

**ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS
STANDING COMMITTEE**

April 10, 2001
8:07 a.m.

MEMBERS PRESENT

Representative Kevin Meyer, Co-Chair
Representative Carl Morgan, Co-Chair
Representative Andrew Halcro
Representative Drew Scalzi
Representative Lisa Murkowski
Representative Gretchen Guess
Representative Beth Kerttula

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 36
"An Act relating to enterprise zones."

- HEARD AND HELD

HOUSE BILL NO. 18
"An Act making an appropriation to the Department of Community and Economic Development for renters' tax equivalency payments; and providing for an effective date."

- MOVED HB 18 OUT OF COMMITTEE

PREVIOUS ACTION

BILL: HB 36
SHORT TITLE: ENTERPRISE ZONES
SPONSOR(S): REPRESENTATIVE(S) HAYES

Jrn-Date	Jrn-Page		Action
01/08/01	0033	(H)	PREFILE RELEASED 1/5/01
01/08/01	0033	(H)	READ THE FIRST TIME - REFERRALS
01/08/01	0033	(H)	EDT, CRA, FIN
02/09/01	0287	(H)	COSPONSOR(S): GUESS
02/22/01		(H)	EDT AT 5:00 PM CAPITOL 124

02/22/01		(H)	Heard & Held
02/22/01		(H)	MINUTE(EDT)
03/15/01		(H)	EDT AT 4:00 PM CAPITOL 120
03/15/01		(H)	Moved Out of Committee
03/15/01		(H)	MINUTE(EDT)
03/16/01	0623	(H)	EDT RPT 3DP 2NR
03/16/01	0624	(H)	DP: CRAWFORD, GUESS, MCGUIRE;
03/16/01	0624	(H)	NR: MORGAN, JAMES
03/16/01	0624	(H)	FN1: (CED)
04/04/01	0846	(H)	COSPONSOR(S): HALCRO
04/10/01		(H)	CRA AT 8:00 AM CAPITOL 124

BILL: HB 18

SHORT TITLE:RENTERS' TAX EQUIVALENCY PAYMENT APPROP.
 SPONSOR(S): REPRESENTATIVE(S)BERKOWITZ

Jrn-Date	Jrn-Page		Action
01/08/01	0028	(H)	PREFILE RELEASED 12/29/00
01/08/01	0028	(H)	READ THE FIRST TIME - REFERRALS
01/08/01	0028	(H)	CRA, FIN
01/26/01	0177	(H)	COSPONSOR(S): GUESS
04/09/01	0911	(H)	COSPONSOR(S): CROFT
04/10/01	0917	(H)	CRA RPT 4DP 1DNP 2NR
04/10/01	0918	(H)	DP: SCALZI, HALCRO, KERTTULA, GUESS;
04/10/01	0918	(H)	DNP: MEYER; NR: MURKOWSKI, MORGAN
04/10/01	0918	(H)	FN1: ZERO(CED)
04/10/01	0918	(H)	REFERRED TO FINANCE
04/10/01		(H)	CRA AT 8:00 AM CAPITOL 124

WITNESS REGISTER

REPRESENTATIVE JOE HAYES
 Alaska State Legislature
 Capitol Building, Room 422
 Juneau, Alaska 99801
 POSITION STATEMENT: Testified as the sponsor of HB 36.

NATE MOHATT, Staff
 to Representative Hayes
 Alaska State Legislature
 Capitol Building, Room 422
 Juneau, Alaska 99801
 POSITION STATEMENT: Testified on HB 36.

LARRY PERSILY, Deputy Commissioner
Department of Revenue
PO Box 110400
Juneau, Alaska 99811-0400

POSITION STATEMENT: Testified on the Department of Revenue's
fiscal note.

PATRICK FLYNN, Staff
to Representative Berkowitz
Alaska State Legislature
Capitol Building, Room 404
Juneau, Alaska 99801

POSITION STATEMENT: Testified on behalf of the sponsor of HB
18.

ACTION NARRATIVE

TAPE 01-19, SIDE A
Number 0001

CO-CHAIR CARL MORGAN called the House Community and Regional
Affairs Standing Committee meeting to order at 8:07 a.m.
Representatives Morgan, Meyer, Guess, and Kerttula were present
at the call to order. Representatives Halcro, Scalzi, and
Murkowski arrived as the meeting was in progress.

