquaculture Feed
- Fertilizers/Compost
- Biofuel
- Industrial Products- lubricants, chemicals, etc
- Bait



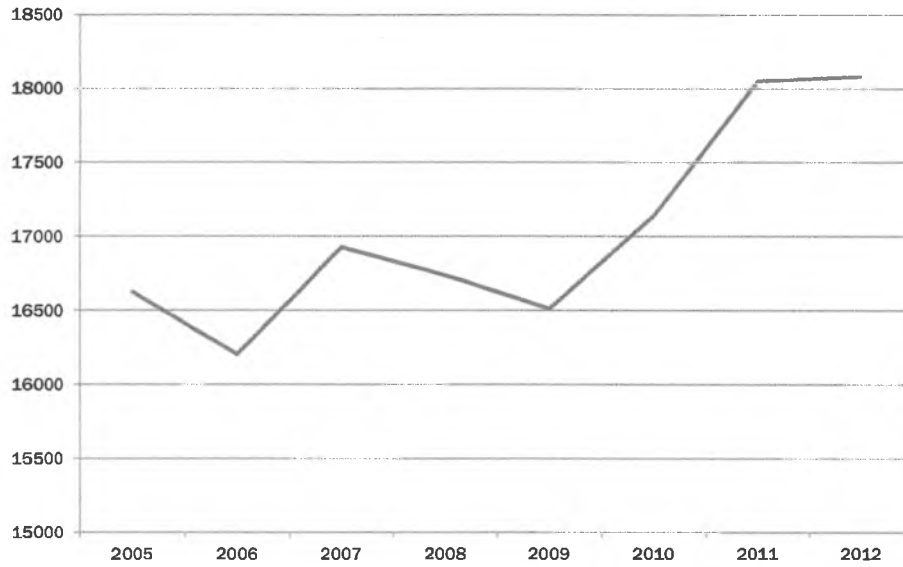
Total Value of Alaska Commercial Salmon Fishing Permits (Avg. Permit Value x #Permits)



Source: CFEC data, compiled by McDowell Group.



Resident Participation in Alaska Fisheries



Gross Revenue from Fisheries Business Tax and Utilization Credits Claimed

