

**ALASKA LEGISLATURE**

**2590**

**HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004**

56

In FY 03, total operating expenses for REC increased by 12% from the previous fiscal year; direct expenditures for REC increased markedly by 27%. This is primarily due to significant increases in personnel services, and to a lesser degree, travel expenditures. Even with the increase in costs, the cumulative biennial deficit shown at the end of FY 01 has almost been eliminated.

*The extent to which the board, commission, or agency has recommended statutory changes that are generally of benefit to the public interest.*

The REC has monitored and revised regulations to comply with statutory changes and administrative needs on an ongoing basis. However, REC has made no recommendations for statutory changes over the last four years.

*The extent to which the board, commission, or agency has encouraged public participation in the making of its regulations and decisions.*

The public received notice of all meetings consistent with the requirements of statute and regulation. The agenda of items to be discussed was available before scheduled meetings. A public comment period has been set aside in the agenda for each commission meeting.

Interested parties can attend meetings in person or by teleconference. In addition to accepting public comment at the meetings, REC regularly discussed correspondence from various individuals, agencies and other interested parties. OccLic forwards public comment and concerns, for consideration during commission meetings to REC.

*The extent to which the board, commission, or agency has encouraged interested persons to report to it concerning the effect of its regulations and decisions on the effectiveness of service, economy of service, and availability of service that it has provided.*

Draft regulations developed by REC were properly advertised for the required amount of time. Public notices of regulatory hearings were published in major newspapers and on the commission's website. The commission accepted public comment at meetings.

*The efficiency with which public inquiries or complaints regarding the activities of the board, commission, or agency filed with it, with the department to which a board or commission is administratively assigned, or with the office of victims' rights or the office of the ombudsman have been processed and resolved.*

During the 48-month period from July 1, 1999 through June 30, 2003, OccLic opened 152 investigative cases related to individuals certified by REC. Almost two-thirds (97) of the cases were generated from complaints made by clients, or from the general public. A little less than a third of the complaints (43) involved allegations of negligence, incompetence, or

professional ethics violations. Another one-third of the cases (51) involved alleged misrepresentation or fraud by the licensees.

As of the date of our review, 117 of the 152 cases had been closed. Just over 40% of the cases (48) were closed with a finding of no violation. Of the remaining closed cases, 20 were closed with warning letters issued by the commission, and 16 resulted in some form of licensure action.<sup>8</sup> Seven complaints resulted in the initiation (by OccLic in conjunction with the Attorney General's Office) of a formal disciplinary hearing and 15 were closed for miscellaneous other reasons.

The remaining 11 cases were administratively closed under what was termed the Director's Case Reduction Plan (DCRP). The new director of OccLic established a policy that all division investigations that had been open for more than a year were to be administratively closed if they did not involve a significant public safety concern.

Of the 35 cases still open, as of the date of our review, nine had been opened within the previous 120 days. Seven of the cases have been open longer than one year and were pending closure under DCRP policy. The remaining 19 open cases are in various stages of ongoing investigation. If DCRP is applied to investigations on an ongoing basis, then nearly half of these remaining 19 cases will be closed administratively within 90 days of our report.

The investigative unit of OccLic was directed to close all cases that are: (a) over one-year old, and (b) do not involve a serious public safety issue. These criteria would apply to nearly all REC investigative cases since they rarely involve public safety issues, but rather the protection of Alaska's consumers. The one-year time limit under DCRP appears rather arbitrary, particularly since no consideration is given as to the nature of the complaints received by various boards and commissions. A third of the complaints regarding REC licensees involve allegations of fraud or misrepresentation. Such cases may be dropped, despite the underlying validity, simply because they "timed out."

We reviewed the nature and extent of complaints filed involving REC licensees. Except for the arbitrary nature of the criteria used under the new DCRP policy, we conclude that OccLic (in conjunction with the commission) has proceeded in a manner consistent with the potential threat these complaints posed to the public welfare.

During the period of our review, the office of the Ombudsman received one complaint against the Alaska Real Estate Commission. This complaint was dismissed immediately due to the fact that the complainant would not allow disclosure of his identity. No other complaints were filed with the office of the Ombudsman and no complaints were filed with the Office of Victims' Rights.

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<sup>8</sup> Licensure action includes suspension or revocation of the individual's license to practice, or imposition of a Memorandum of Agreement - which typically limits the individual's practice to some extent.

*The extent to which a board or commission that regulates entry into an occupation or profession has presented qualified applicants to serve the public.*

REC is charged with regulating entry into the occupation. To obtain a real estate salesperson license, an individual must submit an application for license (with fee), pass an examination, and obtain 20 hours of pre-licensing education.

New Licenses Issued	FY 00	FY 01	FY 02	FY 03	Total for Period	Current Licenses at June 30, 2003
Salesperson	169	197	224	222	812	1,215
Assoc. Broker	2	6	1	2	11	368
Broker	2	2	5	2	11	475
Total	173	205	230	226	834	2,058

Other provisions exist for individuals previously licensed in other states and additional criteria are required for Broker and Associate Broker licenses. The above table shows the number of licenses issued, by category for each of the listed fiscal years.

*The extent to which state personnel practices, including affirmative action requirements, have been complied with by the board, commission, or agency to its own activities and the area of activity or interest.*

We found no evidence of REC not complying with state personnel practices, including affirmative action, in the qualifying process of applicants. Each time the commission has denied an applicant's certification the reasoning has been based on requirements set out by statute and regulation, not on the personal attributes of applicants. The reasons for denials are stated in writing, with the applicant always informed of their rights and the process in which they can contest or appeal any denial of licensure.

*The extent to which statutory, regulatory, budgeting, or other changes are necessary to enable the agency, board, or commission to better serve the interest of the public and to comply with the factors enumerated in AS 44.66.050.*

Administrative Hearings

Currently, when an individual pursues a surety fund claim all the way to an administrative hearing, the process often exceeds two years. The purpose of the RESF hearing process is to allow individuals to recover losses without the burden of more formal litigious processes as would be experienced in a court of law. In order to serve the public interest, the RESF claim process should be carried out as expeditiously as possible.

One hearing officer serves the entire Division of Occupational Licensing, or approximately 20 separate professional boards. While the number of investigators has increased over the last few years, there remains only one hearing officer available to handle all administrative

hearings for the boards. This creates difficulties in scheduling both the hearing and the report writing phases. We suggest that OccLic determine whether other boards and commissions are also experiencing significant delays in the administrative hearing process. If so, the division should consider obtaining additional hearing officer services or some alternative relief.

#### Educational Requirements

In order to obtain an Alaska real estate license by endorsement, applicants must show evidence that certain educational requirements have been met as specified in 12 AAC 64.063.

Currently, when applicants with real estate licenses from other states apply for an Alaska license by endorsement, REC accepts the out-of-state license as proof that the applicant has completed the courses required by the commission. Although every state may require completion of courses prior to issuing a license, REC should not rely on the controls of other states. Insisting on proof that applicants have completed the courses specifically required by the commission will ensure that REC is accepting qualified applicants to serve the people of Alaska.

#### Real Estate Surety Fund (RESF)

The legislature needs to consider amending statutes related to the administration of RESF in order to better accomplish the public policy objective behind the fund's operation - consumer protection. Specifically we recommend:

1. Increase the limits on reimbursement of claims.
2. Require that OccLic make reasonable efforts to provide right of appeal notification.
3. Specify mobile home transactions are subject to RESF claims.

#### Adherence to AS 08.01.025 for public members

Earlier this year an individual was appointed to the Real Estate Commission as a public member but did not meet the qualifications of public membership outlined in AS 08.01.025.

Specifically, the statute states a public member of a board may not:

1. Be engaged in the occupation that the board regulates.
2. Be associated by legal contract with a member of the occupation that the board regulates except as a consumer of the services provided by a practitioner of the occupation.
3. Have a direct financial interest in the occupation that the board regulates.

As an attorney, his relationship with various clients who are licensees of the commission put his appointment in violation of AS 08.01.025 (2) and likely (3), as cited above. He has since submitted his resignation from the REC.

To avoid future recurrences the Office of the Governor should consider requiring current and proposed public members of boards and commissions sign an affidavit attesting that they are in compliance with AS 08.01.025.

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### ACCOUNTANT'S REPORT

Members of the Legislative Budget  
and Audit Committee:

We have reviewed the accompanying comparative statements of revenues, expenditures, and changes in fund balance of the Department of Community and Economic Development, Real Estate Surety Fund for the years ending June 30, 2000, 2001, 2002, and 2003, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these statements is the representation of the management of the Department of Community and Economic Development.

A review consists principally of inquiries of department personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 1, only the statements of revenues, expenditures, and changes in fund balance have been presented. These statements are not intended to be a complete presentation of the results of operation and the financial position of the Real Estate Surety fund, which would require the presentation of balance sheets.

Based on our reviews we are not aware of any material modifications that should be made to the accompanying statements of revenues, expenditures and changes in fund balance in order for them to be in conformity with generally accepted governmental accounting principles.

Pat Davidson, CPA  
Legislative Auditor

October 16, 2003

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**State of Alaska**  
**Department of Community and Economic Development**  
**Real Estate Surety Fund**  
**Comparative Statements of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Fiscal Years Ended June 30, 2000, 2001, 2002, and 2003**

	<u>FY 03</u>	<u>FY 02</u>	<u>FY 01</u>	<u>FY 00</u>
Revenues				
Licensee Fees, Claim Filing Fees, and Claim Reimbursements	\$ 19,525	\$ 86,475	\$ 21,751	\$ 86,357
Interest Earned	<u>25,361</u>	<u>26,730</u>	<u>48,250</u>	<u>24,439</u>
Total Revenues	<u>44,886</u>	<u>113,205</u>	<u>70,001</u>	<u>110,796</u>
Educational Expenditures				
Personal Services	94,236	82,866	78,503	59,775
Travel	1,550	1,817	- 0 -	1,103
Contractual	29,876	8,685	1,815	4,354
Commodities	- 0 -	- 0 -	- 0 -	2,229
Equipment	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>1,884</u>
Subtotal educational expenditures	125,662	93,368	80,318	69,345
Hearing, legal, and claims settlements	<u>250</u>	<u>31,544</u>	<u>5,016</u>	<u>- 0 -</u>
Total Expenditures	<u>125,912</u>	<u>124,912</u>	<u>85,334</u>	<u>69,345</u>
Revenues over (under) expenditures	<u>(81,026)</u>	<u>(11,707)</u>	<u>(15,333)</u>	<u>41,451</u>
Transfer in from General Fund	<u>- 0 -</u>	<u>- 0 -</u>	<u>- 0 -</u>	<u>60,698</u>
Net change in Fund Balance	<u>(81,026)</u>	<u>(11,707)</u>	<u>(15,333)</u>	<u>102,149</u>
Fund Balance, beginning of year	<u>548,230</u>	<u>559,937</u>	<u>575,270</u>	<u>473,121</u>
Fund Balance, end of year	<u>\$467,204</u>	<u>\$548,230</u>	<u>\$559,937</u>	<u>\$575,270</u>

See accompanying Accountant's Report and Notes to the Financial Statements.

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**State of Alaska**  
**Department of Community and Economic Development**  
**Real Estate Surety Fund**

**Note 1 – Summary of Significant Accounting Policies**

Alaska Statute 37.05.150 requires the State of Alaska to conform to generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles which are primarily set forth in GASB's Codification of Governmental Accounting and Financial Reporting Standards.

The statements provided in this report present only the revenues, expenditures, and changes in fund balance of the Department of Community and Economic Development, Real Estate Surety Fund for fiscal years 2000 through 2003. As such, these statements are not intended to be a complete presentation of the fund's results of operations and financial position on the modified accrual basis of accounting. The following is a summary of the significant policies applicable to the Department of Community and Economic Development, Real Estate Surety Fund.

**Real Estate Surety Fund**

The Real Estate Surety Fund (RESF) was established in 1974 as a sub-fund of the State of Alaska General Fund under AS 08.88.450. The fund was created to provide indemnification up to \$10,000 per transaction for persons who have suffered financial loss because of a Real Estate Commission (REC) licensee's actions that involve fraud, deceit, misrepresentation, or conversion of trust funds, and to provide funding for real estate education of both the public and REC licensees.

Alaska Statute 08.88.450 establishes the floor of the fund at \$250,000 and the ceiling at \$500,000. The funds in RESF may be used to pay claims and fund education for real estate professionals. The surety fee is set by REC and is capped at \$125. This fee may be adjusted downward by REC as long as the fund is maintained at a level that can pay claims against it without going below the minimum fund balance of \$250,000. REC is also responsible for approving education expenditures and all consumer claim payments charged to the fund.

**Measurement Focus and Basis of Accounting**

The accounting and financial reporting presentation is determined by measurement focus. Basis of accounting refers to when revenues are recognized in the accounts and reported in the financial statements. These financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

**State of Alaska**  
**Department of Community and Economic Development**  
**Real Estate Surety Fund**

**Note 1 – Summary of Significant Accounting Policies (Continued)**

Under the modified accrual basis of accounting, revenues are recognized when they become measurable and available to finance operations during the current year or to liquidate liabilities existing at the end of the year (collected within 60 days of fiscal year end). Major revenues that are determined to be susceptible to accrual include.