HB 36-ENTERPRISE ZONES

CO-CHAIR MORGAN announced that the first order of business would
be HOUSE BILL NO. 36, "An Act relating to enterprise zones."

Number 0081

REPRESENTATIVE JOE HAYES, Alaska State Legislature, testified as
the sponsor of HB 36. Representative Hayes read the following
sponsor statement:

The idea of enterprise zones originated in England
under Margaret Thatcher and was brought to the United
States under the Reagan Administration. The basic
idea is to stimulate the economy of depressed areas by
offering incentives, such as tax breaks, to
businesses. Enterprise zones have gained bipartisan
support from lawmakers across the country. Thirty-
eight states have passed enterprise zone legislation
and in 1994 the Clinton Administration reshaped the

enterprise zone idea into a federal program named Empowerment Zones/Enterprise Communities (EZ/EC).

The purpose of HB 36 is to help reinvigorate Alaska's depressed urban and rural areas. By providing incentives, businesses will be more likely to develop in depressed areas. This will in turn provide more jobs for the community, increase the average household income and, therefore, ... also the standard of living. Enterprise zones work and have been yielding promising results for nearly two decades.

Traditionally, enterprise zones rely on credits towards or exemptions from state taxes or fees. In Alaska, however, there is little in the way of state taxes. Therefore, in order to make this concept fit, HB 36 is based on a local control option. The backbone of the incentive package is the local control. The designation of an enterprise zone would authorize local communities to offer their incentives or incentives of choice from a short list, which would include reductions in permit or user fees, credits on or exemption from property taxes, flexibility in regulation or, lease or sale of real property to private persons.

On top of authorizing greater flexibility in providing local economic development incentives, HB 36 would also establish statewide corporate income tax credits. The two statewide incentives are a 15 percent of the initial investment would count as a credit towards the state corporate income tax and after one year of operation within an enterprise zone, a business could qualify for a corporate income tax credit of \$500 per new employee.

HB 36 will also help facilitate access to federal grant money. Various grant programs are available through the federal Department of Housing and Urban Development. Most notable are the Community Development Block Grants and the federal EZ/EC program.

The goal of HB 36 is to encourage business development and economic growth while providing new options to Alaskan communities to improve the quality of life.

HB 36 will be good for economic development in Alaska.
Please join me in [supporting this bill].

REPRESENTATIVE HAYES informed the committee that there should be a representative from the Department of Revenue, the Alaska Municipal League(AML), and the Barrow Economic Development Group. He pointed out that the committee packet includes a detailed sectional analysis and information with regard to what other states are doing with rural enterprise zones. Representative Hayes related his belief that in some areas in rural Alaska, enterprise zones would be doable.

Number 0412

CO-CHAIR MORGAN inquired as to the difference between the state enterprise zones and the federal empowerment zones.

REPRESENTATIVE HAYES explained that HB 36 would create a statewide program. Currently, Alaska has no avenue with which to gain the federal funds. Therefore, starting a statewide program would be the first step. He informed the committee that U.S. Senator Ted Stevens' office had informed him that at the federal level, grants amount to \$40 million for rural areas and \$100 billion for urban areas.

REPRESENTATIVE HAYES, in further response to Co-Chair Morgan, said that Metlakatla is the only empowerment zone in Alaska. He clarified, "We have one enterprise community [Metlakatla] in the state of Alaska and then we have a renaissance zone in Anchorage."

Number 0535

REPRESENTATIVE MURKOWSKI mentioned that part of her district is inside a renaissance zone. She asked if there is a difference between a renaissance zone and an enterprise zone.

REPRESENTATIVE HAYES explained that renaissance zones are able to obtain funding from the Department of Housing and Urban Development(HUD) to incorporate for housing. However, an enterprise zone would open economic development by bringing businesses to the community. The two are very different.

REPRESENTATIVE MURKOWSKI surmised, however, that an enterprise zone could be in a renaissance zone.

REPRESENTATIVE HAYES agreed, but pointed out that a renaissance zone doesn't receive any federal funding.

Number 0643

REPRESENTATIVE SCALZI asked if this legislation is necessary in order to allow for the creation of enterprise zones.

