

ALASKA LEGISLATURE

HOUSE and SENATE FINANCE COMMITTEE FILES, 2005-2006 3039

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## Auditor urges spending clarification

**PROCUREMENT CARD:** Some of \$14.9 million charged by city employees was inappropriate.

By ANNE AURAND  
Anchorage Daily News

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City employees spent public money on lunches, birthday cakes, balloons, flowers and other "questionable" purchases, according to a recent internal audit.

Internal auditor Peter Raiskums said he doubts the purchases show corruption or irresponsibility. The problem is that no policy defines acceptable uses for the city's "procurement card," he said.

The "p-card" is basically a credit card issued to certain municipal employees to use on inexpensive goods, services, business- and travel-related expenses.

Most of the \$14.9 million spent by about 800 card-holders was legitimate, the audit says. But some purchases, such as gasoline for municipal vehicles, violated the policy. Some departments didn't properly document their purchases. And some employees made questionable donations to charitable organizations such as the Mayor's Charity Ball, NAACP or the Chugiak Grad Blast, the audit said.

According to the audit, most purchases did not violate policy. Raiskums didn't calculate the amount of questionable purchases.

He presented his audit to the Assembly on Tuesday night. It recommended that city executives clearly define what's appropriate.

"Maybe in my judgment, it's OK to buy a cake for an office function. Maybe in your judgment it's not," Raiskums said.

City Manager Denis LeBlanc said it's efficient to allow managers some discretion over purchases. They have to document the reasons. Most of these explanations are adequate, LeBlanc said.

The audit shows that employees spent nearly \$78,000 in restaurants and grocery stores in 2004. The city spent about \$6,279 on coffee-related purchases in 2004, including coffee, sugar, creamer and a grinder. The justification, Raiskums said, is that some departments entertain guests and want to offer them coffee. There's no policy against it.

About \$11,900 was spent on drinking water. One department paid \$3,106 on bottled water. Another paid \$772 for purified water in gallon jugs. LeBlanc said this is a great example of where a blanket rule would not work. City Hall, he said, has good water in its faucets. But some small maintenance offices do not, and managers should buy filters or bottled water for employees there, he said.

Employees paid \$2,506 for flowers, including \$91 for one funeral. Raiskums and LeBlanc said they didn't know whose funeral it was.

Employees paid another \$27,500 for pictures, and one department paid \$220 for frames for "mission and vision statements," the audit says.

The report does not name individuals or departments that made questionable purchases or failed to properly document purchases. Raiskums said his goal was not to identify anyone but to encourage managers to better define spending policies.

Daily News reporter Anne Aurand can be reached at aaurand@adn.com or 257-4591.

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Provided by Mr. Dunca  
4/19/05

This represents only the "Cost of Goods" portion of DGS' quarterly pilot contract audit. The final report will include all remaining sections: time to process, Alaska vendor utilization, workload comparison and mistakes/errors.

### Cost of Goods Audit Report

The following is the Cost of Goods audit report for the second quarter of FY05 concerning Contract Award 2004-9900-4556, Procurement Services, Supply Chain Management, and Electronic Purchasing Tools.

#### Purpose

This audit is used as a benchmark for the Cost of Goods purchased by Alaska Supply Chain Integrators (ASCI) under contract award 2004-9900-4556. A copy of the contract award is available from the Division of General Services (DGS).

#### Methodology

ASCI data from the 2<sup>nd</sup> quarter FY05 (October through December 2004) has been compared to Southeast Region (SER) data. In an effort to develop a fair and random pool of comparison items, the MS Excel random number generator was used to create the comparison pool.

Four random samples of 100 line items purchased by ASCI during the second quarter FY05 were created to develop the comparison pool. Each pool of 100 was searched for comparison purchases to be evaluated against previous purchases made by the SER procurement office. To find comparisons, a search of previous SER purchases was conducted in the BuySpeed database by part number, similar make, and item description.

The cost of like items purchased by ASCI was then compared to SER procurement data.

#### Conclusion

During the period, ASCI processed a total of 1,176 delivery orders. Of this amount, 372 delivery orders were placed in accordance with state contracts. As a result of removing the 372 delivery orders placed in accordance with state contracts, this audit consists of 804 delivery orders with a total of 2,897 line items. The table below illustrates the dollar values for all delivery orders issued by ASCI during the period:

Type of Delivery order	Number of Delivery Orders	Dollar Value of Delivery Order
DO's placed	1,176	\$ 1,378,186.70
State Contract DO's placed	372	\$ 525,304.60
DO's in audit pool	804	\$ 852,882.10

Every effort was made to find 40 comparison purchases. However, as indicated in Attachment A, tables 1 & 2, the comparison pool of 40 contained a final total of 31 actual comparable purchases - nine line items were removed after further review indicated the items were not comparable. Of the 31 true comparisons, only 17 (table 1) line items could be compared to SER 4<sup>th</sup> qtr FY 04 purchases. The remaining 14 (table 2) comparison line items were last purchased by SER prior to the 4<sup>th</sup> qtr FY 04 period, and in two instances the last state purchases date back to 2003.

As indicated in tables 1 & 2, many of the comparison line items were purchased in different quantities. In addition, delivery time frames, freight costs and comparison time frames have not been studied in depth. The Division of General Services, after consultation with Legislative Audit, does not believe the data can be extrapolated in order to draw firm cost increase/decrease conclusions, but the data may serve to identify potential areas for improvement. The data documents less than 1% of the purchases made by the contractor during the 2<sup>nd</sup> qtr of FY 05.

Below are results based on the 31 comparison line items:

- 17 (Attachment A, Table 1) ASCI line items were compared within the SER 4<sup>th</sup> qtr data
- Total state expenditures (ASCI purchased) for the 17 line items was \$1,049.82
- Total state expenditures (SER purchased) for the 17 line items was \$1,016.20
- Total state expenditures increased by 3.31% for the 17 line items within the audit period. Additional cost to the state \$33.62.
  
- The remaining 14 (Attachment A, Table 2) ASCI line items could not be compared within SER 4<sup>th</sup> qtr data, but have been compared to the most recent SER purchase of similar items.
- Total state expenditures (ASCI purchased) for the 14 line items was \$552.74
- Total state expenditures (SER purchased) for the 14 line items was \$324.36
- Total state expenditures increased by 70.41% for the 14 line items within the audit period. Additional cost to the state \$228.38.