- A. Surety fund fees paid by real estate licensees when applying for or renewing a real estate license in lieu of obtaining a corporate surety bond.
- B. Filing fees retained from claimants, all of whom must pay \$250 to the commission at the time their claim is filed.
- C. Income earned on investment of the money in the RESF.
- D. Money paid by the public, real estate licensees, or potential real estate licensees to receive an educational item or service that was provided by the commission through money expended from the fund.

Expenditures are recognized when a liability is incurred. However, expenditures related to claims and judgments are recorded only when payment is due and payable. Major expenditures include claims against the fund, hearing and legal expenses directly related to fund operations and claims, and real estate education.

**Note 2 – General Fund Transfer**

Prior to September 1999, real estate surety funds in excess of the \$500,000 ceiling lapsed into the General Fund. At June 30, 1998, \$60,698 lapsed into the General Fund, but was appropriated back to the Real Estate Surety fund by Ch 84, SLA 1999, Sec. 21 in FY 00.

November 17, 2003

Ms. Pat Davidson, Legislative Auditor  
Division of Legislative Audit  
PO Box 113300  
Juneau, AK 99811-3300

RE: REAL ESTATE COMMISSION – PRELIMINARY AUDIT

Dear Ms. Davidson:

Thank you for the opportunity to respond to the Alaska Real Estate Commission Preliminary Audit Report.

**Findings and Recommendations**

**Recommendation No. 1**

**The legislature should consider amending the statutes related to the Real Estate Surety Fund to provide more complete, effective, and efficient consumer protection to claimants.**

**Item 1. Increase the limits on reimbursement of claims.**

The Department concurs with the recommendations to increase the limits on reimbursement of claims.

In addition, we recommend considering increasing the surety fund filing fee required under AS 08.88.460(d); the current fee is \$250. A substantial amount of staff time and resources are involved in processing a claim before it is forwarded to the hearing officer. With an increased limit on the amount reimbursable from the fund, an increased number of claims may result. If the filing fee is increased, it may assist with ensuring frivolous claims are less likely. However, a concern would be to ensure the filing fees is not so high that legitimate parties, who have already suffered a loss, are not further taxed by extremely high filing fees. In accordance with AS 08.88.460(d)(1), if a claimant is successful, ne/she is refunded the filing fee.

**Item 2. Only require the Division of Occupational Licensing (OccLic) to make reasonable efforts to provide right-of-appeal notification.**

The Department concurs with the review and analysis of instances where staff has been unable to notify the losing party of the final judgement and appeal rights—therefore, holding up payment of judgments for a substantial amount of time. We support amending the provisions to provide for recognition of reasonable efforts to contact the parties at their last known address.

The Department also recommends an amendment which would allow a claim to proceed to hearing based on records which reflected staff's reasonable effort to contact the parties. Licensees have been known to either surrender their license, or move with no forwarding address, just prior to a surety fund claim being filed. Once a licensee surrenders his/her license, or the license lapses, the licensee has no further obligation to keep the Commission informed of their mailing/service address. In these instances, substantial delays occur while staff try to find the licensee/previous licensee. Once found, obtaining successful service is often a challenge; legal service of claims is often avoided by such persons. If a claimant is eventually successful in being awarded a judgement from the fund, the licensee (or lapsed licensee) may be liable for reimbursement to the fund.

**Item 3. Specify mobile home transactions are subject to the RESF claims.**

The Department supports this recommendation on the basis that all practices and activities as conducted by a real estate licensee, as part of their real estate business and conducted under the auspices of their license/brokerage, should be covered by the Surety Fund for loss suffered from a licensee's fraud, misrepresentation, or deceit. However, such an amendment should clarify that the inclusion of allowing a surety fund claim for mobile home transactions, is not to be interpreted to *require* a real estate licensee for the selling of a mobile home (currently, new or used mobile home dealers are not required to hold a license with the Real Estate Commission). The Department does not support requiring all mobile home dealers (new and used) to be licensed by the Real Estate Commission. If a real estate licensee chooses to conduct transactions and act as an agent for a mobile home seller or buyer, the provisions of the surety fund should apply. The licensee, when acting as a agent would be required to conduct all mobile home transactions through his/her brokerage. This requirement is appropriate for the consumers' protection when they are dealing with a licensee.

Any statutory amendment involving this issue should be very clear as to when the surety fund applies and when a licensee may assist another to buy/sell a mobile home without falling under the brokerage and surety fund (i.e., when can a licensee help a friend sell a mobile home—similar to any member of the public—and not have the transaction fall under the jurisdiction of the licensee's broker and ultimately the surety fund?). Disclosure would undoubtedly be a key in such legislation.

**Analysis Section regarding complaint processing:**

The department disagrees with the assessment that under the Director's Case Reduction Plan, cases involving allegations of fraud or misrepresentation may be dropped simply because they timed out. The nature of each complaint is reviewed and only those which are clearly without merit and have not progressed within a 12 month period are to be closed.

**Department Recommendations**

**A. Amendment to AS 08.88.251 Requested**

In accordance with AS 08.01.100, unless otherwise provided, licenses are subject to biennial renewal on a date set by the department. Real Estate licenses are subject to renewal February 1 of even numbered years (i.e., all Real Estate licenses expire 1/31/04). The Department seeks an amendment to AS 08.88.251, to allow issuance of an expiration date for an "inactive" license (whose inactive status is crossing a renewal biennium), to coincide with the date the licensee is eligible to reactivate under AS 08.88.251(c). The Commission currently has situations where an individual's license expiration date is 1/31/04, however, the licensee is no longer eligible to renew the license because their "24 months of inactive status" crossed a previous renewal cycle. In these situations, the licensee's two year period for being eligible to reinstate under .251(c) ended prior to the license expiration date printed on their license. An expiration date for reinstatement eligibility which differs from the expiration date on the printed license causes confusion and recently litigation was pursued to resolve which expiration date took precedence.

**B. Sunset of the Commission and Continuation of Licensing Through the Department.**

The Department recommends the legislature sunset of the Commission and continue the licensing function through assignment to the Department. This is not being suggested as a criticism against the current, or prior, Commission. Licensing could continue in a manner similar to past boards which have been eliminated (i.e., the Board of Mechanical Administrators, Board of Electrical Administrators and the Big Game Commercial Services Board). If this is an area the Legislature is interested in considering, my staff will be available to discuss the specific statutes which would need to be amended to give authority for licensing to the Department.

Again, thank you for the opportunity to comment.

Sincerely,

Edgar Blatchford  
Commissioner

cc: Rick Urion, Director,  
Division of Occupational Licensing

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Jeannie Johnson  
1621 Second Street  
Douglas, Alaska 99824  
(907) 364-2121

November 10, 2003

Pat Davidson  
Alaska State Legislature  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P. O. Box 113300  
Juneau, Alaska 99811-3300

Re: *Preliminary Audit, Alaska Real Estate Commission Sunset Review, October 16, 2003*

Dear Ms. Davidson:

On behalf of the Alaska Real Estate Commission I would like to thank you and your department for the good work involved in the sunset review of the Real Estate Commission. We are pleased with its conclusion for the enactment of legislation to extend the sunset date to June 30, 2008. The Commission does have a concern with one of the recommendations contained therein.

With respect to the three recommendations:

After reading the back-up material and seeing the statistical reasoning, the Commission concurs that the limits of reimbursement of claims be increased to \$20,000 per transaction and the associated maximum payment per licensee increased to \$100,000. The Commission will assist with this change in any manner needed.

The Commission is aware of the right-of-appeal notification problem and would welcome the necessary changes to correct it. We certainly do support successful claimants receiving payment as quickly as possible. The particular case you are referring to has been a source of concern for the Commission as well. Again, the Commission will assist with this change in any manner needed.

With respect to the third recommendation, mobile home transactions being subject to the Real Estate Surety Fund, the Commission emphatically disagrees.

This change is fraught with problems. That this recommendation has been made points to perhaps a different issue that needs to be addressed within the real estate industry by the Commission. However, the Commission believes making all mobile home transactions eligible for surety fund reimbursement has the potential of becoming a huge burden borne solely by licensees who provide the money to maintain the surety fund.

A mobile home *by itself* is personal property; it is no different than an automobile. Even though through the years mobile homes have grown into larger and larger entities and cost more money, there is nonetheless no real property (land) included with their sale. They are mobile homes that are parked in a mobile home park. The title to a mobile home is just that, a title. Ownership is transferred through the Department of Motor Vehicles. No real estate license is required to sell mobile homes. There may be a motor vehicle dealer license required. The Commission is not familiar with licensing requirements for motor vehicle transactions (which may include the sale of mobile homes).

The only training an Alaska Real Estate licensee now receives about mobile homes is that they do not fall under the definition of real property. Therefore, licensees are not licensed to sell mobile homes, only real property. Some may have knowledge of mobile home facts and sales procedures just as some may have knowledge of how to sell an automobile. Such training is not included in that required to obtain an Alaska Real Estate License.

If a mobile home is placed on a piece of real property (land) and made a part of the land, there is a possibility one could construe this entire entity, the land and mobile home to be real property. In common practice this does sometimes occur. In such a case, if the owner were going to list that entity for sale, he/she would need to utilize the service of a real estate licensee. The trigger here is the real property (land) being sold. The Commission, at the present time, would have no problem considering a surety fund claim in this example, (mobile home on real property).

Where the problem seems to arise is when a real estate licensee lists for sale a mobile home in a mobile home park. This is not a real estate transaction and does not require a real estate license. The Commission can see where the confusion might arise in the mind of the public. The uninformed buyer sees a real estate sign on a mobile home in a park and could reasonably assume a subsequent transaction was protected through the surety fund. In reality, the Commission doubts uninformed buyers and sellers are aware of the existence of the surety fund.

There are companies in business for the express purpose of selling mobile homes. Those companies do not need a real estate license. The Commission

does not want the surety fund to be available to such transactions. Again, those transactions are concerned with personal property, not real property.

The Commission will take up the matter and make a recommendation to correct this perceived problem as soon as possible. One recommendation might be for those Real Estate Brokers choosing to allow their licensees to sell mobile homes in mobile home parks to establish a second business with different signage and a disclaimer provided to any prospective seller or buyer. Such a disclaimer should emphasize the difference between real and personal property and alert them the proposed transaction does not involve real property.

Another possibility would be to require anyone selling mobile homes to have a real estate license.

The Commission will be happy to work toward a better solution for the few cases that have come before us concerning mobile homes. At this point, the Real Estate Commission is reluctant to include those unlicensed persons selling mobile homes to have coverage of Real Estate Surety Fund.

Again, the Commission thanks you for your good work and looks forward to assisting with these matters in the near future.

Sincerely,

Jeannie Johnson  
Chair, Alaska Real Estate Commission  
Alaska Real Estate Broker since 1977

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November 24, 2003

Members of the Legislative Budget and  
Audit Committee:

We have reviewed the department's and the commission's response to our report. Comments made regarding our recommendation on the Real Estate Surety Fund (RESF) statutes and our observations about the policy related to administrative closure of investigations warrant further discussion and clarification. Accordingly, we offer the following information and clarifications:

1. Mobile home sales and the RESF statutes. Our suggestion that RESF statutes be amended to specify coverage of mobile home sales did not mean that such legislation be used to limit who can make such sales. Any person, whether or not they hold a REC license, could be involved in the sale of a mobile home. However, if an individual licensed by REC is involved in such a sale, they are expected to exercise due professional care and the transaction should be covered by RESF.
2. Administrative closure of complaint investigations. The department takes exception with our assessment that investigations of REC licensees, involving alleged fraud or misrepresentation, were dropped because they "timed out." Our comments stemmed from a review of various REC complaints that were administratively closed under the director's case reduction plan (DCRP). When we inquired with the Chief Investigator about these cases, he confirmed investigations of the complaints were stopped pursuant to the DCRP policy. This policy, as he understood it, required all investigations exceeding a year be dropped, unless the complaint presented a threat to public health.

The only written statement of DCRP policy is an electronic mail message (e-mail) composed by the Chief Investigator. This e-mail served to confirm the policy set out by the director's verbal directives. Closure of complaints, involving alleged fraud and misrepresentation by REC license holders, was consistent with the standards set out in the e-mail.

Accordingly, based on our review of the department and commission responses, and the clarifying comments we discussed above, we reaffirm the findings, conclusions, and analysis presented in our sunset review.

Pat Davidson  
Legislative Auditor

# Alaska State Legislature



Rep. Tom Anderson, Chair  
Rep. Carl Gatto, Vice - Chair  
Rep. Norman Rokeberg, Member  
Rep. Nancy Dahlstrom, Member  
Rep. Bob Lynn, Member  
Rep. Harry Crawford, Member  
Rep. David Guttenberg, Member

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## House Labor & Commerce Committee

### SPONSOR STATEMENT

CSHB 418 (FIN)

Prepared by Representative Norman Rokeberg

CSHB 418 accomplishes three things:

1. It extends the life of the Real Estate Commission to 2008.
2. It clarifies procedures with regard to inactive real estate licensees, contact information for licensees, and notice requirements.
3. It makes clarifying amendments to the home inspector legislation passed by the 2003 Legislature (HB 9).