REPRESENTATIVE HAYES replied yes, because it would be easier to have an enterprise zone program if there is a statewide program. He explained that under the proposed statewide program four communities would be accepted by the state each year. Those four communities would go through the process of obtaining a federal grant. Staff in U.S. Senator Ted Stevens' office said that this would be the step that bridges the gap to obtain federal enterprise zone funding.

REPRESENTATIVE GUESS turned to the following language in HB 36: "The department may recommend to the governor and the legislature incentives to enterprise zones that include". She asked if that [language] refers to specific enterprise zones or the program overall.

REPRESENTATIVE HAYES explained that the department can recommend what the communities have already recommended. Once the proposals of the communities have been accepted, then the department will [forward] those recommendations.

Number 0771

REPRESENTATIVE MURKOWSKI inquired as to the reason for the cap, that is allowing only four enterprise zones each year.

REPRESENTATIVE HAYES explained that starting with four enterprise zones per year, with a maximum timeline of 20 years, seemed to be a reasonable number that isn't too large or too small.

REPRESENTATIVE MURKOWSKI then turned to the eligibility criteria and related her understanding that the area has to consist of one census tract. She inquired as to the number of census tracts in Anchorage or rather how many areas could qualify for this enterprise zone designation?

REPRESENTATIVE HAYES answered that there are only three [census tracts] in the City of Anchorage.

REPRESENTATIVE MURKOWSKI pointed out that Anchorage has half the population of the state. Therefore, she surmised that there will not be many areas that will make applications for an enterprise zone.

REPRESENTATIVE HAYES said that this is a local option.

Number 0992

REPRESENTATIVE MURKOWSKI related her understanding that a community would make a request to the department, which would prioritize the request and make recommendations, and the governor would designate up to four enterprise zones. However, the language in Section 2 mentions that the department may make recommendations to the legislature. Therefore, she inquired as to the role of the legislature in this process. Furthermore, she questioned whether the legislature really cares what the incentives are if the legislature isn't part of the process.

REPRESENTATIVE HAYES said that he didn't have a definitive answer.

REPRESENTATIVE HALCRO pointed out that the state mandates that all property be assessed at the full market value and no deviations are allowed unless there are legislative exemptions, such as the property tax referral bill for the McKay building. Therefore, he assumed that any deviation from the full market value assessment would require legislative action.

REPRESENTATIVE MURKOWSKI asked then if that is why Section 1 includes four incentives and Section 2(d) only lists three incentives. Section 2(d) doesn't include the following incentive: "flexibility in the municipality's regulation of the area, including establishing special zoning districts, special processing for permits, and exemptions from local ordinances". She asked if that is due to Representative Halcro's point.

REPRESENTATIVE HAYES replied yes. Representative Hayes clarified that the incentives listed in Section 1 pertain to municipalities, while those in Section 2 pertain to the state.

REPRESENTATIVE GUESS returned to the subject of census tracts and clarified that there are more than three census tracts in [Anchorage].

Number 1224

NATE MOHATT, Staff to Representative Hayes, Alaska State Legislature, agreed that there are many census tracts across the state. However, this bill specifically limits each municipality to three enterprise zones. He indicated agreement with Representative Guess that there would be more than three census tracts that would be eligible in Anchorage.

REPRESENTATIVE GUESS directed attention to page 1, line 11, and asked if census tracts could combine for this [program].

REPRESENTATIVE HAYES pointed out that a census tract must meet all the criteria listed in Section 1.

REPRESENTATIVE GUESS asked if the language refers to "at least one or is it just one."

REPRESENTATIVE HAYES specified that the language in HB 36 is in compliance with the federal program and thus wouldn't work with the federal program if the language is changed.

Number 1332

REPRESENTATIVE KERTTULA indicated agreement with Representative Guess' point that the eligibility for designation language says that "the area must consist of one census tract", but it doesn't say "shall only" or "must only."

REPRESENTATIVE MURKOWSKI agreed that the language could be interpreted to mean "at least."

REPRESENTATIVE HAYES, in response to Representative Kerttula, said that he could provide information regarding how the federal program is applied.

Number 1378

REPRESENTATIVE SCALZI asked if there are any negatives to this program.