Table 1 Items purchased by SER in 4th qtr FY 04

ASCI PO No.	Date	Unit Cost	Order Qty	Freight Notes	State PO No.	Date	Unit Cost	Order Qty	Freight Notes	Change	Notes		
1	751 6	12/13/04	\$ 4.08	5	Freight included	340589 3	08/18/04	\$ 3.22	1	Freight included	26.70% Increase	Different Vendors	
2	905 1	12/22/04	\$ 29.50	6	Freight included	339591 14	06/24/04	\$ 25.25	20	Freight included	16.80% Increase	Different Vendors	
3	341710 1	12/28/04	\$ 162.00	1	Picked Up	338768 3	05/13/04	\$ 154.99	2	Freight included	4.50% Increase	Different Vendors	
4	331 1	11/10/04	\$ 19.20	1	Freight not included	338481 1	04/24/04	\$ 18.50	1	Freight not included	3.80% Increase	Different Vendors	
5	422 2	11/17/04	\$ 195.00	1	Freight included	339018 2	05/28/04	\$ 183.00	1	Freight included	6.60% Increase	Same Vendor Price Increase	
6	429 2	11/22/04	\$ 98.75	2	Freight not included	335062 18	09/09/04	\$ 92.33	1	Freight not included	7.00% Increase	Different Vendors	
7	462 2	11/22/04	\$ 0.97	2	Freight included	333170 1	06/10/04	\$ 0.59	10	Freight included	64.40% Increase	Different Vendors	
8	820 5	12/18/04	\$ 8.55	8	Freight not included	338238 2	04/14/04	\$ 8.51	10	Freight not included	0.01% Increase	Same Vendor Price Increase	
9	341317 1	10/01/04	\$ 2.29	12	Freight not included	338551 14	04/29/04	\$ 1.95	4	Freight included	17.40% Increase	Same Vendor Price Increase	
10	341387 1	10/08/04	\$ 3.01	10	Freight included	339623 10	06/28/04	\$ 1.39	10	Freight included	165.50% Increase	Different Vendors	
11	341442 2	10/18/04	\$ 1.06	12	Freight included	339275 18	06/10/04	\$ 1.06	96	Freight included	0.00% No Change	Different Vendors	
12	820 1	12/18/04	\$ 7.25	5	Freight not included	339551 3	06/23/04	\$ 7.25	5	Freight not included	0.00% No Change	Same Vendor	
13	695 1	12/09/04	\$ 22.29	36	Freight included	339266 1	06/10/04	\$ 22.29	54	Freight not included	0.00% No Change	Different Vendors	
14	341370 4	10/07/04	\$ 14.50	8	Freight not included	339360 9	06/16/04	\$ 14.50	20	Freight not included	0.00% No Change	Same Vendor	
15	849 1	12/21/04	\$ 8.40	25	Freight included	338811 1	05/18/04	\$ 8.40	25	Freight included	0.00% No Change	Same Vendor	
16	1058 2	12/30/04	\$ 8.97	12	Freight included	339545 9	06/23/04	\$ 8.97	12	Freight included	0.00% No Change	Same Vendor	
17	341330 1	10/01/04	\$ 464.00	1	Freight not included	339207 1	06/08/04	\$ 464.00	1	Freight not included	0.00% No Change	Same Vendor	
ASCI Purchase Total		\$ 1,049.82		SER Purchase Total		\$ 1,016.20							
				Additional Cost to State		\$		33.62		3.308% Increase			

Table 2 Items purchased by SER outside of 4th FY 04

ASCI PO No.	Date	Unit Cost	Order Qty	Freight Notes	State PO No.	Date	Unit Cost	Order Qty	Freight Notes	Change	Notes		
1	1025 7	12/29/04	\$ 7.93	2	Freight included	338384 7	07/21/04	\$ 7.99	1	Freight not included	0.01% Decrease	Same Vendor Price Decrease	
2	703 16	12/13/04	\$ 36	1	Freight not included	337494 8	02/23/04	\$ 1.32	24	Freight included	3.10% Increase	Same Vendor Price Increase	
3	751 4	12/13/04	\$ 1.0	5	Freight included	340290 10	08/03/04	\$ 0.99	2	Freight included	81.80% Increase	Different Vendors	
4	341461 5	10/20/04	\$ 418.0	1	Freight included	337590 2	02/27/04	\$ 209.00	5	Freight included	100.00% Increase	Different Vendors	
5	341492 3	10/25/04	\$ 1.80	3	Freight included	337716 4	03/09/04	\$ 1.73	48	Freight included	4.00% Increase	Same Vendor Price Increase	
6	367 2	11/11/04	\$ 9.99	1	Freight included	336109 1	11/12/03	\$ 8.99	3	Freight included	11.10% Increase	Same Vendor Price Increase*	
7	341387 5	10/08/04	\$ 9.89	2	Freight included	334939 7	09/02/04	\$ 9.54	3	Freight included	3.70% Increase	Same Vendor Price Increase	
8	341442 5	10/18/04	\$ 2.92	24	Freight included	337615 12	03/01/04	\$ 2.84	300	Freight not included	2.50% Increase	Different Vendors	
9	573 3	12/02/04	\$ 2.39	4	Freight included	337716 4	03/09/04	\$ 1.73	48	Freight included	38.20% Increase	Different Vendors	
10	341709 1	12/28/04	\$ 69.00	1	Freight not included	340093 3	02/25/00	\$ 56.99	1	Freight not included	21.10% Increase	Different Vendors	
11	341492 5	10/25/04	\$ 6.61	3	Freight included	337617 1	03/01/04	\$ 2.19	60	Picked Up	201.80% Increase	Different Vendors	
12	906 1	12/21/04	\$ 4.60	12	Freight included	334167 3	07/24/03	\$ 4.60	12	Freight included	0.00% No Change	Same Vendor**	
13	273 1	11/08/04	\$ 7.95	6	Freight not included	337214 18	01/30/04	\$ 7.95	3	Freight not included	0.00% No Change	Same Vendor	
14	657 6	12/07/04	\$ 8.50	4	Freight not included	337649 16	03/03/04	\$ 8.50	10	Freight not included	0.00% No Change	Different Vendors	
ASCI Purchase Total		\$ 552.74		SER Purchase Total		\$ 324.36							
				Additional Cost to		\$		228.38		70.409% Increase			

\* - The unit cost entered for ASCI on the Master was \$12.86, but should have been \$9.99 this sheet shows the correct price.  
 \*\* - The unit cost entered for ASCI was the case cost (\$55.20/12), \$4.60 should have been the unit cost. The vendor also confirmed SER paid \$4.60.