The Legislative Budget and Audit Committee has indicated that the Real Estate Commission does serve a purpose and that it should be extended. The Real Estate Commission is the entity that licenses and oversees almost 2,000 Alaskans working in the real estate or property management industries.

At the request of the Division of Occupational Licensing, language was inserted in Sections 4 and 5 that clarify the operations of the Real Estate Commission concerning inactive real estate licenses and contact information for real estate licensees.

The remainder of the bills is clarifying language concerning the home inspector law that was passed last year. During the development of proposed regulations for the industry, some problems became apparent. These problems are addressed in CSHB 418 (FIN):

1. Current law would require each registered home inspector to have a policy of general public liability, even if that individual was employed by a company that has a company wide policy. Section 3 addresses this situation by stating that an individual covered by a employer's policy does not have to have an individual policy.
2. Current law and its interpretation by the Division of Occupational Licensing would require that an application take four individual examinations instead of the residential combination examination (one exam). This change in Sections 6 and 7 allows that exam to be used as a qualifying exam for home inspectors.
3. Current law states that a transitional home inspector registration may not be renewed. Sections 9 and 10 address that by repealing that language and requiring that a transitional license may be renewed by providing proof of continuing education.

Your support for this legislation would appreciated.

# Alaska State Legislature

Rep. Tom Anderson, Chair  
Rep. Carl Gatto, Vice - Chair  
Rep. Norman Rokeberg, Member  
Rep. Nancy Dahlstrom, Member  
Rep. Bob Lynn, Member  
Rep. Harry Crawford, Member  
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## House Labor & Commerce Committee

### SECTIONAL ANALYSIS

#### CSHB 418 (FIN)

Prepared by Rep. Norman Rokeberg

- Section 1:** Extends the Real Estate Commission to June 2008.
- Section 2:** Deletes reference to "American Home Inspectors Training Institute"  
Amends subsection 18.18.022(a)(3) to indicate that an individual may register with the Division as a home inspector upon submitting a completed application within one year after passing the appropriate exam, or providing proof of completed continuing education requirements.
- Section 3:** Amends current law to provide that if an employee/registered home inspector is employed by a company that has liability and other insurance that the employee does not have to provide proof that the employee has an individual policy. Without this change the employee would have to carry his or her own individual coverage.
- Section 4:** Clarifies the law on inactive real estate licenses.
- Section 5:** Requires that a real estate license must keep the Commission advised of current contact information. Sets forth mailing procedures for notices.
- Section 6:** Amends the home inspector law to provide that one of the exams that may be used is the residential combination examination. Without this amendment, regulations recently promulgated would require that an applicant take four individual exams instead of this one combo exam.
- Section 7:** Adds language to the transitional licensing provision regarding the residential combination examination referred to in Section 6 above.
- Section 8:** As the (c) section referenced in the deleted language is repealed in Section 10, this is a conforming amendment.
- Section 9:** Provides that a transitional license may be renewed if continuing education documentation is provided.  
  
Permits charging for the home inspector transitional licenses.
- Section 10:** Repeals the section of law that indicates that transitional licenses may not be renewed.
- Section 11:** Immediate effective date.



ALASKA ASSOCIATION OF REALTORS, INC.  
4205 Minnesota Drive Anchorage, Alaska 99503  
Telephone (907) 563-7133 Fax (907) 561-1779  
www.alaskarealtors.com

February 23, 2004

The Honorable Norm Rokeberg  
Alaska House of Representatives  
State Capitol Building  
Juneau, Alaska 99801

RE: House Bill 418, extending the termination date of the Real Estate Commission

Dear Representative Rokeberg,

The Alaska Association of REALTORS is in favor of extending the termination date of the Real Estate Commission to June 30, 2008, rather than June 30, 2004.

The Association does not concur with the Division of Legislative Audit recommendations that the limits of reimbursement on surety fund claims increase from \$10,000 to \$20,000 per transaction and the associated maximum payment per licensee be increased to \$100,000.

Sincerely,

A handwritten signature in cursive script that reads 'Kathryn Clark'.

Kathryn Clark  
President



**Subject: attached spreadsheet**

**Date:** Mon, 03 May 2004 12:33:32 -0800

**From:** Pat Davidson <pat\_davidson@legis.state.ak.us>

**To:** Jane Alberts <Jane\_Alberts@legis.state.ak.us>




Hi Jane,

Attached is a spreadsheet that identifies some states that have a state administered real estate recovery fund (i.e. Real Estate Surety Fund). For the selected states we have identified the maximum payment per real estate transaction and the maximum payment per licensee.

This is not a complete list of states that may have recovery funds. Please let me know if you have any questions.

Pat Davidson

---

 surety fund.xls	<b>Name:</b> surety fund.xls <b>Type:</b> EXCEL File (application/msexcel) <b>Encoding:</b> base64
---------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------

*provided by Senator Bunde*

## A Selection of Other States with State Administered Real Estate Recovery Funds

State	Maximum Payment per Transaction	Maximum Payment per Licensee
Alabama	25,000.00	50,000.00
Alaska	10,000.00	50,000.00
Arizona	30,000.00	90,000.00
Arkansas	15,000.00	50,000.00
California	20,000.00	100,000.00
Colorado	50,000.00	150,000.00
Georgia	15,000.00	
Hawaii	25,000.00	
Idaho	10,000.00	
	\$10,000, plus atty fees up to 15 % of award	
Illinois		50,000.00
Indiana	20,000.00	50,000.00
Kansas	15,000.00	
Kentucky	10,000.00	50,000.00
Montana	25,000.00	
Nevada	10,000.00	20,000.00
New Mexico	10,000.00	30,000.00
North Carolina	25,000.00	50,000.00
North Dakota	15,000.00	
Ohio	40,000.00	
Oklahoma	15,000.00	50,000.00
Pennsylvania	20,000.00	100,000.00
Rhode Island	50,000.00	
South Dakota	15,000.00	
Tennessee		
Texas	50,000.00	100,000.00
Utah	10,000.00	
Virginia	20,000.00	50,000.00
Wyoming	4,000.00	

SENATE FINANCE COMMITTEE

SIGN - IN

**HB 418-REAL ESTATE COM'N/LICENSEE/HOME INSPECT'**

✓ NAME: Ruch Bachwell Subject/Bill No: HB 418  
Co./Dept./Title: Alaska Association of Realtors Phone: 789-3888  
Paradise Realty  
Address: 9040 Glacier Highway Zip: 99801

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions

NAME: \_\_\_\_\_ Subject/Bill No: \_\_\_\_\_

Co./Dept./Title: \_\_\_\_\_ Phone: \_\_\_\_\_

Address: \_\_\_\_\_ Zip: \_\_\_\_\_

Do you wish to testify?  Yes  No  Respond To Questions





# SENATE COMMITTEE REPORT

DATE: 04/22/04

FURTHER: Finance

DATE TURNED  
IN TO OFFICE: 5/5/04

Labor and Commerce Committee considered CS FOR HOUSE BILL NO. 418(FIN)

## HB 418 EXTEND REAL ESTATE COMMISSION

"An Act extending the termination date of the Real Estate Commission; relating to real estate; relating to home inspectors; relating to real estate licensees; and providing for an effective date."

and recommends:

- be replaced with S CS CSHB 418 (LEC)
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ (\_\_\_\_\_)
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

<b>Senate Bill:</b>	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<b>House Bill:</b>	
<input checked="" 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#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
CED	3/25	✓			2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Sackins</i> 	✓			
<i>Davis</i> 	X			
<i>G. Steens</i> 			X	
<b>CHAIR:</b> <i>Bruder</i> 	✓			

**HB**

**419**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
 Bill Version: CSHB 419(EDT)  
 (H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
 Title Regional Seafood Development RDU Executive Admin & Dev (119)  
Associations/Tax Component Office of Economic Development  
 Sponsor Ogg by Request Salmon Task Force  
 Requester House Econ Dev. Int'l. Trade & Tourism Component No. 2743

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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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						
1175 Other Business License Receipts						
<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 (FY2004) cost: 0.0  
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would require the department to approve regional seafood development associations and certify elections.

The bill provides for the formation of up to 12 associations. The department would be required to review the applications and approve the organization. Four associations are estimated to apply in the first year and two in the second year. The department would also be required to provide support for and certify election results conducted by the associations.

No new funds are required to implement the provisions of this legislation.

Prepared by: Albert H. Clough, Deputy Commissioner Phone (907) 465-2500  
 Division Office of Economic Development Date/Time 2/19/04 4:20 PM  
 Approved by: Edgar Blatchford, Commissioner Date 2/19/2004  
 Agency Department of Community & Economic Development

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 419(EDT)  
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Regional Seafood Development RDU Revenue Programs & Services  
Assn's/Tax Component Tax Division  
Sponsor Rep. Ogg, JT Salmon Task Force  
Requester House Econ Dev, Trade & Tourism Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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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)						
<b>TOTAL</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>

Estimate of any current year (FY2004) cost: 0.0  
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time	**	**	**	**	**	**
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

\*\* See page 2

Prepared by: Chuck Harlamert Phone 465-2320  
Division: Tax Division Date/Time 2/8/04 4:19 PM  
Approved by: Steve Porter, Deputy Commissioner Date 2/8/2004  
Agency: Department of Revenue

FISCAL NOTE #2

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 419(EDT)

ANALYSIS CONTINUATION

Costs & Revenues

The bill authorizes, but does not immediately impose, an indeterminate number of unique seafood development taxes. The department therefore cannot project expected revenues under the bill. We are unable to independently provide estimates for hypothetical levies because, with the exception of dive fisheries, we do not collect data by gear type.

The bill allows a great deal of flexibility to establish individual seafood development taxes. Separate taxes can be established by species and gear type, or varied combinations within each region. Although the bill authorizes hundreds of distinct levies, we believe that relatively few will be established. We are unable to offer an estimate of program costs at this time. As a general guideline, we estimate that up to a half dozen levies can be administered with existing staff. This assumes that the number of buyers involved is moderate, there is no requirement to maintain separate records for individual fisheries or species within each levy, and that the levies remain stable.

Frequent changes in rates, changes to the fisheries included within levies, an increased number of distinct levies, detailed accounting requirements, or unpredictable creation and termination of levies will require additional resources and, at some point, appropriately sophisticated systems.



**Committee Assignments:**

**Member:**

House Special Committee on Fisheries  
House Special Committee on Education  
House Transportation Committee  
House Judiciary Committee

**Dan Ogg**  
Representative

Session:  
Room 409  
Capitol Building  
Juneau, Alaska 99801  
Phone: 907-465-2487  
Toll Free: 800-865-2487  
Fax: 907-465-4956  
Email: rep.dan.ogg@legis.state.ak.us

Interim:  
112 Mill Bay Road  
Kodiak, Alaska 99615  
Phone: 907-486-8872  
Fax: 907-486-5264

**SPONSOR STATEMENT**

House Bill 419

2/18/04

**"An Act relating to regional seafood development associations and to regional seafood development taxes."**

HB 419, recommended by the Joint Legislative Salmon Industry Task Force, will allow fishermen to form regional seafood development associations to tax themselves, providing a stable funding source for marketing efforts.

Farmed salmon production has increased dramatically over the past decade, exceeding the wild salmon catch and causing prices to plummet. In order to compete in this new market, Alaska's salmon fishermen have sought creative ways to differentiate wild fish from their penned counterparts. One method that has proven effective in distinguishing the two is regional marketing. Copper River fishermen took the lead in establishing a brand for their catch, proving the enormous potential for niche markets. Now several other regional brands have been established in communities such as Kenai, the Aleutian Islands, and Kodiak.

Most branding organizations are currently dependent on a mix of state and federal grants to fund their marketing efforts. However, these grants are often unreliable, one-time revenue sources. This bill would allow regional seafood development associations to assess themselves between one-half and two percent to provide a steady stream of marketing dollars.

HB 419 creates 12 distinct seafood development regions based on commercial fishing management areas established by the Board of Fish. Under the bill, all the fishermen in a region may vote to participate in an association or it may be limited to a specific fishery or fisheries. Once a regional association is formed, other fisheries can vote themselves into or out of the association, but there can only be one association per region.

As the amount of imported and farmed seafood continues to rise, regional marketing associations will provide a valuable tool for Alaska's commercial fishermen. Regional associations are able to focus on the unique area where the fish is harvested, building on Alaska's reputation for pristine waters that yield superior fish.