REPRESENTATIVE HAYES said that he hasn't found much opposition. Although the Municipality of Anchorage fears that this would erode their tax base, he wasn't sure how that could be since a community has the local control to choose what it wanted to use as its plan. The rural areas seem amenable to this and AML is supportive of this. In response to Representative Halcro, Representative Hayes explained that the Municipality of Anchorage is neutral on this matter because they feel that it

would erode their tax base. However, those under the Mayor of Anchorage's chief of staff feel that HB 36 is an excellent piece of legislation.

REPRESENTATIVE HALCRO expressed surprise with the Municipality of Anchorage's position because he had a meeting with the head of the Anchorage Downtown Partnership during which this idea was pitched.

Number 1500

CO-CHAIR MEYER related his belief that if the Municipality of Anchorage is really upset about HB 36, the committee would have heard about it. Therefore, he surmised that the chamber may not understand how and where this could be used. He also recalled the flack that occurred with the McKay building because of the notion of preferential treatment of certain developers.

CO-CHAIR MEYER turned to the fiscal note and inquired as to why this program would cost the state additional money.

REPRESENTATIVE HAYES explained that the department felt that with a new program, it would need a development specialist for half of the first year of the program in order to run the program.

CO-CHAIR MEYER pointed out that a reduction in property tax would impact the cities not the state. He surmised that the hope is that these zones will create more economic activity and thus gain more money in the long term.

REPRESENTATIVE HAYES pointed out that there is a zero fiscal note from the Department of Revenue. He informed the committee that there would be a decline in state income if the option of 15 percent is chosen. He said that Deputy Commissioner Larry Persily, Department of Revenue, could speak to that if the committee wishes.

Number 1649

REPRESENTATIVE MURKOWSKI addressed ensuring that this is truly a local option. She related her understanding that a neighborhood could approach a municipality for an enterprise zone and the municipality could refuse. She asked whether there was any way a neighborhood that qualified could circumvent the refusal of the municipality and [gain the ability to have an enterprise zone].

REPRESENTATIVE HAYES replied, "Not the way this bill is drafted." He agreed with Representative Murkowski that the municipality has to "sign on" [to the neighborhood's wish to have an enterprise zone].

Number 1729

REPRESENTATIVE KERTTULA inquired as to how necessary the additional departmental staff is for this program. She also asked if Representative Hayes felt that the department could administer this program under its existing budget.

MR. MOHATT explained that the \$33,000 in the first year would be for one half of a staff person's time. The department hasn't said whether it needs to hire a new position but rather [the fiscal note] reflects that someone [already on staff] would have to dedicate part of their time to reviewing the applications.

REPRESENTATIVE KERTTULA inquired as to the sponsor's thoughts if the committee decided to have a zero fiscal note.

REPRESENTATIVE HAYES said that he had no argument with a zero fiscal note. He emphasized that this funding will only be for four a year "at best."

Number 1858

LARRY PERSILY, Deputy Commissioner, Department of Revenue, informed the committee that the Department of Revenue has a zero fiscal note because it won't cost the department anything to administer the program. However, there is a cost to the state for any tax credit program in that [the department] would forgive revenue that it would otherwise get. He clarified that he was referring to Section 5 of HB 36. Mr. Persily emphasized that the department cannot estimate the future loss of tax revenue to credits if enterprise zones were allowed. Therefore, he surmised that the choice for the legislature is: "How much revenue would you lose to credits versus how much new development, new business, new jobs would you create?"

MR. PERSILY informed the committee that in Alaska only C corporations pay corporate income tax while S corporations, partnerships, limited liability companies, and proprietorships don't pay corporate income tax. He pointed out that the largest corporate taxpayers in Alaska are oil companies. Therefore, he assumed that it isn't the intent of the supporters of this

legislation to offer an incentive to oil companies. However, these facts are important to keep in mind because oil companies are the largest corporate taxpayers in Alaska and have the most to gain from any business incentive.

MR. PERSILY related his understanding that under HB 36, if a corporate taxpayer cannot use the entire tax credit within one year, the tax credit would be lost. He posed an example in which a corporation invests \$2 million and has a \$300,000 credit at the 15 percent credit rate. If that corporation doesn't have \$300,000 in tax liability, the corporation would only write off the credit to the extent of their liability and the unused credit would disappear because it cannot be carried over. Mr. Persily said the department believes that would be a good policy.