ASCI Combined Purchase Total	\$	1,602.56	SER Combined Purchase Total	\$	1,340.56
			Combined Additional Cost to State	\$	261.99
					16.348% Increase

### Contractor Prepared Cost of Goods Analysis

In response to the state's request to provide information regarding significant price increases or decreases, ASCI prepared a detailed cost of goods analysis for the second and third quarters of fiscal 2005. The analysis is based on the 4950 item catalog that ASCI has built for the State of Alaska based on past purchases of items. The analysis includes 971 transactions during the time period covering 452 unique items. Another 25 lines were discarded by the contractor from the analysis based on apparent data anomalies. The state has not reviewed the contractor's methodology, data or analysis. The table below was provided by ASCI:

	2004 Q4	2005 Q1	To Date
Total Lines	306	600	972
# Lines Price increase	149	319	507
# Lines Price decrease	75	189	283
# of distinct products	183	333	451
Total Spend - Actual	\$ 25,070.30	\$ 152,381.95	\$ 184,768.54
Total Spend - Baseline	\$ 24,280.43	\$ 157,032.13	\$ 188,415.19
\$ increase/decrease	\$ 789.87	\$ (4,650.18)	\$ (3,646.65)
% increase/decrease	3.3%	-3.0%	-1.9%

Prices have been corrected for differences in Units of Purchase.

OMB Circular No. A-76  
May 29, 2003

Provided by Mr. Dunca  
4/19/05

EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, DC 20503

May 29, 2003  
(including technical correction made by OMB Memorandum M-03-20)

CIRCULAR NO. A-76 (REVISED)

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Performance of Commercial Activities

1. **Purpose.** This circular establishes federal policy for the competition of commercial activities.
2. **Supersession.** This circular supersedes Office of Management and Budget (OMB) Circular No. A-76 (Revised 1999), August 4, 1983; Circular No. A-76 Revised Supplemental Handbook (Revised 2000), March 1996; Office of Federal Procurement Policy Letter 92-1, "Inherently Governmental Functions," September 23, 1992; and OMB Transmittal Memoranda 1 through 25, Performance of Commercial Activities.
3. **Authority.** Reorganization Plan No. 2 of 1970 (31 U.S.C. § 1111); Executive Order 11541; the Office of Federal Procurement Policy Act (41 U.S.C. § 405); and the Federal Activities Inventory Reform (FAIR) Act of 1998 (31 U.S.C. § 501 note).
4. **Policy.** The longstanding policy of the federal government has been to rely on the private sector for needed commercial services. To ensure that the American people receive maximum value for their tax dollars, commercial activities should be subject to the forces of competition. In accordance with this circular, including Attachments A-D, agencies shall:
  - a. Identify all activities performed by government personnel as either commercial or inherently governmental
  - b. Perform inherently governmental activities with government personnel.
  - c. Use a streamlined or standard competition to determine if government personnel should perform a commercial activity.
  - d. Apply the Federal Acquisition Regulation (FAR), 48 C.F.R. Chapter 1, in conjunction with this circular, for streamlined and standard competitions.
  - e. Comply with procurement integrity, ethics, and standards of conduct rules, including the restrictions of 18 U.S.C. § 208, when performing streamlined and standard competitions.
  - f. Designate, in writing, an assistant secretary or equivalent level official with responsibility for implementing this circular, hereafter referred to as the competitive sourcing official (CSO). Except as otherwise provided by this circular, the CSO may delegate, in writing, specified responsibilities to senior-level officials in the agency or agency components.

**B. CATEGORIZING ACTIVITIES PERFORMED BY GOVERNMENT PERSONNEL AS INHERENTLY GOVERNMENTAL OR COMMERCIAL.**

1. **Inherently Governmental Activities.** The CSO shall justify, in writing, any designation of government personnel performing inherently governmental activities. The justification shall be made available to OMB and the public upon request. An agency shall base inherently governmental justifications on the following criteria:
  - a. An inherently governmental activity is an activity that is so intimately related to the public interest as to mandate performance by government personnel. These activities require the exercise of substantial discretion in applying government authority and/or in making decisions for the government. Inherently governmental activities normally fall into two categories: the exercise of sovereign government authority or the establishment of procedures and processes related to the oversight of monetary transactions or entitlements. An inherently governmental activity involves:
    - (1) Binding the United States to take or not to take some action by contract, policy, regulation, authorization, order, or otherwise;
    - (2) Determining, protecting, and advancing economic, political, territorial, property, or other interests by military or diplomatic action, civil or criminal judicial proceedings, contract management, or otherwise;
    - (3) Significantly affecting the life, liberty, or property of private persons; or
    - (4) Exerting ultimate control over the acquisition, use, or disposition of United States property (real or personal, tangible or intangible), including establishing policies or procedures for the collection, control, or disbursement of appropriated and other federal funds.
  - b. While inherently governmental activities require the exercise of substantial discretion, not every exercise of discretion is evidence that an activity is inherently governmental. Rather, the use of discretion shall be deemed inherently governmental if it commits the government to a course of action when two or more alternative courses of action exist and decision making is not already limited or guided by existing policies, procedures, directions, orders, and other guidance that (1) identify specified ranges of acceptable decisions or conduct and (2) subject the discretionary authority to final approval or regular oversight by agency officials.
  - c. An activity may be provided by contract support (i.e., a private sector source or a public reimbursable source using contract support) where the contractor does not have the authority to decide on the course of action, but is tasked to develop options or implement a course of action, with agency oversight. An agency shall consider the following to avoid transferring inherently governmental authority to a contractor:
    - (1) Statutory restrictions that define an activity as inherently governmental;
    - (2) The degree to which official discretion is or would be limited, i.e., whether involvement of the private sector or public reimbursable provider is or would be so extensive that the ability of senior agency management to develop and consider options is or would be inappropriately restricted;