## Talking points on HB 419

HB 419 Resulted from discussions of the Legislative Salmon Task Force

### Voluntary Seafood Development Associations

Creates 12 regional areas of the state

- 1 allows each to form a fisheries development association
- 2 each may vote in to assess themselves a tax @ .5%, 1%, 1.5% and 2%
- 3 first group to vote in creates the association
- 4 a group may be a gear type, gear types or could be a fishery
- 5 only permit holders of the group are allowed to vote and become board members
- 6 new groups may opt in at existing tax rate
- 7 new groups become voting members
- 8 others permitted to become members
- 9 groups may vote out by same procedure as voting in

Regions are encouraged to work with other like associations including ASMI

Associations do not do the same work as ASMI but are complimentary

Taxing by Associations is not connected with ASMI; they are separate and independent of ASMI

Failed 3-8  
amended

AMENDMENT

OFFERED IN THE HOUSE

BY REPRESENTATIVE STOLTZE

TO: CSHB 419(RES)

1 Page 1, line 2, following "taxes":

2 Insert "; and providing for an effective date"

3

4 Page 1, following line 8:

5 Insert a new bill section to read:

6 **\*\* Sec. 2. AS 16.43.160(e)(2)(A)(iii) is amended to read:**

7 (iii) Department of Community and Economic  
8 Development - commercial fishing loan program, Alaska Seafood  
9 Marketing Institute, [REGIONAL SEAFOOD DEVELOPMENT  
10 PROGRAM,] and community development quota program;"

11

12 Renumber the following bill sections accordingly.

13

14 Page 1, following line 13:

15 Insert a new bill section to read:

16 **\*\* Sec. 4. AS 16.43.160(e)(2)(A)(ix) is amended to read:**

17 (ix) Department of Revenue - fisheries business tax  
18 program, fishery resource landing tax program, salmon enhancement  
19 tax program, [SEAFOOD DEVELOPMENT TAX PROGRAM,]  
20 salmon marketing tax program, and dive fishery management  
21 assessment program;"

22

23 Renumber the following bill sections accordingly.

1

2 Page 11, following line 12:

3 Insert new bill sections to read:

4 "\* Sec. 7. AS 43.76.350, 43.76.355, 43.76.360, 43.76.365, 43.76.370, 43.76.375,  
5 43.76.380, 43.76.385, 43.76.390, 43.76.399; and AS 44.33.065 are repealed.

6 \* Sec. 8. Sections 2, 4, and 7 of this Act take effect ~~December 30, 2007.~~

JUNE 30 2009

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 419(EDT)  
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title Regional Seafood Development RDU Executive Admin & Dev (119)  
Associations/Tax Component Office of Economic Development  
Sponsor Ogg by Request Salmon Task Force  
Requester House Econ Dev. Int'l. Trade & Tourism Component No. 2743

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )						
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**FUND SOURCE** (Thousands of Dollars)

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Estimate of any current year (FY2004) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would require the department to approve regional seafood development associations and certify elections.

The bill provides for the formation of up to 12 associations. The department would be required to review the applications and approve the organization. Four associations are estimated to apply in the first year and two in the second year. The department would also be required to provide support for and certify election results conducted by the associations.

No new funds are required to implement the provisions of this legislation.

Prepared by: Albert H. Clough, Deputy Commissioner Phone (907) 465-2500  
Division Office of Economic Development Date/Time 2/19/04 4:20 PM  
Approved by: Edgar Blatchford, Commissioner Date 2/19/2004  
Agency Department of Community & Economic Development

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 419(EDT)  
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Regional Seafood Development RDU Revenue Programs & Services  
Assn's/Tax Component Tax Division  
Sponsor Rep. Ogg, JT Salmon Task Force  
Requester House Econ Dev, Trade & Tourism Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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Travel						
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<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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Estimate of any current year (FY2004) cost: 0.0

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Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

\*\* See page 2

Prepared by: Chuck Harlamert Phone 465-2320  
Division: Tax Division Date/Time 2/8/04 4:19 PM  
Approved by: Steve Porter, Deputy Commissioner Date 2/8/2004  
Agency: Department of Revenue

FISCAL NOTE #2

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 419(EDT)

ANALYSIS CONTINUATION

Costs & Revenues

The bill authorizes, but does not immediately impose, an indeterminate number of unique seafood development taxes. The department therefore cannot project expected revenues under the bill. We are unable to independently provide estimates for hypothetical levies because, with the exception of dive fisheries, we do not collect data by gear type.

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Frequent changes in rates, changes to the fisheries included within levies, an increased number of distinct levies, detailed accounting requirements, or unpredictable creation and termination of levies will require additional resources and, at some point, appropriately sophisticated systems.



# 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)

March 9, 2004

Representative Bill Williams, Chairman  
Representative John Harris, Chairman  
House Finance Committee  
Alaska State Legislature  
State Capitol (Mail Stop 3100)  
Juneau, AK 99801-1182

Dear Representative Williams,

United Fishermen of Alaska supports HB 419 relating to regional seafood development associations and to regional seafood development taxes. Many fishery groups and associations are currently engaged in regional branding or promotional programs to successfully increase the demand for salmon. As grants diminish, different fisheries seek the ability to administer a self-imposed tax in order to finance their promotional program agendas.

United Fishermen of Alaska represents 33 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 419 and thank you for your consideration on this matter.

Sincerely,

Mark Vinsel  
Executive Director

CC: Representative Ogg

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Kota • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fishermen United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kona Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Sealood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association  
United Catcher Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gulf of Alaska Fishermen

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## Fishermen unite to create regional brands, revive sagging salmon sales

Monday, March 3, 2003

By DAN JOLING  
*THE ASSOCIATED PRESS*

ANCHORAGE - In the new world of Alaska regional seafood marketing, sockeye salmon will be on ice seconds after being plucked from the sea. They'll be coddled like newborns to prevent bruising.

And they'll have brand names that remind customers of where they come from: Aleutia. Kenai Wild. Copper River. Kodiak.

Desperate to revive sales that have tanked because of sluggish foreign economies and competition from farmed fish, some Alaska salmon fishermen are banding together to create regional brands for customers willing to pay a premium for fresh, wild fish.

"The whole idea of the project is to develop a situation where the fishermen in that region have a long-term relationship with a specific group of customers," said Marc Jones, executive director of the Alaska Fisheries Development Foundation, which helped launch the Aleutia brand with fishermen in the Aleutians East Borough.

Along with names that fishermen hope will catch on, the newest brands sport third-party inspection to ensure quality.

"Otherwise, you're just talking about a cute sticker," Jones said.

Alaska fishermen have not always had to market so hard.

In the early 1980s, Alaska supplied nearly half the world's salmon. Demand gave rise to fish farms in Norway, Canada and Chile. Owners of pen-reared Atlantic salmon began delivering fresh fish any time of year, in any size fillet desired by restaurant chefs or grocers. And consumers didn't seem to care whether their fish grew up eating pellets.

In 2000, Alaska supplied just 19 percent of world's salmon.

The state has been slow to react. Legislators now are talking about changes in a state-regulated fishing system designed to maximize the

number of people fishing, which include built-in inefficiencies such as limits on the size of fishing boats.

The state's official marketing arm, the Alaska Seafood Marketing Institute, is prohibited from promoting a particular region, company or fisherman's catch. Instead, it has made its research and quality standard resources available to regional marketers, said Ray Riutta, executive director.

The first region to push a brand was Cordova at the southeast end of Prince William Sound, a few miles from the salmon-rich Copper River.

The area established a niche market during the past 25 years by promoting itself as Alaska's first major salmon run. After the long winter, the first catch of Copper River kings and sockeye command premium prices as they're whisked off boats and jetted to Seattle and other markets.

Alaskans launched two other regional brands last year.

Cook Inlet fishermen caught salmon for the Kenai Wild label. With help from the Kenai Peninsula Borough, the Alaska Manufacturers Association and the state, Cook Inlet Salmon Brand Inc. is planning a five-year marketing program.

Farther west, fishermen at the tip of the Alaska Peninsula and the start of the Aleutian Islands launched Aleutia brand.

Aleutia fishermen want to take advantage of one of Alaska's latest runs of sockeye, delivering fresh fish in September when most other fishermen have hung up their nets.

To kick off the program, the Alaska Fisheries Development Foundation, backed by federal grants, last fall bought sockeye graded out as premium for 95 cents per pound, more than double the 45-cent going rate.

Kenai Wild and Aleutia promoters hired private third-party inspectors from Seattle to certify the quality of fish. Before any were caught, the inspectors trained fishermen to handle them to meet the industry's highest standards.

Trident Seafoods custom processed Aleutia fish at Sand Point in the Aleutians. To be graded premium, fish had to meet standards set by buyers: fish bled while they were still alive, immediate icing, gently handling to avoid bruising and scale loss. Salmon had to be of good, red color - the easiest requirement for wild Alaska sockeye. Fillets had to be free of cuts inflicted by nets or sea lions.

The foundation hoped to buy 100,000 pounds of sockeye. A small run resulted in the foundation purchasing just 15,000 pounds, Jones said.

The smaller amount may have been a blessing in disguise as logistics could be worked out without being overwhelmed by the higher volume of fish. Among the challenges: Everyone who touches the fish - fishermen,

processors, transporters, wholesalers and marketers - must be committed to maintaining the high standards for a highly perishable product. It doesn't help that each component is a separate business.

"Someone's got to keep them all in their traces," Jones said.

Another challenge is moving fresh fish quickly at a reasonable expense. It cost 92 cents per pound to transport salmon from Sand Point to Boston last year, Jones said. A whopping 60 cents of that involved moving the fish from Sand Point to Anchorage.

Mark Powell, president of Cook Inlet Salmon Branding, said the first year of the Kenai Wild project showed that many more fish than originally thought possible can qualify as premium grade if fishermen adhere to handling standards.

Webber of Cordova applauds the marketing efforts in other regions and expects it to be a growth area for Alaska fishermen.

"I'm glad to see the rest of the state wants to step up to the quality plate," Webber said.



## Office of Fisheries Development

### Alaska Regional Salmon Marketing Mini-Grant Program Recipients

[Back to  
Grants Page](#)

The Alaska Department of Community and Economic Development and the University of Alaska/Kodiak Fishery Industrial Technology Center received funding from the USDA-Cooperative State Research, Education and Extension Service (CSREES) in 2002 to begin a three-year mini-grant program to facilitate the regional marketing of Alaska salmon. In February 2002, five applicants received funds from the first grant cycle. In April 2003, six applicants received funds from the second cycle. A third cycle will begin in the winter of 2003/2004.

The Regional Salmon Marketing Mini-Grant Program is designed for fishing organizations or regional groups to develop programs for marketing salmon harvested from a defined region of Alaska. Applicants are asked to coordinate with other salmon organizations within the specified region to avoid redundancy and encourage regional support. Funds may be used for advertising, test product giveaways, marketing travel, label design, consultation and other marketing activities. Among the criteria for evaluating the applicants are: cooperation between groups within the region, ability to produce high quality salmon, strategy for regionally defining the area's salmon; and the quality and effectiveness of the marketing plan.

Following are summaries describing the achievements of the 2002 awardees and the goals of the 2003 awardees. [2003 Regional Salmon Marketing Mini-Grant Program Information and Application.](#)

[About regional marketing.](#)

### Alaska Peninsula - Aleutians East Borough



The Aleutians East Borough received \$54,500 from the program in 2002 to market "Area M" salmon from around the Alaska Peninsula and the eastern Aleutian Islands. A salmon marketing committee formed early in the year and included community members, fishermen and one processor; these committee members have since been in frequent contact to discuss the progress and direction of the project. Aleutians East Borough collaborated with several other local organizations as well as the Alaska Fisheries Development Foundation (AFDF) and intends to continue working with local processors and other interested parties. The program's marketing plan distinguishes Area M salmon from other salmon as "ocean-caught" in the wilds of the Aleutians, harvested by local Aleut families and as the last Alaska salmon of the season. The following goals were accomplished during the first year of the program:

- Rigorous quality standards that surpass ASMI's grade A were instituted and local processor Orca Bay began purchasing high quality sockeye

salmon.

- Aleutians East developed the brand "Aleutia" for the region's salmon and produced an award-winning logo.
- The Aleutia brand was advertised at the Boston Seafood Show and many buyers showed interest.
- Quality handling workshops by Seafood Inspection Services and HACCP training took place.
- A flyer and brochure were produced in early 2003.

After a successful first year, Aleutians East Borough applied for regional marketing funds under the 2003 Regional Salmon Marketing Mini-Grant Program and received \$20,000. With these funds, the program will continue to promote the Aleutia brand by printing brochures, quality seals and labels and meeting regularly. The Aleutia program will also form a non-profit corporation to carry on the regional marketing of the area's salmon independent of the Borough and ADFG.

Aleutians East Borough reported the following observations:

"It...[is] difficult and time consuming...[to] achieve consensus on "creative" and "artistic" decisions, i.e. logo and product name. What appeals to fishermen and community members is not necessarily what appeals to consumers and therefore marketing professionals should be consulted.

Buyers don't necessarily want seafood that meets some constructed quality standards. They know what they want in terms of quality and they are the best judges of that quality. So while they appreciate efforts to properly care for fish, their specs override any quality standards and make quality standards unnecessary."

### **Bristol Bay - Bristol Bay Economic Development Corporation**



all levels of the program.