Number 2059

REPRESENTATIVE MURKOWSKI posed an example in which Boeing moved its headquarters to Mountainview, Alaska. The Municipality of Anchorage would be concerned due to the potential loss of corporate tax from Boeing. She understood that the tax credit would be given for a 20-year period.

MR. PERSILY agreed that the tax credit would be given for a 20-year period. However, he specified that the state rather than the municipality would be concerned about the potential loss of a corporate tax. Mr. Persily remarked that this would work well if a large corporation makes a large investment that it otherwise would not make. Although the state would lose X dollars in corporate income tax receipts, receipts that would not have otherwise been obtained would be obtained. Furthermore, jobs would be created and if there was ever an income tax, then there would be revenue from those jobs as well.

Number 2145

REPRESENTATIVE HALCRO surmised that the legislature would have the final approval on any taxing incentives.

MR. PERSILY turned to Section 5 and related his understanding that the 15 percent would not be subject to legislative or gubernatorial approval. However, as mentioned earlier, a property tax would require a statutory change. Mr. Persily likened this to the education tax credit, which doesn't require any legislative action because the statute already exists.

Number 2209

REPRESENTATIVE SCALZI returned to the oil companies. He asked if this legislation would relate to any new facility or does it have to be a new business or new enterprise or would the mode of business have to be changed in order to obtain the tax credit.

MR. PERSILY related his understanding that it would merely have to be a new facility. He explained, "It can be an existing business that's expanding, but it can't replace something." For instance, the headquarters on C Street cannot be closed and reopened on B Street and called a new business. If a tool and die maker wanted to expand and build a new warehouse, that would be a new business, a new facility, and thus they could qualify for the credit.

REPRESENTATIVE SCALZI turned to the example of the tool and die maker and asked whether they would be changing their structure in order to qualify versus merely moving the business. Representative Scalzi wondered if this could be a tax credit loophole that really doesn't do anything for economic development, but creates a tax credit for an existing business.

MR. PERSILY reiterated his interpretation that it would have to be a new [facility] and not a replacement. There would have to be an expansion that is new, something that adds value to the state. In further response to Representative Scalzi, Mr. Persily said that he would like to think that the Department of Revenue would be the entity that would quantify that.

Number 2353

REPRESENTATIVE KERTTULA referred to Section 5(c), which says that a new business facility could replace another facility. Therefore, she surmised that there could be a situation similar to that described by Representative Scalzi.

MR. PERSILY explained that [in such a situation] the company would receive credit for the additional value.

REPRESENTATIVE KERTTULA then referred to Section 2(d)(2), which refers to the recommendation on state income taxes to go to the legislature. Therefore, she wasn't sure whether it would be automatic or it would go back for approval.

MR. PERSILY said that the department interpreted that to refer to anything additional, such as the incentive packages cities offer to attract large sports arenas.

REPRESENTATIVE KERTTULA returned to Section 5(a) that begins by saying, "In addition to any other tax credit allowed for the investment under this chapter". Although that may be true, she indicated the need to add clarifying language to address Mr. Persily's interpretation. She suggested that the clarifying language could say, "in addition to the credit allowed under Section 5". She acknowledged that it is a bit circular.

MR. PERSILY pointed out that Section 5 refers to other credits available under that chapter, such as education credits and mineral exploration credits, and thus that language would be necessary to cover those credits.

Number 2491

REPRESENTATIVE MURKOWSKI inquired as to the legislature's role in this other than considering recommendations for additional incentives under Section 2. From what she could see, everything is left to the governor in regard to what is granted as well as the incentives. She asked if under Section 5, the legislature could say that the tax credits shouldn't be given to a particular entity. She also asked whether the legislature has any role in this at all.

MR. PERSILY informed the committee that Section 5 deals with AS 43, which addresses the Department of Revenue. Therefore, the department read this legislation as a definite tax credit of 15 percent plus \$500 per employee. However, [Section 2] that deals with AS 44.33 addresses the Department of Community & Economic Development, which makes recommendations to the governor. The Department of Revenue is involved in the tax only.

REPRESENTATIVE KERTTULA related her belief that Mr. Persily is correct because there are [two] different sections.

REPRESENTATIVE MURKOWSKI pointed out that the legislature has no authority with this beyond receiving the recommendations that go to the governor. The governor makes the decisions in Section 1. She interpreted it to mean that if there are additional incentives, then the legislature would advise that these incentives are available.