**FAX**

**To: Honorable Lyda Green  
Co-Chair, Senate Finance Committee  
Fax (907) 465-3805**

**From: Mr. Matthew Trail  
NASPO Association Director  
(859) 514-9159  
FAX (859) 514-9188**

**Date: April 22, 2005**

**RE: NASPO Resolution against Outsourcing State Procurement Functions**

*Dear Senator Green,*

*Enclosed please find a cover letter from NASPO President John Adler and a resolution approved by the National Association of State Procurement Officials (NASPO) in regards to its opposition to Senate Bill 160 and House Bill 257 currently pending in Alaska's legislature.*

*NASPO is a member organization consisting of the state purchasing directors for the centralized procurement organizations in each state.*

*I appreciate the opportunity to acquaint you with NASPO's position. Please feel to contact John Adler at (602) 542-5308 should you wish more information on NASPO's position. Thank you.*

*Matthew Trail  
NASPO Association Director*



April 22, 2005

The Honorable Lyda Green  
Co-Chair, Senate Finance Committee  
State Capitol  
Mail Stop 3100  
Juneau, AK 99881

RE: Senate Bill 160 and House Bill 257  
Outsourcing or Privatization of Public Procurement

Dear Senator Green:

On behalf of the National Association of State Procurement Officials (NASPO), I am writing to express our opposition to Senate Bill 160 and House Bill 257 currently pending in Alaska's legislature. NASPO is a member organization consisting of the state purchasing directors for the centralized procurement organizations in each state. While the membership is as diverse as the various laws, rules and regulations for each state, NASPO's members have overwhelmingly approved the attached resolution.

As you know, government and private enterprise are different. One is formed to serve the public interest; the other to earn profit. Procurement, for its part, is as much of a strategic function of government as taxation, policy development, or legislating. Indeed, procurement has the highest bottom-line impact of any government function and is therefore a key value creator for the tax-paying community.

Procurement's strategic importance, and its trust of public funds, requires stewardship by public servants held to standards developed within their respective state. To remove the core function of procurement from within the realm of government oversight presents a significant opportunity for waste, fraud, and abuse. It seriously endangers the goals of full accountability and delivering best value to the taxpayer.

On these grounds, NASPO believes outsourcing or privatizing state procurement functions is contrary to sound public and fiscal policy and recommends that you oppose Senate Bill 160 and its companion legislation, House Bill 257.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Adler'.

John Adler, CPPO  
President  
National Association of State Procurement Officials, 2004-2005



**NATIONAL ASSOCIATION OF STATE PROCUREMENT OFFICIALS  
A RESOLUTION OPPOSING PRIVATIZATION OR OUTSOURCING OF  
PUBLIC PROCUREMENT**

WHEREAS, state procurement is an inherently governmental function;

WHEREAS, 50 state and 87,525 local jurisdictions spend \$1.1 - \$1.35 trillion annually of public funds procuring goods, services and construction;

WHEREAS, state procurement has a strategic role in every function of government;

WHEREAS, state procurement requires specialized skills, knowledge and ability;

WHEREAS, state procurement requires a transparent process with clearly stated rules to ensure equity and fairness in awarding contracts and instill public confidence;

WHEREAS, state procurement protects public funds from conflicts of interest, anti-trust violations, fraud and abuse;

WHEREAS, state procurement ensures that contracting decisions serve the best interests of the government and its citizens;

WHEREAS, state procurement efficiently provides government programs with essential, quality and durable goods, services and construction;

WHEREAS, state procurement seeks maximum competition to obtain best value for the government and its citizens;

WHEREAS, state procurement serves small and disadvantaged businesses through open and fair competition and training, networking, outreach, mentoring and other programs;

WHEREAS, state procurement serves to improve our environment by seeking environmentally safe and energy efficient products, recycling and landfill reduction;

WHEREAS, state procurement serves communities in each state through cooperative procurement programs; and

WHEREAS, state procurement officials must maintain public trust and confidence and be accountable to the public.

**THEREFORE, BE IT RESOLVED THAT**, any effort to outsource or privatize state procurement is opposed by the National Association of State Procurement Officials; and be it further

RESOLVED that outsourcing state procurement functions is contrary to sound public and fiscal policy; and be it further

RESOLVED that outsourcing state procurement presents an opportunity for significant waste, fraud and abuse.

Adopted by  
National Association of State Procurement Officials  
April 22, 2005



NATIONAL INSTITUTE OF GOVERNMENTAL PURCHASING  
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Debra J. Nye, CPPO, CPPB  
Purchasing Manager  
City of McKinney, TX

April 21, 2005

The Honorable Lyda Green  
Co-Chair, Senate Finance Committee  
State of Alaska  
State Capitol, Room 516  
Juneau, AK 99801-1182

Senator Green:

Enclosed is a Resolution, unanimously passed by the National Institute of Governmental Purchasing, Inc. (NIGP) Board of Directors, which gives brief specific reasons for our strong opposition to the privatization of the procurement and contracting function by the State Government of Alaska, per State Senate Bill No. 160.

NIGP is national and international educational association with over 2,300 agency members within the United States.

Sincerely,

Rick Grimm, CPPO, CPPB  
Chief Executive Officer



NATIONAL INSTITUTE OF GOVERNMENTAL PURCHASING, INC.