One of six regional Community Development Quota (CDQ) groups, the Bristol Bay Economic Development Corporation used their 2002 grant of \$130,000 to begin building regional marketing efforts for Bristol Bay salmon. An initial consultative group was formed in Bristol Bay including BBEDC representatives and representatives from four major area processors. Representing 17 villages around Bristol Bay, BBEDC works to involve local fishermen at

In addition to setting apart Bristol Bay salmon, they encourage sub-regional marketing efforts for particular runs of salmon, (i.e. Naknek River reds). All local fishermen are allowed to take part in the marketing program and to use the Bristol Bay regional trademarks and promotional materials provided they adhere to rigorous quality standards which meet or exceed ASMI's grade A. BBEDC accomplished the following goals with their first year of grant funds:

- Consultants were hired to develop a quality assurance program.
- PR/program development consultants were hired.
- Promotional materials were developed and printed for the program.
- A promotional web site was created and launched.
- The Bristol Bay logo was advertised in Natural Products EXPO East show.

BBEDC received \$90,000 from the 2003 Regional Salmon Marketing Mini-Grant Program. With these funds, BBEDC will continue to develop and promote the Bristol Bay wild salmon brand through advertising, point of sale returns, quality assurance, test product giveaways and trade show follow-ups with potential buyers.

BBEDC had the following comments about regionally marketing seafood:

"Involving resident fishermen in the face-to-face marketing of their own salmon helps them understand the market demands, helps the customers appreciate the product better and builds the region's capacity for direct marketing of seafood products.

The need to educate the market about the differences between wild salmon from farmed salmon is critical to elevating the ex vessel price. Through our presence at natural foods Trade Shows, we are confirming the basic premise of this direct, regional marketing effort: that buyers will pay more for the Authenticity of our Bristol Bay Watershed story; high quality, wild salmon purchased as directly as possible from resident harvesters of the Bristol Bay watershed will overcome the market saturation of farmed salmon. We will now see if we can translate this interest into increased returns to our resident fishermen."

### Copper River - Cordova District Fishermen United



The Cordova District Fishermen United (CDFU) received \$45,500 of funding in 2002 to support their regional marketing efforts for Copper River salmon. CDFU capitalizes on the natural qualities of Copper River salmon and markets them as wild, strong fish full of rich oils for the 300 mile journey up the clean, glacial Copper River. They also promote the sustainability of the resource and the rugged Alaskans who harvest the fish. CDFU completed the following goals during the first year of the program:

- Designed, produced and printed promotional banners and point-of-sales material for Copper River salmon.
- Program contact list was updated and flyers sent to notify participants of new materials.
- The Copper River Salmon web site was revised and updated.
- Outer Rim Publications was contracted to write a business plan with an emphasis on the eventual self-sufficiency of the program.

CDFU evaluated the effectiveness of their promotions in 2002 and received numerous requests for a video about the region's salmon for use in supermarkets and other marketing venues. With \$20,000 from the 2003 Regional Salmon

Marketing Mini-Grant Program, CDFU will produce a video loop as well as continue to advertise and publish promotional material.

CDFU gave the following insight into regionally marketing Copper River salmon:

"Being able to meet the needs of all the various niche marketers of Copper River salmon, as well as supporting the traditional users, is an important part of effective promotional support. This will be accomplished through increased diversification of materials and information available, including materials specific for wait-staff, smaller retail markets and wholesalers."

### **Chignik - Norquest**

Norquest was awarded \$50,000 in 2002 to market Chignik area salmon. The program was meant to emphasize quality handling for fishermen and processors with all participants required to meet certain standards to be eligible for marketing under the program. Funds were intended to create a label and graphic designs and to search out promising niche markets where wild salmon was already sold. Selling points specific to Chignik salmon included a rationalized fishery and the picturesque community with its unique location.

Norquest intended to assemble an advisory committee consisting of local fishermen, interested community members and processors. Participating members were meant to share their insight and lead the branding effort. Due in part to the often contentious relationships between fishermen and processors in the Chignik area, Norquest was unable to form the advisory committee and gain the support of local producers. It may be that an individual business, be it a harvester, processor or other, is not the appropriate organization to lead this kind of effort. Organizations that perform more economic development functions may be the most appropriate manner of entity to facilitate a regional marketing program. Norquest rescinded their request for funds.

### **Kenai Peninsula – Kenai Peninsula Borough**

With funding from several sources, including \$120,000 from the 2002 Regional Salmon Marketing Mini-Grant Program, the Kenai Peninsula Borough embarked on a multi-year program to market Cook Inlet sockeye salmon. Participating fishermen and processors must adhere to strict quality standards including mandatory icing, chilling, bleeding, handling procedures and grading. This program made the following progress during its first year:

- Developed the brand name "Kenai Wild" along with a logo and subheads and printed 5000 labels.
- Designed an illustrated fact sheet and printed 5,000 copies.
- Sent out 400 pounds of branded product to potential customers.
- Trained two locals in quality inspection and 40 fishermen and four processors through quality control training.
- Developed contacts and prepared labeled product for mid-winter promotions.
- Certified 23,000 lbs. of Kenai wild product.

- Tested Kenai wild product in 22 retail and food service markets.

The Kenai Peninsula Borough also hopes to influence salmon management in the area in order to spread out the fishery and increase salmon quality and service. The branding project will focus on the unique aspects of the local salmon and salmon industry for promotion to high-end niche markets.

Kenai Peninsula Borough discovered in the first year of their program that early winter advertising was difficult, as around the holiday season many buyers were too busy promoting seasonal specials to discuss new promotions. They did find a strong positive attitude toward wild salmon, however, and pointed out that all participating buyers emphasized the positive aspects of wild salmon without disparaging farmed salmon. They are contemplating instituting quality control beyond the processing plant, as much otherwise acceptable product was rejected due to poor workmanship.

The Kenai Wild program will continue in 2003 and beyond with assistance from other funding sources. [Cook Inlet Salmon Branding Project web site](#).

### **Kodiak -- Kodiak Chamber of Commerce**

The Kodiak Chamber of Commerce received \$130,000 under the 2003 Regional Salmon Marketing Mini-Grant Program to brand and market Kodiak pink and chum salmon. They established the Kodiak Brand and Marketing Committee (KBMC) to lead the effort.

The KBMC's quality program will include training for fishermen, tenders and processors, creation of quality standards and the certification at least 20,000 lbs. of product in the first year. This program focuses on pink salmon fillets and will conduct product research to determine consumer preferences for packaging, format, pin-boning and other variables. With this information, the KBMC hopes that at least two retail chains will buy product regularly. Funds will also be used to create a brand, logo, labels, brochures, fact sheet and other promotional materials. KBMC hopes to become a stand-alone organization, in the future to lead the regional marketing of all Kodiak's salmon.

### **Kuskokwim Bay -- Coastal Villages Region Fund**



One of six regional [Community Development Quota](#) (CDQ) groups, Coastal Villages Region Fund received \$120,000 from the 2003 Regional Salmon Marketing Mini-Grant Program to market Kuskokwim Bay salmon. In 2002, Coastal Villages developed the Kuskokwim Bay/Coastal Villages brand and logo and established relationships with Wildcatch and Indian Valley Meats to co-brand their fish. Wildcatch was

attracted to Kuskokwim product in part because the low volume fishery and mandatory slush ice for all harvesters has a high potential for producing quality fish. Wildcatch caters to the natural/organic foods market by partnering with major natural foods retailers. Coastal Villages and Wildcatch are also considering

partnering to produce innovative products such as salmon baby food.

Indian Valley Meats is an established value-added processor in Alaska and brings to the partnership training for processors, experience producing value-added products and a market for the Kuskokwim's lower value chum salmon. Salmon jerky, sticks and burgers are currently co-branded and more products are being developed. Coastal Villages intends to use their grant funds to attend trade shows, establish distributorships with natural food retailers, advertise, produce promotional material, meet with potential European buyers, earn the Alaska Manufacturers Association's "Alaska Quality Seal," bring buyers to the region and develop packaging for new Indian Valley Meats co-branding products.

### **Stikine River -- Wrangell Community Salmon Marketing Association**

With \$20,000 from the 2003 Regional Salmon Marketing Mini-Grant Program, the Wrangell Community Salmon Marketing Association intends to develop a marketing business plan for Stikine River salmon. Quality specification will be developed, fishermen and industry leaders surveyed for input, target markets identified, a logo developed and a plan formulated for the production of labels and promotional materials.

Promotion of the region's salmon will complement community projects designed to increase the quantity and diversity of local salmon products, including the construction of a value-added processing facility/cold storage. The committee will draw upon its unique fishing history, dating back to Native fishermen, to create a regional identity for its product. Recognizing the need for high quality salmon, the program will include strong quality control and grading procedures.

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[Alaska State Home Page](#)

[Department Home Page](#)

[Division Home Page](#)

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550 W. 7th Avenue, Suite 1770, Anchorage, Alaska 99501-3510 Phone: (907) 269-8110 Fax: (907) 269-8125

**HB**

**419**

SFIN

FILE

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
MAY 04 2004  
SENATE FINANCE  
COMMITTEE

DATE: 04/28/04

FURTHER:

DATE TURNED IN TO OFFICE: 4 May 2004

Finance Committee considered CS FOR HOUSE BILL NO. 419 (RES)

## HB 419 REGIONAL SEAFOOD DEVELOPMENT ASS'NS./TAX

"An Act relating to regional seafood development associations and to regional seafood development taxes."

and recommends:

- be replaced with S CS HB 419 (FIN)
- adopt previous CS forthcoming ( )
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**Senate Bill:**  
 Same Title  
 New Title

**House Bill:**  
 Same Title  
 Technical Title Change  
 New Title w/ SCR # \_\_\_\_\_

**NEW FISCAL NOTE(S):**

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero.	FN#

Department	Date	Fiscal	Indet.	Zero	FN#
DCED	2/19/04			✓	#1
Rev	2/19/04		*		#2

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	Do PASS	Do NOT PASS	NO REC	AMEND
<i>Paul Bryant</i>	✓			
<i>Scott Hollen</i>	✓			
<i>Bob Brundage</i>	✓			
COCHAIR: <i>Luba Green</i>			✓	
COCHAIR: <i>W. Campbell</i>	✓			

MAY 04 2004

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1  
Bill Version: CSHB 419(EDT)  
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: DCED  
Title: Regional Seafood Development RDU: Executive Admin & Dev (119)  
Associations/Tax Component: Office of Economic Development  
Sponsor: Ogg by Request Salmon Task Force  
Requester: House Econ Dev. Int'l. Trade & Tourism Component No.: 2743

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
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>

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ( )						
------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1175 Other Business License Receipts						
<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 (FY2004) cost: 0.0  
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would require the department to approve regional seafood development associations and certify elections.

The bill provides for the formation of up to 12 associations. The department would be required to review the applications and approve the organization. Four associations are estimated to apply in the first year and two in the second year. The department would also be required to provide support for and certify election results conducted by the associations.

No new funds are required to implement the provisions of this legislation.

Prepared by: Albert H. Clough, Deputy Commissioner Phone: (907) 465-2500  
Division: Office of Economic Development Date/Time: 2/19/04 4:20 PM  
Approved by: Edgar Blatchford, Commissioner Date: 2/19/2004  
Agency: Department of Community & Economic Development

MAY 04 2004

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSHB 419(EDT)  
(H) Publish Date: 2/26/04

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Revenue  
Title Regional Seafood Development RDU Revenue Programs & Services  
Assn's/Tax Component Tax Division  
Sponsor Rep. Ogg, JT Salmon Task Force  
Requester House Econ Dev, Trade & Tourism Component No. 2476

**Expenditures/Revenues** (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>

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

<b>CHANGE IN REVENUES ( )</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>
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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)						
<b>TOTAL</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>	<b>**</b>

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 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: Steve Porter, Deputy Commissioner  
Agency: Department of Revenue

Phone 465-2320  
Date/Time 2/8/04 4:19 PM  
Date 2/8/2004

FISCAL NOTE #2

STATE OF ALASKA  
2004 LEGISLATIVE SESSION

BILL NO. CSHB 419(EDT)

ANALYSIS CONTINUATION

Costs & Revenues

The bill authorizes, but does not immediately impose, an indeterminate number of unique seafood development taxes. The department therefore cannot project expected revenues under the bill. We are unable to independently provide estimates for hypothetical levies because, with the exception of dive fisheries, we do not collect data by gear type.

The bill allows a great deal of flexibility to establish individual seafood development taxes. Separate taxes can be established by species and gear type, or varied combinations within each region. Although the bill authorizes hundreds of distinct levies, we believe that relatively few will be established. We are unable to offer an estimate of program costs at this time. As a general guideline, we estimate that up to a half dozen levies can be administered with existing staff. This assumes that the number of buyers involved is moderate, there is no requirement to maintain separate records for individual fisheries or species within each levy, and that the levies remain stable.

Frequent changes in rates, changes to the fisheries included within levies, an increased number of distinct levies, detailed accounting requirements, or unpredictable creation and termination of levies will require additional resources and, at some point, appropriately sophisticated systems.