REPRESENTATIVE KERTTULA echoed Representative Halcro's earlier point that the legislature may have to enact a law if there were differing property taxes. The governor wouldn't be able to do that automatically and thus that language is present.

MR. PERSILY related his interpretation that the governor can't do what is prohibited by statute. The governor can't grant exemptions on property taxes and the governor can't change corporate taxes. Mr. Persily emphasized that the governor is very limited in what he/she can do without legislative approval. Mr. Persily said that he wasn't aware of any tax laws that could be changed by the governor alone.

REPRESENTATIVE HAYES informed the committee of his concern with regard to politicizing this outside of the community making the decision. Representative Hayes felt that it made sense for the legislature to authorize this, but beyond that the legislature would [not be involved].

Number 2776

REPRESENTATIVE GUESS asked Representative Hayes if he agreed with Mr. Persily that the reduction of state permit or user fees couldn't happen without coming to the legislature.

REPRESENTATIVE HAYES replied yes. He anticipated the municipalities choosing one of their four choices unless there is a major entity entering the state in which case the legislature would be involved. Representative Hayes reiterated that this is a local control option.

REPRESENTATIVE MURKOWSKI said that it couldn't hurt to be more definitive in Section 2(d)(2) and clarify that if legislative action is necessary, then the legislature would do what is necessary.

Number 2878

REPRESENTATIVE MURKOWSKI moved a conceptual amendment to clarify Section 2(2)(d) by specifying that if legislative action is necessary that would be the purview of the legislature.

REPRESENTATIVE HAYES said he wouldn't have any objections to that.

There was no objection stated and thus the conceptual amendment was adopted.

There was discussion regarding how this conceptual amendment would require some creative writing on the part of the draft.

REPRESENTATIVE HAYES wondered if legislative intent should be included to add further clarity.

TAPE 01-19, SIDE B

REPRESENTATIVE MURKOWSKI indicated that the sponsor could provide the committee with some intent language that it could review.

REPRESENTATIVE HAYES said that he or the committee could talk with the drafter regarding the language [of the conceptual amendment]. He deferred to the will of the committee.

CO-CHAIR MORGAN announced that HB 36 would be held to the next scheduled hearing in order to provide the committee with the new language in a committee substitute.

REPRESENTATIVE KERTTULA said that she would like to hear from the Department of Commerce & Economic Development because she didn't see the need for their fiscal note. If there is no case for that fiscal note, then she announced that she would recommend there be a zero fiscal note.

CO-CHAIR MEYER noted his agreement with Representative Kerttula. He commented that HB 36 is a good bill and he hated to see problems arise due to the fiscal note, which he didn't agree with either.

The committee took an at-ease from 8:58 a.m. to 9:01 a.m.

HB 18-RENTERS' TAX EQUIVALENCY PAYMENT APPROP.

Number 2874

CO-CHAIR MEYER announced that the next order of business would be HOUSE BILL NO. 18, "An Act making an appropriation to the Department of Community and Economic Development for renters' tax equivalency payments; and providing for an effective date."

Number 2859

PATRICK FLYNN, Staff to Representative Berkowitz, Alaska State Legislature, informed the committee that HB 18 would restart the

renters' tax equivalency program that would provide a small stipend to seniors and disabled veterans who rent homes in jurisdictions that levy property taxes. This program came into being because the state allowed \$150,000 in tax free property ownership for a senior or disabled veteran's personal home and thus the state felt it appropriate to apply the same concept to those who don't own their own home. He reminded the committee that the property tax exemption is a state mandate that is no longer funded by the state, and therefore the cost falls on the municipalities. Unfortunately, the renters' tax equivalency program was eliminated in the fiscal year 2000 budget. The hope with this bill is to re-implement a worthy and morally correct program.

MR. FLYNN addressed how the program would work. The program would be administered by the Department of Community & Economic Development (DCED), who would receive applications. He stressed that this program is not need-based but rather self selected need-based. In other words, people who don't need this money typically don't apply for it. Mr. Flynn explained that the program is not need-based because seniors and disabled veterans find it insulting to have to demonstrate that they have a sufficiently low income to qualify for the program. Furthermore, the program serves only about 1,100 people and thus implementing need-based testing would likely cost more than the occasional abuser of the program.

