

**ALASKA STATE LEGISLATURE  
HOUSE SPECIAL COMMITTEE ON ECONOMIC  
DEVELOPMENT, TRADE AND TOURISM**

February 22, 2001  
5:10 p.m.

**MEMBERS PRESENT**

Representative Lesil McGuire, Chair  
Representative Joe Green  
Representative Jeannette James  
Representative Carl Morgan  
Representative Beverly Masek  
Representative Norman Rokeberg  
Representative Fred Dyson  
Representative Harry Crawford

**MEMBERS ABSENT**

Representative Gretchen Guess

**COMMITTEE CALENDAR**

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

- HEARD AND HELD

**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
01/08/01	0033	(H)	REFERRED TO EDT
02/09/01	0287	(H)	COSPONSOR(S): GUESS
02/22/01		(H)	EDT AT 5:00 PM CAPITOL 124

**WITNESS REGISTER**

NATHANIEL (NATE) MOHATT, Staff  
to Representative Joe Hayes

Alaska State Legislature  
Capitol Building, Room 422  
Juneau, Alaska 99801

POSITION STATEMENT: Presented HB 36 on behalf of sponsor.

PAT POLAND, Director  
Division of Community and Business Development  
Department of Community and Economic Development (DCED)  
550 West 7th Avenue, Suite 1770  
Anchorage, Alaska 99501-3510

POSITION STATEMENT: Explained "census tracts" in relation to HB 36.

TAMARA COOK, Director  
Legislative Legal and Research Services  
Legislative Affairs Agency  
Alaska State Legislature  
State Capitol  
Juneau, Alaska 99801-1182

POSITION STATEMENT: Answered questions relating to HB 36 and state income taxes.

#### **ACTION NARRATIVE**

TAPE 01-10, SIDE A  
Number 0001

CHAIR LESIL McGUIRE called the House Special Committee on Economic Development, Trade and Tourism meeting to order at 5:10 p.m. Members present at the call to order were Representatives McGuire, Green, Morgan, Masek, and Crawford. Representatives Dyson, James, and Rokeberg arrived as the meeting was in progress. Representative Guess was excused.

#### **HB 36 - ENTERPRISE ZONES**

CHAIR McGUIRE announced that the committee would hear HOUSE BILL NO. 36, "An Act relating to enterprise zones."

Number 0081

NATHANIEL (NATE) MOHATT, Staff to Representative Joe Hayes, Alaska State Legislature, presented HB 36 on behalf of Representative Hayes, sponsor, who was out of town. He read from the sponsor statement and elaborated, as follows:

The idea of enterprise zones originated in England under Margaret Thatcher and was brought to the United States by the Reagan Administration in the early '80s. The basic idea is to stimulate the economy of depressed areas by offering incentives; traditionally, tax incentives have been the primary incentive offered.

Enterprise zones have gained bipartisan support from lawmakers across the country for the last two decades. Thirty-eight states have passed enterprise zone legislation, and in 1994 the Clinton Administration reshaped the enterprise zone idea into a federal program that they named Empowerment Zone/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 a depressed area. This will in turn provide more jobs to the community, increase the average household income, and, therefore, also the standard of living. Enterprise zones work and have been yielding promising results for the last two decades.

Traditionally, enterprise zones have relied on reductions in state taxes or fees. In Alaska, however, we don't have much of a state tax structure to talk about. Therefore, in order to make the concept fit to Alaska, House Bill 36 is based on local control and local option.

The designation of an enterprise zone would authorize localities to offer the incentive or incentives of choice from a short list of options: ... a reduction in the municipality's permit or user fees; credits or even exemption from [the] municipality's property taxes; flexibility in regulation of the area; or ... lease or sale of the municipality's real property to private persons.

On top of the incentives program, House Bill 36 ... will also facilitate access to federal grant money available through the [EZ/EC] program .... One of the requirements for becoming a federal empowerment zone is that you put together what they call a strategic plan; two of the pieces of the strategic plan would

be more easily filled if we had a state enterprise zone program in place. ... The first of these is ... proving that ... the affected community is a full partner in the process.

Basically, if we have a region designated as an enterprise zone, that is conclusive proof that the community and the local state are already a full partner, are already working on producing economic development in the area.