SENATE FINANCE  
COMMITTEE #1  
Amendment Number: #1  
Bill Number: HB 419  
Sponsor: Wilken Date: 5/4/04  
Logged In By: Mindy

ADOPTED

23-LS1418V.2  
Utermohle  
4/30/04

AMENDMENT

OFFERED IN THE SENATE  
TO: CSHB 419(RES)

Sponsored by  
Sen. Wilken by request

- 1 Page 4, line 3, following "fishery":
- 2       Insert ", or is amended or terminated,"
- 3
- 4 Page 4, line 7, following "section;":
- 5       Insert
- 6                       "(2) .at least 30 percent of the eligible interim-use permit and entry
- 7       permit holders in the fishery cast a ballot in the election to levy, amend, or terminate
- 8       the tax;"
- 9
- 10 Page 4, line 8:
- 11       Delete "(2)"
- 12       Insert "(3)"
- 13
- 14 Page 5, line 19:
- 15       Delete "(a) and (c)"
- 16       Insert "(a) - (c)"
- 17
- 18 Page 6, line 10:
- 19       Delete "(a), (c), and (d)"
- 20       Insert "(a) - (d)"
- 21
- 22 Page 6, lines 21 - 22:
- 23       Delete "upon majority vote at an election held under AS 43.76.370."

1           Insert "upon majority vote of eligible permit holders who vote in an election held  
2 under AS 43.76.370 in which at least 30 percent of the eligible permit holders cast a ballot."

3

4 Page 7, line 8, following "tax;"

5           Insert

6                               "(4) at least 30 percent of the permit holders who are eligible to vote in  
7 the election cast a ballot in the election;"

8

9 Page 7, line 9:

10          Delete "(4)"

11          Insert "(5)"

SENATE FINANCE COMMITTEE  
5/4/2004 COMMITTEE ACTION

Bill Number	HB 419		
Amendment	#1		
Motion	to adopt		
<u>Motion by</u>	Wilken		
<u>Objection by</u>	Wilken		
<u>Removed</u>	✓		
<u>Second Objection by</u>			
<u>Committee Member</u>	Y	<u>Vote</u>	N
Senator Olson			
Senator Stevens			
Senator Bunde			
Senator Dyson			
Senator Hoffman			
Co-Chair Green			
Co-Chair Wilken			
<u>Tally</u>			
Yea			
Nay			
Absent			
<u>MOTION</u>	ADOPTED		

Attention: Sheila

Of Senator Wilken's office

RE: SCS CS HB 419 (FIN)

Date: 5/5/04 Time: 8:40 AM

The attached Senate Finance CS incorporates the amendment(s) your boss sponsored. Please review and approve so the bill can be forwarded to the Senate Secretary.

The CS is your copy.

Thanks,  
Senate Finance Secretary

Mindy #4935

Robin #2618

Approved: \_\_\_\_\_

(please initial)

Return ASAP

*Amendment*

*#1*

*A-OK*

*[Signature]*

SENATE CS FOR CS FOR HOUSE BILL NO. 419(FIN)  
IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-THIRD LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:  
Referred:

Sponsor(s): REPRESENTATIVE OGG BY REQUEST OF THE JOINT LEGISLATIVE SALMON  
INDUSTRY TASK FORCE

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to regional seafood development associations and to regional seafood  
2 development taxes."

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

4 \* Section 1. AS 16.43.160(e)(2)(A)(iii) is amended to read:

5 (iii) Department of Community and Economic  
6 Development - commercial fishing loan program, Alaska Seafood  
7 Marketing Institute, regional seafood development program, and  
8 community development quota program;

9 \* Sec. 2. AS 16.43.160(e)(2)(A)(ix) is amended to read:

10 (ix) Department of Revenue - fisheries business tax  
11 program, fishery resource landing tax program, salmon enhancement  
12 tax program, seafood development tax program, salmon marketing  
13 tax program, and dive fishery management assessment program;

14 \* Sec. 3. AS 43.76 is amended by adding new sections to read:

**Article 6. Seafood Development Tax.**

1  
2           **Sec. 43.76.350. Two percent seafood development tax.** (a) A person  
3 holding a limited entry permit or interim-use permit under AS 16.43 shall pay a  
4 seafood development tax at the rate of two percent of the value, as defined in  
5 AS 43.75.290, of fishery resources taken in a fishery that the person removes from the  
6 state or transfers to a buyer in the state.

7           (b) A two percent seafood development tax on fishery resources taken in a  
8 fishery may only be levied and collected under (a) of this section if

9                   (1) the commissioner of community and economic development has  
10 designated an organization to be the qualified regional seafood development  
11 association for the seafood development region in which the fishery occurs; and

12                   (2) the two percent seafood development tax for the fishery is  
13 approved under AS 43.76.370.

14           **Sec. 43.76.355. One and one-half percent seafood development tax.** (a) A  
15 person holding a limited entry permit or interim-use permit under AS 16.43 shall pay a  
16 seafood development tax at the rate of 1.5 percent of the value, as defined in  
17 AS 43.75.290, of fishery resources taken in a fishery that the person removes from the  
18 state or transfers to a buyer in the state.

19           (b) A 1.5 percent seafood development tax on fishery resources taken in a  
20 fishery may only be levied and collected under (a) of this section if

21                   (1) the commissioner of community and economic development has  
22 designated an organization to be the qualified regional seafood development  
23 association for the seafood development region in which the fishery occurs; and

24                   (2) the 1.5 percent seafood development tax for the fishery is approved  
25 under AS 43.76.370.

26           **Sec. 43.76.360. One percent seafood development tax.** (a) A person  
27 holding a limited entry permit or interim-use permit under AS 16.43 shall pay a  
28 seafood development tax at the rate of one percent of the value, as defined in  
29 AS 43.75.290, of fishery resources taken in a fishery that the person removes from the  
30 state or transfers to a buyer in the state.

31           (b) A one percent seafood development tax on fishery resources taken in a

1 fishery may only be levied and collected under (a) of this section if

2 (1) the commissioner of community and economic development has  
3 designated an organization to be the qualified regional seafood development  
4 association for the seafood development region in which the fishery occurs; and

5 (2) the one percent seafood development tax for the fishery is  
6 approved under AS 43.76.370.

7 **Sec. 43.76.365. One-half percent seafood development tax.** (a) A person  
8 holding a limited entry permit or interim-use permit under AS 16.43 shall pay a  
9 seafood development tax at the rate of 0.5 percent of the value, as defined in  
10 AS 43.75.290, of fishery resources taken in a fishery that the person removes from the  
11 state or transfers to a buyer in the state.

12 (b) A 0.5 percent seafood development tax on fishery resources taken in a  
13 fishery may only be levied or collected under (a) of this section if

14 (1) the commissioner of community and economic development has  
15 designated an organization to be the qualified regional seafood development  
16 association for the seafood development region in which the fishery occurs; and

17 (2) the 0.5 percent seafood development tax for the fishery is approved  
18 under AS 43.76.370.

19 **Sec. 43.76.370. Election to approve, amend, or terminate seafood**  
20 **development tax.** (a) A qualified regional seafood development association for a  
21 seafood development region may conduct an election under this section to approve,  
22 amend, or terminate a seafood development tax in one or more fisheries in a seafood  
23 development region after

24 (1) the association pays a fee of \$500 for each fishery in which an  
25 election is held; and

26 (2) the commissioner of community and economic development  
27 approves

28 (A) the notice to be published by the qualified regional seafood  
29 development association;

30 (B) the ballot to be used in the election; and

31 (C) the registration and voting procedure for the approval,

1 amendment, or termination of the seafood development tax.

2 (b) The seafood development tax is levied under AS 43.76.350, 43.76.355,  
3 43.76.360, or 43.76.365 on fishery resources taken in a fishery, or is amended or  
4 terminated, on the effective date stated on the ballot if

5 (1) the levy, amendment, or termination of the tax is approved by a  
6 majority vote of the eligible interim-use permit and entry permit holders in the fishery  
7 who vote in an election held under this section;

8 (2) at least 30 percent of the eligible interim-use permit and entry  
9 permit holders in the fishery cast a ballot in the election to levy, amend, or terminate  
10 the tax; and

11 (3) the election results are certified by the commissioner of community  
12 and economic development under (d) of this section.

13 (c) In conducting an election under this section, the qualified regional seafood  
14 development association shall adopt the following procedures:

15 (1) the association shall hold at least one public meeting, not less than  
16 30 days before the date on which ballots must be postmarked to be counted in the  
17 election, to explain the reason for the proposed seafood development tax, the  
18 amendment of the tax, or the termination of the tax and to explain the registration and  
19 voting procedure to be used in the election; the association shall provide notice of the  
20 meeting by

21 (A) mailing the notice to each eligible interim-use permit and  
22 entry permit holder;

23 (B) posting the notice in at least three public places in the  
24 seafood development region in which the fishery occurs; and

25 (C) publishing the notice in at least one newspaper of general  
26 circulation in the region at least once a week for two consecutive weeks before  
27 the meeting;

28 (2) the association shall mail two ballots to each eligible interim-use  
29 permit and entry permit holder; the first ballot shall be mailed not more than 45 days  
30 before the date ballots must be postmarked to be counted in the election; the second  
31 ballot shall be mailed not less than 15 days before the date ballots must be postmarked

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1 to be counted in the election; the association shall adopt procedures to ensure that only  
 2 one ballot from each eligible interim-use permit and entry permit holder is counted in  
 3 the election;

4 (3) the ballot must

5 (A) indicate whether the election relates to a seafood  
 6 development tax under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365;

7 (B) indicate the fishery that is or will be subject to the seafood  
 8 development tax to be levied or amended;

9 (C) ask the question whether the seafood development tax shall  
 10 be levied or amended, as appropriate;

11 (D) indicate the geographic boundaries of the seafood  
 12 development region in which the seafood development tax will be levied;

13 (E) provide an effective date for the levy or amendment of the  
 14 seafood development tax in the fishery; and

15 (F) indicate the date on which returned ballots must be  
 16 postmarked in order to be counted;

17 (4) the ballots shall be returned by mail and shall be counted by the  
 18 commissioner of community and economic development or by a person approved by  
 19 the commissioner of community and economic development.

20 (d) The commissioner of community and economic development shall certify  
 21 the results of an election under this section if the commissioner determines that the  
 22 requirements of (a) - (c) of this section have been satisfied.

23 (e) The rate of the seafood development tax levied in a seafood development  
 24 region shall be uniform for all fisheries and fishery resources in the region.

25 (f) If a seafood development tax has not been levied on a fishery resource in a  
 26 seafood development region, the initial tax levied in any fishery in the region may be  
 27 set at a rate set under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365 in accordance  
 28 with procedures set out in this section. If a seafood development tax is currently  
 29 levied on fishery resources in any fishery in a seafood development region, an election  
 30 to approve the initial levy of a seafood development tax in another fishery in the  
 31 region shall be for a levy of the tax at the current rate in the region. The election to

1 approve the levy of a seafood development tax within a fishery shall be conducted  
2 among the eligible interim-use permit and entry permit holders in the fishery.

3 (g) An election to amend the current rate of the seafood development tax  
4 within a seafood development region shall be conducted among the eligible interim-  
5 use permit holders and entry permit holders in each fishery within the region that has  
6 approved the levy of the tax under this section. In an election to amend the current  
7 rate of the seafood development tax within a region, a person shall receive, and may  
8 cast and have counted, a separate ballot for each fishery in the seafood development  
9 region that is subject to the tax for which the person is an eligible interim-use permit  
10 or entry permit holder.

11 (h) Except as provided in AS 43.76.375, an election to terminate a seafood  
12 development tax within one or more fisheries in a seafood development region shall be  
13 conducted under the same procedures established under (a) - (d) of this section for an #1  
14 election to approve or amend a seafood development tax.

15 (i) In this section, "eligible interim-use permit and entry permit holder" means  
16 an individual who, 90 days before the date ballots must be postmarked to be counted  
17 in an election under this section, is listed in the records of the Alaska Commercial  
18 Fisheries Entry Commission as the legal owner of an interim-use permit or an entry  
19 permit that authorizes the individual to operate commercial fishing gear in the fishery  
20 that is or will be subject to the seafood development tax that is the subject of the  
21 election.

22 **Sec. 43.76.375. Termination of seafood development tax.** (a) The seafood  
23 development tax levied under AS 43.76.350, 43.76.355, 43.76.360, or 43.76.365 may  
24 be terminated by the commissioner of revenue upon majority vote of eligible permit  
25 holders who vote in an election held under AS 43.76.370 in which at least 30 percent #1  
26 of the eligible permit holders cast a ballot. The seafood development tax may be  
27 terminated in one or more fisheries within a seafood development region under this  
28 section.