MR. FLYNN explained that the senior or disabled veteran who is 50 percent or more disabled would apply for the program. The credit amount is based on the number of applicants and the funding available and is parsed out on a per capita basis. In the program's last year, fiscal year 1999, the average stipend benefiting program participants was \$277. He specified that the \$277 stipend went to 993 seniors and 112 disabled veterans.

Number 2681

MR. FLYNN, in response to Co-Chair Meyer, specified that about 1,100 people benefited from this program in the last year of its operation. He informed the committee of the following breakdown of participants per year:

1992 - 1,032 participants
1993 - 1,207 participants
1994 - 1,233 participants
1995 - 1,048 participants
1996 - 1,092 participants

1997 - 1,111 participants
1998 - 1,105 participants

CO-CHAIR MEYER noted that there was a zero fiscal note for this program. However, he asked if this program would require a person to review the applications.

MR. FLYNN interpreted the zero fiscal note to be because the department is intimately familiar with this program and because there is no needs test, the department merely has to verify that the person is 65 years old or older or a disabled veteran with at least a 50 percent disability.

CO-CHAIR MEYER agreed that this program would seem to be relatively easy to administer. However, HB 36 would require a position even though there would only be four applications a year. It was further noted that the fiscal note for HB 18, which is zero, was prepared by the same department as the money fiscal note for HB 36. Therefore, Co-Chair Meyer highlighted the inconsistency.

Number 2578

CO-CHAIR MEYER acknowledged that the senior citizen property tax exemption program is covered by municipalities, while the program in HB 18 would be covered by the state. Therefore, the programs aren't exactly the same.

MR. FLYNN informed the committee that in the program's nascent years, the senior citizens' and disabled veterans' property tax exemption was funded by the state and municipalities were reimbursed for the full amount of that program as part of the municipal assistance and revenue sharing program. As revenues to the state declined, one of the decisions made by the legislature was to fund that program at lower and lower levels until there was no funding. When both programs were new, both were entirely state funded. However, the senior citizens' property tax exemption program continues because there was someone to which to pass the [cost], but there was no such option with the renters' tax program.

CO-CHAIR MEYER inquired as to why the renters' tax program couldn't be passed to the municipalities.

MR. FLYNN answered that he believes there would be a separation of powers issue if municipalities were told what they had to spend their money.

CO-CHAIR MEYER inquired as to the reason this legislation didn't pass when it was introduced in the prior legislature.

MR. FLYNN explained that the House Finance Committee declined to hear the bill.

Number 2466

REPRESENTATIVE SCALZI turned to the \$277 per applicant. He asked if that amount is the amount in taxes on the individual's rent within one year.

MR. FLYNN replied, "Yes, essentially." He explained that this money is intended to pay the taxes for the renter so that the renter would receive the same benefit as someone who owns his/her own home.

REPRESENTATIVE SCALZI inquired as to what would happen in Anchorage where there is no sales tax, but there is a property tax. He asked if there is a differentiation in the percentage that is paid.

MR. FLYNN answered that to his knowledge, there is no differential applied from municipality to municipality. Therefore, each beneficiary of this program would receive the same amount of money. In further response to Representative Scalzi, Mr. Flynn said that it doesn't matter that there is a sales tax. The calculation is based on the number of applications and the amount of money available.

Number 2341

REPRESENTATIVE SCALZI restated his question as follows: "As far as the calculation of the tax, that's now being applied to the renter where there is no sales tax, how is that tax calculated that we're trying to reimburse. Or, is there a tax there?"

REPRESENTATIVE HALCRO explained that there is no tax but rather there is basically a stipend regardless of the rent or sales tax. The stipend is based on the number applicants divided into the amount of dollars available for the reimbursement. This is basically a subsidy.

MR. FLYNN agreed with Representative Halcro and noted that this program is commonly known as the renters' rebate. In further

response to Representative Scalzi, Mr. Flynn agreed that this is how the program was structured before.

REPRESENTATIVE SCALZI surmised then that there is no way to quantify the equivalent of the tax.

MR. FLYNN informed the committee that it would require approximately \$1.2 million to fully fund this program. However, in the interest of fiscal responsibility, HB 18 includes a more modest proposal of \$300,000.