**A RESOLUTION OPPOSING THE PRIVATIZATION OF THE  
PROCUREMENT AND CONTRACTING FUNCTION OF STATE  
GOVERNMENT IN ALASKA**

Having reviewed the main features of SB 160, a bill introduced into the Alaska Legislature, the goal of which is to privatize the Alaska State procurement function, the National Institute of Governmental Purchasing hereby states its opposition to this legislation for the following reasons:

**Whereas**, the public procurement function in Alaska has always been an inherently governmental function; and

**Whereas**, Alaska has the highest level of state spending per capita of any state in the nation, and is the recipient of the highest level of federal funding per capita of any state in the nation; and

**Whereas**, the underlying purposes of the public procurement function are to provide public confidence in the procurement procedures used by government agencies, to maximize to the fullest extent possible the use of public funds, to protect taxpayer funds from fraud and abuse, to foster effective broad-based competition, and to obtain in a cost-effective manner the materials, services and construction required by government agencies; and

**Whereas**, the unique benefits of the public procurement function include the promotion of a transparent system that ensures the fair and equitable treatment of all persons, that provides unfettered access to public dollars by all qualified suppliers, that leverages public spending to enhance socio-economic principles, and that assures integrity through ethical behavior; and

**Whereas**, the public procurement and contracting function is a public trust and, as such, the State of Alaska has previously adopted the Model Procurement Code for State and Local Governments to ensure that trust; and

**Whereas**, the complex and dynamic environment of the public procurement function requires government personnel with relevant, professional experience, continuity, and institutional knowledge; and

**Whereas**, the potential for inherent conflicts of interest between any firm providing privatized procurement functions and the state's vendor community must be recognized; and

**Whereas**, it is essential that those individuals who manage the public procurement and contracting function be fully committed to serving the public trust and fully accountable to the public rather than being committed and accountable to a for profit business;

**NOW, BE IT THEREFORE RESOLVED**, that the Board of Directors of the National Institute of Governmental Purchasing, Inc. (NIGP) opposes SB 160 and any action by Alaska Legislature to privatize the procurement and contracting function in Alaska State government.

I certify that the above resolution was adopted  
by the Board of Directors of the National Institute of  
Governmental Purchasing, Inc. at its official meeting on  
the 22<sup>nd</sup> day of April, 2005.

A handwritten signature in black ink, appearing to be "Richard H. Smith", is written over the date "22nd day of April, 2005".

**Alaska Support Industry****ALLIANCE**

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**GENERAL MANAGER**

Larry J. Houle

**THE ALLIANCE**

... for responsible development of Alaska's Oil, Gas & Mineral Resources

April 19, 2005

The Honorable Lyda Green  
Co-Chair Senate Finance  
Room 520, Capitol  
Juneau, AK 99801-1182

Dear Senator Green:

On behalf of the 380 member Alaska Support Industry Alliance I thank you for hearing SB 160 today. As you know the Alliance is a state-wide trade association founded in 1979 representing businesses, organizations and individuals that provide products and services to the oil, gas and natural resource industries. Because I will be arriving in Juneau about the time the Senate Finance Committee begins I thought it best to inform you of our position in writing should I not arrive in time to testify in person.

The Alliance Board of Directors fully supports SB 160 and the House companion bill HB 257. We believe it is prudent for the legislature to extend and expand the "pilot procurement" program. As former Senator Duncan stated in yesterday's House Judiciary Committee hearing it is in the "public interest to reduce overhead and the cost of government." Therefore, the Alliance believes this cost efficient private sector experiment in e-commerce should continue.

*Again, on behalf of the Alaska Support Industry Alliance we urge your committee to pass SB 160.*

Sincerely,

Larry Houle  
General Manager  
Alaska Support Industry Alliance

Cc: Senator Gary Wilken  
Senator Con Bunde  
Senator Fred Dyson  
Senator Bert Stedman  
Senator Lyman Hoffman  
Senator Donny Olson

Provided 4/19/05

## HB 160 Testimony

The Pilot Program authorized by HB 313 was rushed through in the final days of the 2003 Session. There were no measurements of success included in the bill, no benchmarks for comparison, and nothing to enable anyone to determine if the Pilot Program was a success or a failure.

Frankly, there does not appear to have been a lot of thought given to the Pilot Program. There was one hearing in House Finance, and one in Senate Labor & Commerce. The bill title is misleading. When we talked with legislators after HB 313 was passed, we were told it "just enabled e-commerce." In fact, it did much more than that.

Alaska Supply Chain Integrators (ASCI), who brought HB 313 forward, was the only "responsive" bidder, and was awarded a contract for Southeast DOT&PF. The State determined that they could save \$250,000 per year by eliminating the warehouse, and using fewer employees through the internet purchasing process. ASCI actually began work on July 1, 2004, and 10 state employees were laid off.

Since the Pilot Program began, only one quarter of performance has been audited. The second audit is currently in progress, and the third audit should be getting underway soon.

The Pilot Program is supposed to operate until June 30, 2006, when it is scheduled to expire. As the Department of Administration has testified, the jury is still out. It is too early to extend, or make permanent, the Pilot Program. This Bill, HB 160, should be held over while sufficient record is established to be able to intelligently make a decision whether the Program has been a success or not.

While Mr Hawkins has been quick to characterize the Pilot Program as a success, we have heard many negative reports regarding the Program and the service it is providing. For instance, we have heard that the actual cost of goods and services purchased through ASCI is as much as 16% greater than comparable costs made through the state's existing procurement processes. If true, this would mean that the state has paid more than \$2 million more than necessary for goods purchased through the Pilot Program. We have

heard that there are some 1500 invoices, valued at more than \$250,000, that remain unpaid because the Purchase Orders do not match the invoices. This affects the State's relationship with its suppliers, and denies many Alaska businesses timely payment, creating difficulties for those businesses. We have heard that, of the 7 orders for parts ordered through ASCI for the engine overhaul of the M/V Kennicott, 6 orders were shipped to Juneau and had to be re-shipped to the shipyard in Portland where the work was actually being done.

Of the original \$250,000 projected savings, about half was for eliminating the warehouse. But the warehouse has not been eliminated; there is no savings there. We have also heard that the ASCI employees working the Pilot Program are required to work extreme amounts of overtime; anticipated savings will be further reduced when those overtime bills are paid. It seems likely that the anticipated savings may not be borne out after the final audit – any savings will certainly be substantially less than the grand amounts “anticipated”.

In addition, since ASCI does not have to follow the State Procurement Code, their procedures do not meet the minimum requirements of federal purchasing, and they cannot order equipment, materials or services for construction projects funded or partially funded by federal monies. All purchases involving federal monies are still worked by state procurement personnel – there is no savings there.

There is also the matter of overhead, which was not budgeted. With a zero fiscal note, the State has had to assume the cost of overseeing the contract. The reality of the “anticipated”, promised savings seems more and more remote.