29 (b) The commissioner of revenue shall terminate a seafood development tax  
30 under (a) of this section following an election conducted by the qualified seafood  
31 development association for the seafood development region if

1 (1) a petition is presented to the commissioner of community and  
 2 economic development requesting termination of the seafood development tax in a  
 3 fishery that is signed by at least 10 percent of the number of persons who are eligible  
 4 to vote in an election under AS 43.76.370 to approve the levy of the seafood  
 5 development tax in the fishery;

6 (2) an election is held in accordance with AS 43.76.370; the ballot  
 7 must ask the question whether the seafood development tax for the fishery shall be  
 8 terminated; the ballot must be worded so that a "yes" vote is for continuation of the  
 9 seafood development tax and a "no" vote is for termination of the seafood  
 10 development tax;

11 (3) a majority of the votes cast in the election by eligible interim-use  
 12 permit and entry permit holders are for the termination of the seafood development  
 13 tax;

14 (4) at least 30 percent of the permit holders who are eligible to vote in  
 15 the election cast a ballot in the election; and

16 (5) the qualified regional seafood development association for the  
 17 fishery provides notice of the election in accordance with AS 43.76.370 within two  
 18 months after receiving notice from the commissioner of community and economic  
 19 development that a valid petition under (1) of this subsection has been received.

20 **Sec. 43.76.380. Liability for tax on fishery resources sold to a buyer.** (a)  
 21 Except as provided under (c) of this section, a buyer who acquires a fishery resource  
 22 that is subject to a seafood development tax levied under AS 43.76.350, 43.76.355,  
 23 43.76.360, or 43.76.365 shall collect the seafood development tax at the time of  
 24 purchase, and shall remit the total tax collected during each month to the department  
 25 by the last day of the next month.

26 (b) A buyer who collects the seafood development tax shall

27 (1) maintain records reflecting the fishery in which the fishery resource  
 28 was caught; and

29 (2) report to the Department of Revenue by March 1 of each year the  
 30 total value, as defined in AS 43.75.290, of the fishery resources caught in each fishery  
 31 that the buyer has acquired during the preceding year.

1 (c) A commercial fisherman who transfers possession of a fishery resource to  
 2 a buyer who is not a fisheries business licensed under AS 43.75 is liable for the  
 3 payment of a seafood development tax levied under AS 43.76.350, 45.76.355,  
 4 43.76.360, or 43.76.365 if, at the time possession of the fishery resource is transferred  
 5 to a buyer, the seafood development tax payable on the fishery resource has not been  
 6 collected. If a commercial fisherman is liable for payment of the seafood development  
 7 tax under this subsection, the commercial fisherman shall comply with the  
 8 requirements under (b) of this section to maintain records and to make reports to the  
 9 Department of Revenue. Notwithstanding (a) of this section, a person subject to this  
 10 subsection shall remit the total seafood development tax payable during the calendar  
 11 year to the Department of Revenue before April 1 after close of the calendar year.

12 (d) The Department of Revenue shall deposit the seafood development tax  
 13 collected under AS 43.76.350 - 43.76.399 in the general fund. The legislature may  
 14 make appropriations based on this revenue to the Department of Community and  
 15 Economic Development for the purpose of providing financing for qualified regional  
 16 seafood development associations.

17 **Sec. 43.76.385. Liability for tax on fishery resources shipped from the**  
 18 **state.** (a) The owner of fishery resources removed from the state is liable for payment  
 19 of a seafood development tax levied under AS 43.76.350, 43.76.355, 43.76.360, or  
 20 43.76.365 if, at the time the fishery resources are removed from the state, the seafood  
 21 development tax payable on the fishery resources has not been collected by a buyer.

22 (b) If the owner of fishery resources is liable for payment of the seafood  
 23 development tax under (a) of this section, the owner shall comply with the  
 24 requirement of AS 43.76.380(b) to report the owner's liability for payment of the tax.

25 **Sec. 43.76.390. Exemption.** AS 43.76.350 - 43.76.399 do not apply to  
 26 salmon harvested under a special harvest area entry permit issued under AS 16.43.400.

27 **Sec. 43.76.399. Definition.** In AS 43.76.350 - 43.76.399, unless the context  
 28 otherwise requires,

29 (1) "buyer" means a person who acquires possession of fishery  
 30 resources from the person who caught the fishery resources regardless of whether  
 31 there is an actual sale of the fishery resources but excluding a transfer to a person

1 engaged solely in interstate transportation of goods for hire;

2 (2) "fishery" has the meaning given in AS 16.43.990.

3 \* Sec. 4. AS 44.33 is amended by adding a new section to read:

4 **Sec. 44.33.065. Regional seafood development associations.** (a) The  
5 Department of Community and Economic Development shall assist in and encourage  
6 the formation of a qualified regional seafood development association for each  
7 seafood development region identified in (b) of this section for the purpose of  
8 promoting and marketing Alaska seafood products harvested in the region. The  
9 commissioner shall designate the first organization to apply and qualify under this  
10 subsection for recognition as the qualified association for a region to be the qualified  
11 regional seafood development association for that seafood development region if the  
12 commissioner determines that the organization

13 (1) is established for the following purposes:

14 (A) promotion of seafood and seafood by-products that are  
15 harvested in the region and processed for sale;

16 (B) promotion of improvements to the commercial fishing  
17 industry and infrastructure in the seafood development region;

18 (C) establishment of education, research, advertising, or sales  
19 promotion programs for seafood products harvested in the region;

20 (D) preparation of market research and product development  
21 plans for the promotion of seafood and their by-products that are harvested in  
22 the region and processed for sale;

23 (E) cooperation with the Alaska Seafood Marketing Institute  
24 and other public or private boards, organizations, or agencies engaged in work  
25 or activities similar to the work of the organization including entering into  
26 contracts for joint programs of consumer education, sales promotion, quality  
27 control, advertising, and research in the production, processing, or distribution  
28 of seafood harvested in the region;

29 (F) cooperation with commercial fishermen, fishermen's  
30 organizations, seafood processors, the Alaska Fisheries Development  
31 Foundation, the Fisheries Industrial Technology Center, state and federal

1 agencies, and other relevant persons and entities to investigate market  
2 reception to new seafood product forms and to develop commodity standards  
3 and future markets for seafood products;

4 (2) provides for representation of commercial fishing permit holders  
5 for each fishery in the region that is subject to a seafood development tax levied under  
6 AS 43.76.350 - 43.76.399 on the board of directors of the organization;

7 (3) provides for membership in the organization by any commercial  
8 fisherman who holds a commercial fishing permit for a fishery that is conducted in the  
9 region and by other persons and groups in the region who wish to be members of the  
10 organization; and

11 (4) is organized as a nonprofit corporation under the laws of the state  
12 for the purpose of marketing and promoting seafood products taken in the region and  
13 seafood products taken in fisheries subject to a seafood development tax levied under  
14 AS 43.76.350 - 43.76.399.

15 (b) Seafood development regions are established for each of the following  
16 regions of the state and are made up of the designated commercial fishing  
17 management areas established by the Board of Fisheries in accordance with the  
18 boundaries of those areas as adopted by the Board of Fisheries:

19 (1) Southeast Alaska seafood development region -- Southeastern  
20 Alaska area and Yakutat area;

21 (2) Prince William Sound seafood development region -- Prince  
22 William Sound area;

23 (3) Cook Inlet seafood development region -- Cook Inlet area;

24 (4) Kodiak seafood development region -- Kodiak area;

25 (5) Alaska Peninsula seafood development region -- Alaska Peninsula  
26 area;

27 (6) Aleutian Islands seafood development region -- Aleutian Islands  
28 area;

29 (7) Chignik seafood development region -- Chignik area;

30 (8) Atka-Amlia Islands seafood development region -- Atka-Amlia  
31 Islands area;

1 (9) Bristol Bay seafood development region -- Bristol Bay area:

2 (10) Kuskokwim seafood development region -- Kuskokwim area;

3 (11) Yukon-Northern seafood development region -- Yukon-Northern  
4 area and Kotzebue area;

5 (12) Norton Sound-Port Clarence seafood development region --  
6 Norton Sound-Port Clarence area.

7 (c) An organization may be designated as the qualified regional seafood  
8 development association for more than one seafood development region.

9 (d) A qualified regional seafood development association for a fishery may  
10 request state financial assistance from the department to aid the seafood development  
11 programs of the association.

12 (e) A qualified regional seafood development association requesting state  
13 financial assistance shall submit an annual financial report to the department on a form  
14 provided by the department. The department may require that a qualified regional  
15 seafood development association use a uniform system of accounting. A qualified  
16 regional seafood development association requesting state assistance shall submit an  
17 annual budget to the department on or before a date specified by the department.

18 (f) The department may adopt regulations necessary to implement this section.

19 (g) In this section, "fishery" has the meaning given in AS 16.45.990.



Committee Assignments:

Member:

House Special Committee on Fisheries  
House Special Committee on Education  
House Transportation Committee  
House Judiciary Committee

Dan Ogg  
Representative

Session:  
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**SPONSOR STATEMENT**

House Bill 419

2/18/04

**"An Act relating to regional seafood development associations and to regional seafood development taxes."**

HB 419, recommended by the Joint Legislative Salmon Industry Task Force, will allow fishermen to form regional seafood development associations to tax themselves, providing a stable funding source for marketing efforts.

Farmed salmon production has increased dramatically over the past decade, exceeding the wild salmon catch and causing prices to plummet. In order to compete in this new market, Alaska's salmon fishermen have sought creative ways to differentiate wild fish from their penned counterparts. One method that has proven effective in distinguishing the two is regional marketing. Copper River fishermen took the lead in establishing a brand for their catch, proving the enormous potential for niche markets. Now several other regional brands have been established in communities such as Kenai, the Aleutian Islands, and Kodiak.

Most branding organizations are currently dependent on a mix of state and federal grants to fund their marketing efforts. However, these grants are often unreliable, one-time revenue sources. This bill would allow regional seafood development associations to assess themselves between one-half and two percent to provide a steady stream of marketing dollars.

HB 419 creates 12 distinct seafood development regions based on commercial fishing management areas established by the Board of Fish. Under the bill, all the fishermen in a region may vote to participate in an association or it may be limited to a specific fishery or fisheries. Once a regional association is formed, other fisheries can vote themselves into or out of the association, but there can only be one association per region.

As the amount of imported and farmed seafood continues to rise, regional marketing associations will provide a valuable tool for Alaska's commercial fishermen. Regional associations are able to focus on the unique area where the fish is harvested, building on Alaska's reputation for pristine waters that yield superior fish.

## CS changes for HB 419

Please contact staff member Melissa Dover at x3820 if you have questions on any of the CS changes.

**1) Sec. 43.76.370(a)(1) - \$500 application fee**

In response to concerns expressed by the Department of Community and Economic Development (DCED), we have added a \$500 application fee for each fishery that decides to hold an election. The application fee will help cover the cost of the election.

**2) Sec. 43.76.370(e)-(g) – one tax rate per region**

This is clarifying language to ensure that all fisheries participating in a regional seafood development association are taxing themselves at the same rate. It addressed the Dept. of Revenue concern that they could be collecting different rates for fisheries within the same association. So, when a fishery opts into an association, they opt in at the current tax rate. Once in, all the members of the association can vote to raise or lower the tax rate to meet their current needs.

**3) Sec. 43.76.380(c) – closing the “purchaser loophole”**

This language closes what the Dept. of Revenue refers to as the “purchaser loophole.” In the event that a fisherman sells his product to someone who is not licensed fisheries business, the fisherman is then liable for payment of the tax. For example, a fisherman direct-marketing his product to consumers would be liable for paying the tax.

**4) Sec. 44.33.065(a)(3) – ensuring inclusion in an association**

This provision ensures that any fisherman or other persons or groups wanting to participate in the regional association can become members. This addressed the concern that an association could choose to exclude an individual or group.

**5) Sec. 44.33.065(b) – first qualified will be designated association**

This clarifies that the first qualified organization to apply will be designated the regional seafood development association

**6) Sec. 44.33.065(b)(3) – removes the phrase “including seafood processors”**

Seafood processors can still be members of an association as provided for by the association's bylaws, but it is not a requirement.

Provided by Rep. Ogg



# UNITED FISHERMEN OF ALASKA

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March 9, 2004

Representative Dan Ogg  
Alaska State Legislature  
State Capitol (Mail Stop 3100)  
Juneau, AK 99801-1182

Dear Representative Ogg,

United Fishermen of Alaska supports HB 419 relating to regional seafood development associations and to regional seafood development taxes. Many fishery groups and associations are currently engaged in regional branding or promotional programs to successfully increase the demand for salmon. As grants diminish, different fisheries seek the ability to administer a self-imposed tax in order to finance their promotional program agendas.

United Fishermen of Alaska represents 33 Alaska Commercial fishing organizations and hundreds of individual fishermen and fishing related businesses, altogether representing over 10,000 Alaska fishermen. We support HB 419 and thank you for your consideration on this matter.