REPRESENTATIVE HALCRO recalled that the funding level of this program in its last year, 1998, was \$275,000.

Number 2200

MR. FLYNN agreed with Co-Chair Meyer that funding the program at \$300,000 for approximately 1,100 participants would result in \$277 per person. However, he suspected that the participation for the first year would be a bit lower since the program hasn't been in existence for a year. He noted that municipalities do actively solicit applicants from their economically depressed seniors and disabled veterans. In further response to Co-Chair Meyer, Mr. Flynn reiterated that the program is not need-based because there is concern that it is insulting to have to demonstrate the economic need for this program. Furthermore, if this program was need-based, then he suspected there wouldn't be a zero fiscal note.

CO-CHAIR MEYER remarked that if the program isn't need-based, then it is tantamount to giving the senior citizens a permanent fund dividend.

MR. FLYNN acknowledged that there are probably unscrupulous individuals that would take advantage of this program. However, he generally believes in the goodness of humanity and that those that don't need this program won't apply.

REPRESENTATIVE KERTTULA mentioned that when this legislation first came about she [reviewed] the Juneau recipient list for this program. She knew almost all the people on that list, all of whom she considered lower income people.

Number 2095

REPRESENTATIVE MURKOWSKI inquired as to how a veteran would be determined to have a 50 percent disability, which would qualify that veteran for this program.

MR. FLYNN pointed out that disabled veterans qualify for the property tax exemption and this program uses the same process.

REPRESENTATIVE MURKOWSKI surmised then that there must be some paperwork that the disabled veteran must file.

MR. FLYNN also pointed out that [the property tax exemption] is also administered by the department and thus would lend support to why this program can be added.

REPRESENTATIVE MURKOWSKI referred to Representative Whitaker's bill regarding not needing to file [the senior property tax exemption] on an annual basis. However, Representative Murkowski assumed that under HB 18 one would have to file and establish that the individual is a renter in a particular neighborhood and that the individual is a disabled veteran and a senior.

MR. FLYNN specified that a senior is an individual who is 65 years old or older.

REPRESENTATIVE MURKOWSKI expressed her annoyance with DCED issuing a fiscal note for HB 36 to handle four applications, while it issues a zero fiscal note for this program.

Number 1822

REPRESENTATIVE MURKOWSKI remarked that this program should be part of the budget rather than being part of a stand-alone bill. However, she understood why it has been introduced as such. Representative Murkowski mentioned that the \$300,000 for this program doesn't fund the program to the degree at which it would make a difference, although it would probably make a difference to the individuals.

REPRESENTATIVE MURKOWSKI expressed her concern that the senior portion is not need-based. However, she didn't believe that there would be the abuse with this program that would occur with other exemption programs. She didn't foresee extensive abuse with this program that is going to offer \$277. Still, she expressed concern that it would cost as much to set up the program as it will to provide the exemption.

REPRESENTATIVE HALCRO agreed with Representative Murkowski. He related his belief that this is part of a larger question. For instance, the legislature can't go much longer without facing the [ability to fund] the senior citizens' property tax exemption. He related the projection that in the year 2006, the senior citizens' property tax exemption will cost Alaskan communities over \$50 million. These communities have to absorb that cost because the legislature won't fund the program or make it a local option. He didn't believe that Alaskan communities could carry the burden much longer without help from the state. Representative Halcro noted his support of HB 18.

Number 1608

REPRESENTATIVE GUESS noted her agreement with the previous two speakers. She then turned to the abuse of the program and agreed with Mr. Flynn that having a need test is not worth it when compared to the cost of the program.

CO-CHAIR MEYER agreed that there will be some abuse. However, he agreed with the intent of the legislation. Co-Chair Meyer expressed his concern that the fiscal note isn't accurate because reviewing 1,200 people and verifying the age and disability of the participant will cost some money. Furthermore, the \$300,000 that breaks down to \$277 per individual isn't much, although it is better than nothing.

REPRESENTATIVE KERTTULA recalled that when this cut happened many people contacted her because that small amount of money did make a difference in people's lives. Therefore, she felt this program is a small step towards rebuilding something that was lost.

Number 1441

REPRESENTATIVE HALCRO moved to report HB 18 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HB 18 was reported from the House Community and Regional Affairs Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:29 a.m.