

## **POSSIBLE MOTION**

**I MOVE TO** approve Resolution 2019-28 on first and final reading adopting an alternative allocation method for the FY20 Shared Fisheries Business Tax program and certifying that this allocation method fairly represents the distribution of significant effects of fisheries business activity in FMA 18: Central Southeast Area.

# Memo

**Through:** Hugh Bevan, Interim Administrator  
**To:** Assembly of the City and Borough of Sitka  
**From:** Jay Sweeney, Chief Finance and Administrative Officer  
**Date:** December 18, 2019  
**Re:** Approval of Shared Business Fisheries Tax Alternative Method Resolution

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**Issue:** The City and Borough of Sitka must, by Resolution of the Assembly, adopt one of two methods for applying for shared business fisheries taxes collected from processing activities outside of the limits of incorporated cities or organized boroughs within a fisheries management area. The Assembly is asked to support Staff's recommendation of adopting the Alternate method.

**Facts:**

1. Alaska levies a fisheries business tax (also known as the "raw fish tax") on fisheries businesses and persons who process fishery resources in, or export unprocessed fishery resources from Alaska. The tax is based on the price paid to commercial fishermen for the raw resource, or fair market value when there is no arms-length transaction prior to processing or export. The State of Alaska, Department of Revenue collects fisheries business taxes from processors and persons who export unprocessed fishery resources from Alaska.

**Rate**

Fisheries business tax rates are based on the location and type of processing activity and whether a fishery resource is classified as "established" or "developing" by the Alaska Department of Fish and Game. Rates are as follows:

**Processing Activity**

Established	Rate
Floating	5.0%
Salmon Cannery	4.5%
Shore Based	3.0%
Developing	Rate
Floating	3.0%
Shore Based	1.0%

**Disposition of revenue**

The Alaska Department of Revenue deposits all revenue derived from the fisheries business tax into the Alaska State General Fund. The Alaska State Legislature then appropriates revenue from the tax for revenue sharing with Municipalities, as follows:

**A. Processing activities within municipal boundaries**

The Division shares 50% of tax collected with the incorporated city or organized borough in which the processing took place. If an incorporated city is within an organized borough, the Division divides the 50%

shareable amount equally between the incorporated city and the organized borough equally.

**B. Processing activities outside of municipal boundaries**

The Division shares 50% of tax collected from processing activities outside an incorporated city or an organized borough through an allocation program administered by the Department of Commerce, Community and Economic Development.

2. Fisheries business tax revenue sharing for processing activities within municipal boundaries is automatically sent to Municipalities every year; no application is required to receive such revenue.
3. Fisheries business tax revenue sharing for processing activities outside of municipal boundaries is allocated to all Municipalities within specific fisheries management area boundaries, utilizing an allocation formula and must be applied for annually.
4. The annual application process for shared fisheries business tax revenue sharing processing activities outside of municipal boundaries consists of (1) completing an written application form, and (2) passage of a Resolution by the Assembly.
5. The written application form for shared fisheries business tax revenue sharing processing activities outside of municipal boundaries requires municipalities to choose either a standard application method or an alternative application method.
  - a. The standard application method requires a municipality to determine and document the cost to the municipality of fisheries industry "significant effects" suffered in the previous year. "Significant effects" is defined as municipal expenditures demonstrated by the Municipality to the Department of Revenue to be reasonable and necessary that are the result of fisheries business activities of the municipality. Every municipal expenditure determined to be necessary as the result of fisheries business activities must be supported by documentation that clearly demonstrates the procedures and methods by which the cost of the expenditure was determined.
  - b. The alternative application method allows all municipalities within a fisheries management area to work together to develop an alternative formula for distributing the available funding among municipalities in the fisheries management area.
6. Sitka lies within Fisheries Management Area (FMA) 18, Central Southeast Area. Other municipalities within FMA 18 include Wrangell, Petersburg, Kake, and 5 other smaller towns.
7. The total amount of funding available for FMA 18 is \$30,985.91 for FY20.
8. Sitka, along with all other municipalities within FMA, has historically chosen the alternative application method in the past. The historic methodology adopted by municipalities within FMA 18 has been to divide available funding by the following formula: 50% of available funding is divided equally among the 9 municipalities in FMA 18, and, the other 50% is divided on a per capita basis, with Sitka receiving 55.2% of the per capita share. The total of both portions results in Sitka receiving 33.9% of all available funding in the program.

**Discussion**

1. Sitka has historically opted to utilize to alternative method for the following reasons:
  - a. Utilizing the standard method requires documentation of the costs of significant effects on the municipality by the fishing industry. Capturing and properly documenting such costs would require cost accounting capabilities within the Municipal Finance Department which are currently not resourced. While such cost accounting capabilities could be developed, through the hiring of additional employees (or external contracting) and development of internal cost accounting

processes, the amount of additional funding to be obtained through the standard application method would not justify the additional cost. Even if Sitka obtained 100% of all available funding in the program (which is so unlikely as to almost be impossible), the amount of additional funding over what is received in the alternate method would be another \$54,367, approximately the cost on one half-time accountant.

- b. Utilizing the standard method also means that the alternative application method historically utilized by the 9 communities in FMA 18 would be upended. It is unclear what would happen if one municipality chose the standard method and all other chose the alternative method. It is likely that all municipalities would still receive some share, even if one municipality claimed more in significant effects cost than there was available funding. This makes it likely that the amount of additional funding to be gained through the standard method would be small, again calling into question whether the additional amount would justify cost of gathering the data for the standard method.
2. It is estimated that the alternate method will result in revenue of \$10,518.2, 33.9% of the total of \$30,985.91 available.
3. FY19's Shared Business Fisheries Tax receipts were \$26,537.13 and were received on March 26, 2019.

### **Analysis of Alternatives**

1. Adopting the standard method might lead to marginally more revenue but would require a significant expenditure of time and effort to prepare. Costs of significant effects of the fishing industry on Sitka is anecdotal at this time; data necessary to document such costs is not available. Obtaining such data with existing resources and processes would involve (1) identifying expenditures, either wages or outlays for contracts or supplies, as being "a fishing industry effect" when either time cards are filled out, purchase orders prepared, or invoices coded, or (2) having accounting personnel go back and analyze previous expenditures for fishing industry effects. Identifying expenditures as having significant fishing industry effects, as they happen, is unrealistic, as it depends on employees outside of the Finance Department to consistently remember to code time cards and purchase orders for fishing industry effects, and this will not happen unless it is consistently managed and emphasized. Having Finance employees going back and analyzing prior expenditures for fishing industry effects is more realistic, but it would be time-consuming and expensive. Such activity requires judgment and critical thinking skills, and, would require a higher-level employee to effectively accomplish, making it cost-prohibitive for the minimal amount of additional possible revenue.
2. Adopting the alternate method is the most cost-efficient method. It obtains a reasonable share of the available funding for minimal additional effort, and more importantly, does not require costly additional resources to accomplish, nor does it take valuable staff time away from other more critical priorities. The alternate method would also allow the long-standing alternate methodology to remain in place and would not adversely impact the other 8 municipalities in FMA 18.

### **Recommendation**

Staff recommends that the Assembly adopt the accompanying resolution adopting an alternative allocation method for distributing the available shared business fisheries taxes, collected from processing activities outside an incorporated city or an organized borough in the fisheries management area, amount the municipalities within that area.