Sincerely,

Mark Vinsel  
Executive Director

CC: Representative Ogg

#### MEMBER ORGANIZATIONS

Alaska Crab Coalition • Alaska Druggers Association • Alaska Longline Fishermen's Association • Alaska Trollers Association • Armstrong Keta • At-sea Processors Association  
Bristol Bay Reserve • Chignik Regional Aquaculture Association • Chignik Seiners Association • Concerned Area "M" Fishermen • Cordova District Fishermen United  
Crab Rationalization and Buyback Group • Douglas Island Pink and Chum • Groundfish Forum • Kenai Peninsula Fishermen's Association • Kodiak Regional Aquaculture Association  
Kodiak Seiners Association • North Pacific Fisheries Association • Northern Pacific Scallop Cooperative • Northern Southeast Regional Aquaculture Association  
Old Harbor Fishermen's Association • Petersburg Vessel Owners Association • Prince William Sound Aquaculture Corporation • Purse Seine Vessel Owners Association  
Seafood Producers Cooperative • Southeast Alaska Regional Dive Fisheries Association • Southeast Alaska Seiners Association • Southern Southeast Regional Aquaculture Association  
United Catcher Boats • United Salmon Association • United Southeast Alaska Gillnetters • Valdez Fisheries Development Association • Western Gulf of Alaska Fishermen



## Office of Fisheries Development

### Alaska Regional Salmon Marketing Mini-Grant Program Recipients

[Back to  
Grants Page](#)

The Alaska Department of Community and Economic Development and the University of Alaska/Kodiak Fishery Industrial Technology Center received funding from the USDA-Cooperative State Research, Education and Extension Service (CSREES) in 2002 to begin a three-year mini-grant program to facilitate the regional marketing of Alaska salmon. In February 2002, five applicants received funds from the first grant cycle. In April 2003, six applicants received funds from the second cycle. A third cycle will begin in the winter of 2003/2004.

The Regional Salmon Marketing Mini-Grant Program is designed for fishing organizations or regional groups to develop programs for marketing salmon harvested from a defined region of Alaska. Applicants are asked to coordinate with other salmon organizations within the specified region to avoid redundancy and encourage regional support. Funds may be used for advertising, test product giveaways, marketing travel, label design, consultation and other marketing activities. Among the criteria for evaluating the applicants are: cooperation between groups within the region, ability to produce high quality salmon, strategy for regionally defining the area's salmon; and the quality and effectiveness of the marketing plan.

Following are summaries describing the achievements of the 2002 awardees and the goals of the 2003 awardees. [2003 Regional Salmon Marketing Mini-Grant Program Information and Application.](#)

[About regional marketing.](#)

### Alaska Peninsula - Aleutians East Borough



The [Aleutians East Borough](#) received \$54,500 from the program in 2002 to market "Area M" salmon from around the Alaska Peninsula and the eastern Aleutian Islands. A salmon marketing committee formed early in the year and included community members, fishermen and one processor; these committee members have since been in frequent contact to discuss the progress and direction of the project. Aleutians East Borough collaborated with several other local organizations as well as the Alaska Fisheries Development Foundation (AFDF) and intends to continue working with local processors and other interested parties. The program's marketing plan distinguishes Area M salmon from other salmon as "ocean-caught" in the wilds of the Aleutians, harvested by local Aleut families and as the last Alaska salmon of the season. The following goals were accomplished during the first year of the program:

- Rigorous quality standards that surpass ASMI's grade A were instituted and local processor Orca Bay began purchasing high quality sockeye

salmon.

- Aleutians East developed the brand "Aleutia" for the region's salmon and produced an award-winning logo.
- The Aleutia brand was advertised at the Boston Seafood Show and many buyers showed interest.
- Quality handling workshops by Seafood Inspection Services and HACCP training took place.
- A flyer and brochure were produced in early 2003.

After a successful first year, Aleutians East Borough applied for regional marketing funds under the 2003 Regional Salmon Marketing Mini-Grant Program and received \$20,000. With these funds, the program will continue to promote the Aleutia brand by printing brochures, quality seals and labels and meeting regularly. The Aleutia program will also form a non-profit corporation to carry on the regional marketing of the area's salmon independent of the Borough and ADFG.

Aleutians East Borough reported the following observations:

"It...[is] difficult and time consuming...[to] achieve consensus on "creative" and "artistic" decisions, i.e. logo and product name. What appeals to fishermen and community members is not necessarily what appeals to consumers and therefore marketing professionals should be consulted.

Buyers don't necessarily want seafood that meets some constructed quality standards. They know what they want in terms of quality and they are the best judges of that quality. So while they appreciate efforts to properly care for fish, their specs override any quality standards and make quality standards unnecessary."

### **Bristol Bay - Bristol Bay Economic Development Corporation**



all levels of the program.

One of six regional Community Development Quota (CDQ) groups, the Bristol Bay Economic Development Corporation used their 2002 grant of \$130,000 to begin building regional marketing efforts for Bristol Bay salmon. An initial consultative group was formed in Bristol Bay including BBEDC representatives and representatives from four major area processors. Representing 17 villages around Bristol Bay, BBEDC works to involve local fishermen at

In addition to setting apart Bristol Bay salmon, they encourage sub-regional marketing efforts for particular runs of salmon, (i.e. Naknek River reds). All local fishermen are allowed to take part in the marketing program and to use the Bristol Bay regional trademarks and promotional materials provided they adhere to rigorous quality standards which meet or exceed ASMI's grade A. BBEDC accomplished the following goals with their first year of grant funds:

- Consultants were hired to develop a quality assurance program.
- PR/program development consultants were hired.
- Promotional materials were developed and printed for the program.
- A promotional web site was created and launched.
- The Bristol Bay logo was advertised in Natural Products EXPO East show.

BBEDC received \$90,000 from the 2003 Regional Salmon Marketing Mini-Grant Program. With these funds, BBEDC will continue to develop and promote the Bristol Bay wild salmon brand through advertising, point of sale returns, quality assurance, test product giveaways and trade show follow-ups with potential buyers.

BBEDC had the following comments about regionally marketing seafood:

"Involving resident fishermen in the face-to-face marketing of their own salmon helps them understand the market demands, helps the customers appreciate the product better and builds the region's capacity for direct marketing of seafood products.

The need to educate the market about the differences between wild salmon from farmed salmon is critical to elevating the ex-vessel price. Through our presence at natural foods Trade Shows, we are confirming the basic premise of this direct, regional marketing effort: that buyers will pay more for the Authenticity of our Bristol Bay Watershed story; high quality, wild salmon purchased as directly as possible from resident harvesters of the Bristol Bay watershed will overcome the market saturation of farmed salmon. We will now see if we can translate this interest into increased returns to our resident fishermen."

### Copper River - Cordova District Fishermen United



The Cordova District Fishermen United (CDFU) received \$45,500 of funding in 2002 to support their regional marketing efforts for Copper River salmon. CDFU capitalizes on the natural qualities of Copper River salmon and markets them as wild, strong fish full of rich oils for the 300 mile journey up the clean, glacial Copper River. They also promote the sustainability of the resource and the rugged Alaskans who harvest the fish. CDFU completed the following goals during the first year of the program:

- Designed, produced and printed promotional banners and point-of-sales material for Copper River salmon.
- Program contact list was updated and flyers sent to notify participants of new materials.
- The Copper River Salmon web site was revised and updated.
- Outer Rim Publications was contracted to write a business plan with an emphasis on the eventual self-sufficiency of the program.

CDFU evaluated the effectiveness of their promotions in 2002 and received numerous requests for a video about the region's salmon for use in supermarkets and other marketing venues. With \$20,000 from the 2003 Regional Salmon

Marketing Mini-Grant Program, CDFU will produce a video loop as well as continue to advertise and publish promotional material.

CDFU gave the following insight into regionally marketing Copper River salmon:

"Being able to meet the needs of all the various niche marketers of Copper River salmon, as well as supporting the traditional users, is an important part of effective promotional support. This will be accomplished through increased diversification of materials and information available, including materials specific for wait-staff, smaller retail markets and wholesalers."

### **Chignik - Norquest**

Norquest was awarded \$50,000 in 2002 to market Chignik area salmon. The program was meant to emphasize quality handling for fishermen and processors with all participants required to meet certain standards to be eligible for marketing under the program. Funds were intended to create a label and graphic designs and to search out promising niche markets where wild salmon was already sold. Selling points specific to Chignik salmon included a rationalized fishery and the picturesque community with its unique location.

Norquest intended to assemble an advisory committee consisting of local fishermen, interested community members and processors. Participating members were meant to share their insight and lead the branding effort. Due in part to the often contentious relationships between fishermen and processors in the Chignik area, Norquest was unable to form the advisory committee and gain the support of local producers. It may be that an individual business, be it a harvester, processor or other, is not the appropriate organization to lead this kind of effort. Organizations that perform more economic development functions may be the most appropriate manner of entity to facilitate a regional marketing program. Norquest rescinded their request for funds.

### **Kenai Peninsula – Kenai Peninsula Borough**

With funding from several sources, including \$120,000 from the 2002 Regional Salmon Marketing Mini-Grant Program, the Kenai Peninsula Borough embarked on a multi-year program to market Cook Inlet sockeye salmon. Participating fishermen and processors must adhere to strict quality standards including mandatory icing, chilling, bleeding, handling procedures and grading. This program made the following progress during its first year:

- Developed the brand name "Kenai Wild" along with a logo and subheads and printed 5000 labels.
- Designed an illustrated fact sheet and printed 5,000 copies.
- Sent out 400 pounds of branded product to potential customers.
- Trained two locals in quality inspection and 40 fishermen and four processors through quality control training.
- Developed contacts and prepared labeled product for mid-winter promotions.
- Certified 23,000 lbs. of Kenai wild product.

- Tested Kenai wild product in 22 retail and food service markets.

The Kenai Peninsula Borough also hopes to influence salmon management in the area in order to spread out the fishery and increase salmon quality and service. The branding project will focus on the unique aspects of the local salmon and salmon industry for promotion to high-end niche markets.

Kenai Peninsula Borough discovered in the first year of their program that early winter advertising was difficult, as around the holiday season many buyers were too busy promoting seasonal specials to discuss new promotions. They did find a strong positive attitude toward wild salmon, however, and pointed out that all participating buyers emphasized the positive aspects of wild salmon without disparaging farmed salmon. They are contemplating instituting quality control beyond the processing plant, as much otherwise acceptable product was rejected due to poor workmanship.

The Kenai Wild program will continue in 2003 and beyond with assistance from other funding sources. [Cook Inlet Salmon Branding Project web site](#).

### **Kodiak -- Kodiak Chamber of Commerce**

The Kodiak Chamber of Commerce received \$130,000 under the 2003 Regional Salmon Marketing Mini-Grant Program to brand and market Kodiak pink and chum salmon. They established the Kodiak Brand and Marketing Committee (KBMC) to lead the effort.

The KBMC's quality program will include training for fishermen, tenders and processors, creation of quality standards and the certification at least 20,000 lbs. of product in the first year. This program focuses on pink salmon fillets and will conduct product research to determine consumer preferences for packaging, format, pin-boning and other variables. With this information, the KBMC hopes that at least two retail chains will buy product regularly. Funds will also be used to create a brand, logo, labels, brochures, fact sheet and other promotional materials. KBMC hopes to become a stand-alone organization in the future to lead the regional marketing of all Kodiak's salmon.

### **Kuskokwim Bay -- Coastal Villages Region Fund**



One of six regional Community Development Quota (CDQ) groups, Coastal Villages Region Fund received \$120,000 from the 2003 Regional Salmon Marketing Mini-Grant Program to market Kuskokwim Bay salmon. In 2002, Coastal Villages developed the Kuskokwim Bay/Coastal Villages brand and logo and established relationships with Wildcatch and Indian Valley Meats to co-brand their fish. Wildcatch was

attracted to Kuskokwim product in part because the low volume fishery and mandatory slush ice for all harvesters has a high potential for producing quality fish. Wildcatch caters to the natural/organic foods market by partnering with major natural foods retailers. Coastal Villages and Wildcatch are also considering

partnering to produce innovative products such as salmon baby food.

Indian Valley Meats is an established value-added processor in Alaska and brings to the partnership training for processors, experience producing value-added products and a market for the Kuskokwim's lower value chum salmon. Salmon jerky, sticks and burgers are currently co-branded and more products are being developed. Coastal Villages Intends to use their grant funds to attend trade shows, establish distributorships with natural food retailers, advertise, produce promotional material, meet with potential European buyers, earn the Alaska Manufacturers Association's "Alaska Quality Seal," bring buyers to the region and develop packaging for new Indian Valley Meats co-branding products.

### **Stikine River -- Wrangell Community Salmon Marketing Association**

With \$20,000 from the 2003 Regional Salmon Marketing Mini-Grant Program, the Wrangell Community Salmon Marketing Association intends to develop a marketing business plan for Stikine River salmon. Quality specification will be developed, fishermen and industry leaders surveyed for input, target markets identified, a logo developed and a plan formulated for the production of labels and promotional materials.

Promotion of the region's salmon will complement community projects designed to increase the quantity and diversity of local salmon products, including the construction of a value-added processing facility/cold storage. The committee will draw upon its unique fishing history, dating back to Native fishermen, to create a regional identity for its product. Recognizing the need for high quality salmon, the program will include strong quality control and grading procedures.

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