In summary, it is way, way too early to extend the current Pilot Program. From the anecdotal information we have heard (and formal, official audits are not yet available), instead of saving the State \$150,000, the Pilot Program will more likely cost the State additional millions of dollars. We think that the Pilot Program should run its course and have its effectiveness fairly and fully evaluated. We ask that you hold this Bill and check the progress and performance of the Pilot Program next year. We urge you to be sure to obtain direct testimony from Department of Transportation & Public Facilities, the “customers” of the Pilot Program, and get their impressions and opinions regarding the value of the Pilot Program's performance.



# State Procurement Pilot

Review and Outlook

Provided by Mr. Hawkins  
4/19/05



# About ASCI

- AK Company, est. 1999
- ~150 employees: Anc, Prudhoe, Jnu, Wasilla
- Specialize in supply chain mgt
  - Web tools (full eCommerce platform)
  - Business process operation
  - Measurements & continuous improvement
- Public sector vision: “overhead” efficiency



# Pilot Program Review

- ✓ HB 313 passed 2003 Session
- ✓ Initial pilot agency: DOT/PF SER
- ✓ Competitive RFP, award on 3/19/2004
- ✓ Procurement ops began 7/2/2004
- ✓ Warehouse ops began 10/1/2004
- ✓ I.T. tools live 10/1/2004
- ✓ Staff and cost reductions delivered



# Cost Savings Achieved

Savings Source	Amount
Personnel Costs	\$ 163,089
Goods: Catalog Purchases*	36,412
Total, Goods + Operations	\$ 199,501

*\*Based on current catalog only, 3% cost reduction per 2Q-3Q 2005 comparison of 972 catalog transactions, continued through 6/30/2006.*



# Cost of Goods Comparison

	2004 Q4	2005.Q1	To Date
Total Lines	306	600	972
# Lines Price increase	149	319	507
# Lines Price decrease	75	189	283
# of distinct products	183	333	451
Total Spend - Actual	\$ 25,070.30	\$ 152,381.95	\$ 184,768.54
Total Spend - Baseline	\$ 24,280.43	\$ 157,032.13	\$ 188,415.19
\$ increase/decrease	\$ 789.87	\$ (4,650.18)	\$ (3,646.65)
% increase/decrease	3.3%	-3.0%	-1.9%

*\*Based on DOT/PPF Southeast Region catalog transactions since web tools went live 10/1/2004.*



## Historical “Firsts” Achieved

- First full cycle, full scope supply chain management privatization among state governments in U.S. (best of our knowledge)
- First e-Commerce PO issued on the Internet by State of Alaska
- First web based requisition approved on Internet by an SOA employee
- First web based receipt processed by an SOA employee
- First electronic catalog transaction by SOA



## e-Commerce Numbers

Measurement	Value*
Nbr PO's Issued	1575
Nbr Requisitions Approved	2490
Nbr Vendors Transitioned	257
Nbr SOA Users Trained	112
Nbr Catalog Items Built	4940
Nbr Catalog Items Mapped	3769

*\*October 1, 2004 thru January 31, 2005*



## Custom e-Commerce Functions

- ❖ SOA authentication, acct. creation
- ❖ Real-time stock data
- ❖ Real-time accounting codes
- ❖ PO & Recpt integration with SOA
- ❖ Synchronization of vendors, depts, etc.
- ❖ At-Sea catalogs, other legacy support
- ❖ Geographic dimension added
- ❖ Customer notification functions



# Lessons Learned

- Consider location, labor force and season
- Size the engagement scope adequately:
  - Adequate management and planning resources
  - Avoid partial agency engagement
- Avoid disconnect between operations analysis and contractor
- Sequence milestones differently, if possible
- Importance of Agency change leadership



# The Opportunity Ahead

- Much of the hard work already done
  - Tools, rules and structure in place
- In position for an orderly, statewide expansion with operations in:
  - S-Central
  - Fairbanks
  - Juneau
- Substantial cost savings possible



## Policy Advantages of Senate Bill 160 “Procurement Modernization”

- ☺ Achieve sustainable, meaningful reductions in overhead costs!
- ☺ Consolidate purchasing between state agencies – better prices on goods and services
- ☺ Help State participate in U.S. productivity gains of past decade
- ☺ Shift funds from overhead functions to programs such as education, public safety
- ☺ Reduce future State retirement liabilities

**SB**

**164**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

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

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

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

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

<b>CHANGE IN REVENUES ( )</b>			<b>(1,000.0)</b>	<b>(1,500.0)</b>	<b>(1,000.0)</b>	<b>(500.0)</b>
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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>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

See page 2

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

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FISCAL NOTE # 1

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. SB 164

ANALYSIS CONTINUATION

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

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

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

AD w/o

~~Withdrawn~~

24-LS05891S

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

BY THE SENATE FINANCE COMMITTEE

Offered: 4/29/05  
Referred: Rules

Sponsor(s): SENATOR STEDMAN

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

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

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

(A) includes

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

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

(B) does not include

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

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

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

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

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

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

(C) is produced out of the state.

*Withdrawn*  
*Concept Amend. 1*  
*Delete*

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

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

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

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

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

12 or

13 (D) is produced out of the state.

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

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

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

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

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

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

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

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

1 seaming equipment on or after January 1, 2005.

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

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

4 AS 01.10.070(c).

# ALASKA STATE LEGISLATURE

## SESSION

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



## INTERIM

50 Front Street  
Ketchikan, AK 99901-6442  
Phone (907) 225-8088  
Fax (907) 225-0713

**SENATOR BERT K. STEDMAN**

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## SPONSOR STATEMENT CSSB 164(FIN)

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

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

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

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

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

DISTRICT A

Ketchikan • Sitka • Petersburg • Wrangell

# LEGAL SERVICES

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

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


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

## MEMORANDUM

April 29, 2005

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

**TO:** Senator Bert Stedman  
Attn: Tim Barry

**FROM:** George Utermohle   
Legislative Counsel

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

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

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

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

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

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

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

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

Senator Bert Stedman  
April 29, 2005  
Page 2

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

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

GU:jad  
05-242.jad



## MEMORANDUM

*Frank H. Murkowski, Governor*

DATE: April 15, 2005

TO: Senator Bert Stedman

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

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

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

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

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

Table 1

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

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

### DCCED COMMENTS

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

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

Value added equipment also increases economic activity in Alaska.