Number 0401

Also, the plan must identify the amount and type of state and local resources available to the community. Having talked with people from the NCSL [National Conference on State Legislatures] and ... with [U.S.] Senator Stevens' office, I've been informed that these local resources that must be made available do not need to be monetary, and that an enterprise zone program ... could be considered a resource that the state made available.

The designation of a community as a state enterprise zone would provide conclusive evidence and demonstration of the state's ... and locality's commitment to the revitalization of the community.

The goal of House Bill 36 is to encourage business development and economic growth while providing new options to Alaskan communities to improve the quality of life. House Bill 36 would be good for economic development in Alaska, and I ask for your support.

Number 0572

REPRESENTATIVE GREEN said he could understand that this would be a godsend for a large community in the Lower 48. He asked where this would apply in Alaska, however, and what would be considered a depressed area.

MR. MOHATT answered that it would benefit primarily any municipality incorporated into a borough or similar structure, but a number of rural municipalities and boroughs could potentially benefit. He reported that he had been in contact with the following to determine interest: John Walsh, lobbyist for the Bristol Bay Borough; people in the Ketchikan area; and

NANA Corporation, which was perhaps going to provide some proposed changes [to HB 36].

Number 0709

MR. MOHATT explained that a locality or municipality would apply to the state, asking to be part of this program because of being a depressed community. The Department of Community and Economic Development (DCED) would prioritize the applications and make a list, which the governor would review in order to pick four each year. There is no different process for urban versus rural areas.

Number 0838

REPRESENTATIVE GREEN restated that he can certainly see it in a large city. He requested further clarification.

MR. MOHATT reiterated that he doesn't know that there is any difference between the way that a rural or urban area would apply for the program. Mr. Mohatt said he suspects that if a couple of villages are geographically close, within the same census tract, both could be within the same enterprise zone, to his understanding of the bill.

Number 0945

REPRESENTATIVE MASEK referred to the sponsor statement and said she is a big supporter of economic development. She expressed concern, however, about the tax credit and property taxes. She asked who would pay for police and fire service, for example. Would that fall to other property owners in the borough or a municipality?

MR. MOHATT emphasized the local option and local control in terms of who pays for such services. The idea is not to erode any tax base within a community, he said, but to bring in new businesses through incentives. If it were felt that offering a property tax break, exemption, or credit would hurt the infrastructure and cause an inability to pay for fire and police protection, [a community] could choose to use another incentive, such as the sale of the municipality's real property to private persons or flexible regulations relating to the zoning process.

REPRESENTATIVE MASEK asked, in essence, who would pick up the tab in depressed areas where development was attempted but had failed.

MR. MOHATT answered that if no business decided to develop within an enterprise zone, there would not be a property tax credit. If there were no businesses developing there, there wouldn't be any loss of property taxes.

Number 1150

MR. MOHATT, in response to a question by Representative Masek, clarified that the strategic plan is for the federal program; the state program proposed in HB 36 would not require one. Currently, two empowerment zones in Alaska are designated under the federal program: Metlakatla and a section of Anchorage, "Mountain View/Fairview." Both had gone through a long application process, the biggest part of which was putting together the strategic plan.

MR. MOHATT pointed out that the state program would provide an easy way to fulfill some requirements of the strategic plan. He also suggested that streamlining the process of putting together a strategic plan would be greatly helped if the state were to apply for more empowerment zones under the federal program, which has a lot of money, available in block grants, to give businesses to develop in the empowerment zones.

REPRESENTATIVE MASEK commented that it is still federal tax dollars, however, "taxes that we pay."

Number 1294

REPRESENTATIVE JAMES asked how long Metlakatla and Mountain View have been in this program, and what has happened.

MR. MOHATT responded that Metlakatla was one of the first enterprise communities designated in the U.S. In the ensuing six years, to his understanding, there has been significant economic development, including improved job opportunities on the reservation.

CHAIR MCGUIRE reported that she had met with those folks. Through this empowerment zone, they had secured grants and attracted funding. Their main project, a hard-rock facility, should be completed by next year.

MR. MOHATT explained that Mountain View is still relatively new as an enterprise zone, having been around for two or three years. The trend with the federal program is that in the first

five years, not too many benefits have been noticed. He said he doesn't know what has happened in the Mountain View area over the last two years.

Number 1433

CHAIR McGUIRE asked Mr. Mohatt if he could contact some people in the Mountain View area who might have a better understanding about that program's success and/or failure. She also suggested that it would be helpful to hear from Metlakatla.

MR. MOHATT agreed to do that, noting that he had been talking with the mayor's office in Anchorage already.

CHAIR McGUIRE suggested that a list of questions be presented to Representative Hayes and his staff, who could return and fill the committee in.

Number 1505

REPRESENTATIVE CRAWFORD asked whether the purpose is to get federal or state dollars. He suggested there probably aren't many local "breaks" in Dillingham or Ketchikan; if so, that would have been done already. He also asked what kind of geographic area "one census tract" is.

MR. MOHATT deferred to DCED personnel to answer the "census tract" question.

Number 1583

PAT POLAND, Director, Division of Community and Business Development, Department of Community and Economic Development (DCED), said he had limited experience with census tracts, but they would vary depending upon the locality. Anchorage, for example, has a number of census tracts. More typically, a census tract in rural areas will consist of a community, in and of itself.

MR. POLAND remarked that census tracts are "conglomerated into another division that the census uses in assembling their numbers." He said he isn't certain whether the term "tract" applies to a really small locality or to the larger ones, which tend to correlate with municipal boundaries. In other words, all of the tracts in the Anchorage areas would fit within the Municipality of Anchorage. In rural areas, there may be larger census groupings. In response to a comment by Representative

Rokeberg, he further clarified that it is different from a grid on a map; it will often follow a river, for example.

Number 1733

MR. MOHATT emphasized that the main goal of the bill is not the federal money, although it would be a great bonus. Instead, the goal is to step up to the plate, as a state, and do something for economic development. This concept has been around for more than 20 years, and none of the 38 states with enterprise zones has repealed the law. The bill is intended to find a way to bring this concept for economic development, which has had astounding results across the country, to Alaska.

MR. MOHATT, in response to a question by Representative Dyson, characterized this as a "marketing ploy" as well, because a state program can not only allow these incentives to be in place, but also lets the businesses know that this is available.

Number 1920

REPRESENTATIVE DYSON inquired about the fiscal note.

MR. MOHATT explained that it had just been received that day. In the first year, DCED will need to dedicate half of an employee's time to setting up the regulations and getting the program in place and moving. Following that, the \$16.6 [thousand] is for one-quarter of [an employee's time] to review applications and make suggestions.

Number 1976

REPRESENTATIVE ROKEBERG asked why a state law is needed if a [community] such as Metlakatla or Mountain View can establish an enterprise zone.

MR. MOHATT clarified that Metlakatla and Mountain View are part of the federal program, which is limited in the number of zones that can be established. To his understanding, there also is a restriction upon how many zones can be designated within a certain population; Mr. Mohatt said he would be willing to review the law itself regarding that. In addition, the federal program requires a strategic plan, which involves a long, difficult process; this will help to speed that process along. He added, "On top of it, it's not just relying on the federal government to bring economic development to the state."

Number 2064

MR. MOHATT, in response to a question by Representative Green, referred to a list in bill packets of the 38 states [that have this program]. He noted that some states consider this mainly an urban incentive program, whereas other states directly target rural areas.

REPRESENTATIVE GREEN pointed out that the listed states have large cities, where he believes this plan might work in the "blighted" portions. He again questioned how this might work in rural areas.

MR. MOHATT agreed that a predominance of the states have large, urban [populations]. However, Iowa and Colorado have one big city each, with the rest of the state being fairly rural - although not in the way Alaska is. He added that the federal program has targeted both urban and rural areas, which is why there are two different names: empowerment zones are urban-area programs, and enterprise communities are the rural version, to his understanding. He mentioned that the Pine Ridge Reservation in South Dakota, an enterprise community, was the first economic development program to show any results in Pine Ridge, which he called "extremely rural," similar to much of Alaska.

Number 2265

CHAIR McGUIRE requested that when the sponsor and his staff come back before the committee, they pick a few states that they believe to be "success stories" in areas classified as rural, in order to give members an idea of how this is working "in the field."

Number 2297

REPRESENTATIVE JAMES offered her personal experience with this kind of issue, where people coming into a community are given an advantage such as reduced taxes that everyone [else] pays. She cited an example in the Lower 48 where a company was given free water for 20 years; when the 20 years was up and the city opted not to renew the free water, the company "closed and went away," which was devastating [to the community].