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

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

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

## Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway  
Juneau, AK 99801



Phone 907-586-6652

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

---

April 7, 2005

Senator Wagnor  
Senate Resources  
Alaska State Legislature  
Juneau, AK 99801

Support for SB 164

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

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

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

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

Sincerely,

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

Kathy Hansen  
Executive Director

**SUPPORT LETTERS**

# OCEAN BEAUTY

SEAFOODS, INC.

April 7, 2005

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

RE: *Senate Bill 164*

Dear Senator Stedman:

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

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

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

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

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

Sincerely,

*Mark Palmer*

Mark Palmer  
Executive Vice-President

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



## UNITED FISHERMEN OF ALASKA

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

April 12, 2005

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

Dear Senator Wagoner,

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

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

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

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

Sincerely,

Mark Vinsel  
Executive Director



# ICICLE

April 15, 2004

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

RE: SB 164 Extending salmon product development tax credit

Dear Senator Wagoner and Committee Members,

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

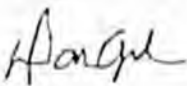
We utilized the salmon product development tax credit program in 2003 for the purchase of equipment that allows us to produce salmon roe (ikura) that is packaged using a modified atmosphere. These products have a much longer shelf life because they are not subject to oxidation and the formation of bacteria.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

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

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

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

Sincerely,  
ICICLE SEAFOODS, INC.

  
Don Giles  
President & CEO

ICICLE SEAFOODS, INC.



# ICICLE

May 6, 2005

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

RE: CS SB 164 Extending salmon product development tax credit

Dear House Resource Committee Members,

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

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

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

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

Your support of CS SB 164 would be most appreciated.

Sincerely,  
ICICLE SEAFOODS, INC.

Kris Norosz  
Government Affairs

**PETERSBURG FISHERIES**

A DIVISION OF ICICLE SEAFOODS, INC.

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

**SB**

**164**

**SFIN**

**FILE**

# SENATE FINANCE COMMITTEE REPORT

REPORTED OUT  
 APR 28 2005  
 SENATE FINANCE  
 COMMITTEE

DATE: 4/18/05

FURTHER:

DATE TURNED IN TO OFFICE: 29 April 2005

Finance Committee considered

SENATE BILL NO. 164

## SB 164 SALMON PRODUCT DEVELOPMENT TAX CREDIT

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

and recommends:

- be replaced with \_\_\_\_\_ CS SB 164 ( FIN )
- adopt previous \_\_\_\_\_ CS \_\_\_\_\_ ( \_\_\_\_\_ )
- attached amendment(s)
- adopt Letter of Intent by \_\_\_\_\_ Committee
- further referral to \_\_\_\_\_ Committee

**CS Senate Bill:**  
 Same Title  
 New Title

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

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Ind.	Zero	FN#

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Ind.	Zero	FN#
Rev.	4/13/05			✓	#1

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
	✓			
	✓		✓	
<b>COCHAIR:</b>			✓	
<b>COCHAIR:</b>	✓			

APR 28 2005

SENATE FINANCE  
COMMITTEE

# FISCAL NOTE

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

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

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

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

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

OPERATING EXPENDITURES	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

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

**FUND SOURCE** (Thousands of Dollars)

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

Estimate of any current year (FY2005) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2006 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

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

See page 2

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

FISCAL NOTE # 1

STATE OF ALASKA  
2005 LEGISLATIVE SESSION

BILL NO. SB 164

ANALYSIS CONTINUATION

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

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

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



Official Business

# Alaska State Senate

Senate Finance Committee

Mail Stop 3100  
State Capitol  
Juneau, Alaska 99801-1182

## FAX COVER SHEET

DATE: 28 April 2005 TIME: 4:30 pm

TO: Legal Services

NUMBER OF PAGES, INCLUDING COVER SHEET: 1

FROM: MINDY ROWLAND  
SENATE FINANCE COMMITTEE SECRETARY  
PHONE: 465-4935  
FAX: 465-2187

NOTES: Final Please

CS SB 104 (FIN) 24-LS0589\ L

Utermohle 4/27/05

no changes

Thx  
Mindy

THE  
FOLLOWING  
DOCUMENT(S)  
ARE  
POOR  
ORIGINAL  
COPIES

*Adopted* 4/28/05

WORK DRAFT

WORK DRAFT

WORK DRAFT

24-LS0589L

Utermohle

4/27/05

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

BY

Offered:

Referred:

Sponsor(s): SENATOR STEDMAN

A BILL

FOR AN ACT ENTITLED

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

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

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

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

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

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

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

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

WORK DRAFT

WORK DRAFT

24-LS0589L

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

4 (A) includes

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

9 (ii) new parts to convert an existing can scamer to  
 10 pop-top can production;

11 (B) does not include

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

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

21 <sup>a</sup> Sec. 3. AS 43.75.035(i) is amended by adding a new paragraph to read

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

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

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

31 (C) is produced out of the state.

WORK DRAFT

WORK DRAFT

24-LS0589L

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

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

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

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

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

12 or

13 (D) is produced out of the state.

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

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

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

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

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

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

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

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

WORK DRAFT

WORK DRAFT

24-LS0589L

- 1 seaming equipment on or after January 1, 2005.
- 2 \* Sec. 7. Section 4 of this Act takes effect January 1, 2006.
- 3 \* Sec. 8. Except as provided in sec. 7 of this Act, this Act takes effect immediately under
- 4 AS 01.10.070(c).

# ALASKA STATE LEGISLATURE

## SESSION

State Capitol, Rm 30  
Juneau, Alaska 99801-1182  
(907) 465-3873 Phone  
(907) 465-3922 Fax  
(877) 463-3873 Toll Free  
Senator\_Bert\_Stedman@legis.state.ak.us



## INTERIM

50 Front Street  
Ketchikan, AK 99901-6442  
Phone (907) 225-8088  
Fax (907) 225-0713

SENATOR BERT K. STEDMAN

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## SPONSOR STATEMENT SB 164

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

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

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

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

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

DISTRICT A

Ketchikan • Sitka • Petersburg • Wrangell

# LEGAL SERVICES

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

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

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

## MEMORANDUM

April 14, 2005

**SUBJECT:** Sectional summary of SB 164, An Act relating to the salmon product development tax credit (Work Order No. 24-LS05891)

**TO:** Senator Bert Stedman  
Attn: Tim Barry

**FROM:** George Utermohle *GU*  
Legislative Counsel

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

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

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

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

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

Section 4 of the bill amends sec. 7, ch. 57, SLA 2003 by delaying the repeal of the salmon product development tax credit until January 1, 2012.