REPRESENTATIVE JAMES said it seems that in order to set up an enterprise zone, something must be given from the community; however, the kinds of communities that [would qualify] wouldn't have anything to give, including cheaper electricity, water, or

taxes; they might not even have specifically trained people to take the jobs. She suggested that if communities had an ability to coax people to come in, they could do that without this legislation. Unless some outside money or assistance were being sought from the state or federal government, she failed to see the real advantage, Representative James said. She requested that when the sponsor comes before the committee again, he try to convince her that it isn't so.

MR. MOHATT clarified that many people with whom he has spoken have been excited about the program because it would be easier to get federal money, which would be given to businesses to help curb setup costs, for example. He added that some "granted towns" in rural Alaska aren't incorporated into a borough or municipality, and may not be able to offer one of the four incentives [in HB 36]. Mr. Mohatt said he would like to find a solution for that. He emphasized the desire to find a way to make this work for all of rural Alaska, rather than just for incorporated boroughs; he restated that he is awaiting a response from NANA Corporation regarding that.

MR. MOHATT pointed out that there are rural cities within boroughs, and that there have been hardships in some Southeastern communities because of the loss of the timber industry. Drawing attention to the list [of local incentives] at the top of page 3 of the bill, he suggested this could work well in communities such as Ketchikan, which has property taxes, permits and fees, and so forth.

Number 2563

REPRESENTATIVE MORGAN referred to Section 2, page 3, line 27, which talks about "credits on state income taxes or exemptions from the taxes". He also referred to Section 4, page 5, line 10, which contains the phrase "Alaska income tax". He asked why those references to state income taxes are in the bill.

MR. MOHATT deferred to the drafter, but noted that she was temporarily out of town.

Number 2606

TAMARA COOK, Director, Legislative Legal and Research Services, Legislative Affairs Agency, came forward. She pointed out that Section 5, an amendment to the Alaska Net Income Tax Act, is an important section that hasn't been discussed [in this committee]. She explained that the Alaska Net Income Tax Act

applies to businesses. Although there is no personal income tax, it doesn't mean Alaska doesn't have a state income tax.

MS. COOK explained that Section 5 contains one of the "carrots" with which to lure businesses. Noting that "investments" is defined, she said if new businesses come in, they will qualify for a state income tax credit, as well as special treatment, she believes, for their employees, under the provision that begins on page 6, line 27.

Number 2686

REPRESENTATIVE ROKEBERG acknowledged that Ms. Cook wasn't the drafter of HB 56. He then asked whether, by amending the code, [HB 56] would be making provisions for "credits against trust partnerships and limited liability companies." He said he knew that corporations paid taxes, but that he didn't know that LLPs [limited liability partnerships], partnerships, and trust paid taxes in the state.

MS. COOK replied that this section, as it is drafted, allows credit for any tax imposed under that chapter, the Alaska net income tax chapter. Ms. Cook said she knew so little about taxation that she would have to read the chapter in order to find out to whom it applies; however, she believed that it applied to various business entities.

REPRESENTATIVE ROKEBERG restated his understanding that the state doesn't tax partnerships, LLPs, or LLCs [limited liability companies]. He expressed concern about what the drafter had in mind, "unless they're anticipating any change in the tax regime in the future." He suggested that it is tampering with the corporate income tax.

Number 2741

MS. COOK responded that on its face, it only applies to taxes that would be otherwise collected under [AS] 43.20.

REPRESENTATIVE ROKEBERG replied, "Which is the corporate income tax."

MS. COOK agreed, restating that it is the Alaska Net Income Tax Act.

REPRESENTATIVE ROKEBERG referred to Section 5, paragraph (d)(2) [page 6, beginning at line 8].

REPRESENTATIVE JAMES asked whether a net mining tax is included in that.

REPRESENTATIVE ROKEBERG noted that it has a list including corporations, LLCs, partnerships or associations, and trusts. He suggested that the drafter would have to be asked about it.

MS. COOK specified that the drafter would be back on Monday.

Number 2797

CHAIR McGUIRE asked whether there were further questions; none were offered. She announced that HB 36 would be held over for further discussion.

#### **ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Economic Development, Trade and Tourism meeting was adjourned at 5:54 p.m.