Section 5 of the bill provides that the bill takes effect on the day after the bill becomes law.

GU:jad  
05-206.jad

## Southeast Alaska Fishermen's Alliance

9369 North Douglas Highway  
Juneau, AK 99801



Phone 907-586-6652

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

---

April 7, 2005

Senator Wagner  
Senate Resources  
Alaska State Legislature  
Juneau, AK 99801

Support for SB 164

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

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

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "Kathy Hansen".

Kathy Hansen  
Executive Director

# OCEAN BEAUTY

SEAFOODS, INC.

April 7, 2005

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

RE: *Senate Bill 164*

Dear Senator Stedman:

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

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

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

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

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

Sincerely,

*Mark Palmer*

Mark Palmer  
Executive Vice-President

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



## UNITED FISHERMEN OF ALASKA

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

April 12, 2005

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

Dear Senator Wagoner,

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

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

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

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

Sincerely,

Mark Vinsel  
Executive Director



# ICICLE

April 15, 2004

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

RE: SB 164 Extending salmon product development tax credit

Dear Senator Wagoner and Committee Members,

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

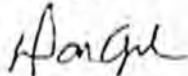
We utilized the salmon product development tax credit program in 2003 for the purchase of equipment that allows us to produce salmon roe (ikura) that is packaged using a modified atmosphere. These products have a much longer shelf life because they are not subject to oxidation and the formation of bacteria.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

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

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

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

Sincerely,  
ICICLE SEAFOODS, INC.

  
Don Giles  
President & CEO

ICICLE SEAFOODS, INC.

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

P.O. Box 79003 • Seattle, WA 98119 • Tel: 206-282-0988 • Fax: 206-282-7222



## MEMORANDUM

*Frank H. Murkowski, Governor*

DATE: April 15, 2005

TO: Senator Bert Stedman

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

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

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

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

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

Table 1

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

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

The size of the additional investment depends on a number of factors including the existing condition of a plant and the existence of other equipment. Several investments related to new machines may include:

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

Value added equipment also increases economic activity in Alaska.

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

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

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

## SENATE COMMITTEE REPORT First Committee of Referral

DATE: 4/6/05

FURTHER: Finance

Date of 5-Day Notice: 4/7/05  
(in accordance with Uniform Rule 23)

DATE TURNED  
IN TO OFFICE: 4/15/05

Resources Committee considered      SENATE BILL NO. 164

### SB 164 SALMON PRODUCT DEVELOPMENT TAX CREDIT

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

and recommends:

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

<b>CS Senate Bill:</b>	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
<b>SCS House Bill:</b>	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

**NEW FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#
DOR	4/13	✓			1

**PREVIOUS FISCAL NOTE(S):**

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
Elton <i>[Signature]</i>				✓
Cress <i>[Signature]</i>			✓	
Dyson <i>[Signature]</i>	✓	with →		✓
Seelins <i>[Signature]</i>		X		
Sedman <i>[Signature]</i>	✓			
B. Skrens <i>[Signature]</i>	✓			
Wagner <b>CHAIR:</b> <i>[Signature]</i>				✓

Do Pass w/ Amend  
 OK w/ 3.0.05  
 4/15/05

**SB**

**169**

**HFIN**

**FILE**



# FISCAL NOTE

STATE OF ALASKA  
2006 LEGISLATIVE SESSION

Fiscal Note Number: 2  
Bill Version: CSSB 169(JUD)  
(S) Publish Date: 4/29/06

Revision Date/Time (Note if correction): \_\_\_\_\_ Department: Labor and Workforce Development  
Title: Workers' Compensation Records RDU: Workers' Compensation  
Component: Workers' Compensation  
Sponsor: Senator Therriault  
Requester: Senate JUD Component Number: 344

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

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

OPERATING EXPENDITURES	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

<b>CHANGE IN REVENUES ( )</b>						
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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>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 (FY2006) cost: None  
Mark this box (X) if funding for this bill is included in the Governor's FY 2007 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)  
This bill would prevent the division from compiling or providing information about individual workers' compensation files for commercial use. There is no anticipated fiscal impact to the department as a result of this legislation.

Prepared by: Paul F. Lisankio, Director Phone: 465-6059  
Division: Workers' Compensation Date/Time: 4/27/06 3:29 PM  
Approved by: Greg O'Clary, Commissioner Date: 4/27/2006  
Agency: Department of Labor and Workforce Development

adopted

AMENDMENT |

OFFERED IN THE HOUSE  
TO: CSSB 169(JUD)

BY REPRESENTATIVE Meyer  
by request

Page 2, Line 6:

Following "address," insert: "social security number,"



# Alaska State Legislature

**Senate Majority** Web: [www.akrepublicans.org](http://www.akrepublicans.org)

**Sponsor:** Senator Gene Therriault  
**Current Version:** CSSB 169 (JUD)  
**Contact:** Heather Brakes, 465-4522

## Fact Sheet for: Senate Bill 169

**Short Title:** WORKERS' COMPENSATION RECORDS

### Summary:

- Stipulates that an employee's name, address, social security number and telephone number contained in a person's Medical or Rehabilitation records on file with the Division of Worker's Compensation are not public records subject to public inspection.
- Allows an employee to authorize the disclosure of such personal information by signing a declaration on a form provided by the division.

### Benefits:

- Protects the privacy of individuals who have filed a claim under the Workers' Compensation Act.

### Background:

- As introduced in 2005, SB 169 prohibited the Division of Workers' Compensation from assembling or providing information relating to individual records outside the scope of the Workers' Compensation Act. That section was incorporated into another bill and enacted through Chapter 10, FSSLA 2005. However, in the recent case *Kuebler v. Lisankie et.al.*, the Alaska Superior court found the statute to be ambiguous. Further, it found that the public right to access information outweighed an individual's right to privacy, absent a solid argument from the State in that litigation. The court found that the State did not submit any solid legislative intent or history on the matter. SB 169 is an attempt to clarify the Legislature's intent.