

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

April 7, 2003

3:20 p.m.

MEMBERS PRESENT

Representative Tom Anderson, Chair
Representative Bob Lynn, Vice Chair
Representative Nancy Dahlstrom
Representative Carl Gatto
Representative Norman Rokeberg
Representative Harry Crawford
Representative David Guttenberg

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 194

"An Act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations; and providing for an effective date."

- MOVED CSHB 194(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 148

"An Act instructing the State Board of Registration for Architects, Engineers, and Land Surveyors to adopt minimum technical standards relating to the practice of surveying."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 218

"An Act relating to the exercise of peace officer powers by employees of the Alcoholic Beverage Control Board, and continuing the existence of the Alcoholic Beverage Control Board."

- BILL HEARING POSTPONED

PREVIOUS ACTION

BILL: HB 194

SHORT TITLE:REGIONAL DEVELOPMENT ORG TAX CREDIT

SPONSOR(S) : REPRESENTATIVE(S) ANDERSON

Jrn-Date	Jrn-Page		Action
03/14/03	0541	(H)	READ THE FIRST TIME - REFERRALS
03/14/03	0541	(H)	CRA, L&C, FIN
04/01/03		(H)	CRA AT 8:00 AM CAPITOL 124
04/01/03		(H)	Moved Out of Committee MINUTE(CRA)
04/02/03	0735	(H)	CRA RPT 2DP 5NR
04/02/03	0735	(H)	DP: ANDERSON, MORGAN; NR: KOTT,
04/02/03	0735	(H)	SAMUELS, WOLF, KOOKESH, CISSNA
04/02/03	0735	(H)	FN1: ZERO(CED)
04/02/03	0735	(H)	FN2: ZERO(REV)
04/07/03		(H)	L&C AT 3:15 PM CAPITOL 17

WITNESS REGISTER

MARK GRABER, Auditing Manager
Division of Taxes
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Answered questions on HB 194.

MERTEN BENGEMANN-JOHNSON, Vice President
Anchorage Economic Development Corporation [AEDC]
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 194, noting that AEDC helped recruit Federal Express to locate at the Anchorage airport.

LEE THIBERT, Chief of Staff
Chugach Electric Association
Anchorage, Alaska

POSITION STATEMENT: Voiced support for HB 194 and noted that ARDORS such as AEDC provide valuable support to businesses.

CARL BERGER, Executive Director
Lower Kuskokwim Economic Development Council
Bethel, Alaska

POSITION STATEMENT: Testified in support of HB 194 and described his council's efforts to promote local fishing and tourism.

TIM ROGERS, Legislative Program Coordinator

Municipality of Anchorage
Anchorage, Alaska

POSITION STATEMENT: Spoke in support of HB 194, explaining that the municipality supports and funds the work of the Anchorage Economic Development Corporation.

ACTION NARRATIVE

TAPE 03-30, SIDE A

Number 0001

CHAIR TOM ANDERSON called the House Labor and Commerce Standing Committee meeting to order at 3:20 p.m. Representatives Anderson, Lynn, Dahlstrom, and Crawford were present at the call to order. Representatives Gatto, Rokeberg, and Guttenberg arrived as the meeting was in progress.

HB 194-REGIONAL DEVELOPMENT ORG TAX CREDIT

Number 0056

CHAIR ANDERSON announced that the only order of business would be HOUSE BILL NO. 194, "An Act creating a tax credit under the Alaska Net Income Tax Act for contributions to regional development organizations; and providing for an effective date."

CHAIR ANDERSON, as sponsor of HB 194, testified that several corporations approached him, noting that many companies donate to the state's 13 ARDORS [Alaska regional development organizations] but do not receive a tax credit. He explained that ARDORS do a variety of economic projects, from recycling to port development. He noted that this bill gives Alaskan corporations a tax credit for a donation up to \$10,000 to an ARDOR, but the bill does not change the existing \$150,000 cap on tax credits. He said the \$10,000 tax credit does not take revenue from the general fund. The bill has two zero fiscal notes.

Number 0288

CHAIR ANDERSON moved to adopt the committee substitute (CS) for HB 194, Version 23-LS0773\H, Kurtz, 4/4/03, as the working document. Hearing no objection, Version H was before the committee.

CHAIR ANDERSON explained the provisions of the proposed CS. The Department of Community & Economic Development asked that the

following language be inserted. On page 3, lines 9-10 and lines 16-17, the CS reads in part:

For purposes of this subsection, "regional development organization" means a nonprofit organization or nonprofit corporation that ... (3) has been designated by the Department of Community and Economic Development as a regional development organization.

CHAIR ANDERSON commented that this change assures that a company gets a tax credit for a contribution to one of the state's 13 designated ARDORs. He quoted Mayor George Wuerch, Municipality of Anchorage, who wrote in his [March 28, 2003] letter of support that "Without economic development, we cannot hope to solve the state's fiscal dilemma nor can we ensure a vibrant future for the state."

CHAIR ANDERSON listed the 13 ARDORs: Anchorage Economic Development Corporation, Arctic Development Council, Bering Straits Development Council, Copper Valley Economic Development Council, Fairbanks North Star Borough Economic Development Commission, Interior Rivers Resource Conservation and Development Council, Kenai Peninsula Borough Economic Development District, Lower Kuskokwim Economic Development Council, Mat-Su Resource Conservation and Development Inc., Northwest Arctic Borough Economic Development Commission, Prince William Sound Economic Development District, Southeast Conference, and Southwest Alaska Municipal Conference. [The work of the various ARDORs] reaches the entire state, he added.

Number 0480

REPRESENTATIVE CRAWFORD asked if these companies already take full advantage of the \$150,000 tax credit cap, would [contributions to other charities be reduced] because of the addition of ARDORs [to the tax credit law].

CHAIR ANDERSON responded that it's hard to predict.

Number 0536

REPRESENTATIVE CRAWFORD asked if HB 194 would hurt the United Way. He said there's a social good in developing new businesses. But when legislators created the \$150,000 tax credit, did they consider [ARDORs] as charities the same as food banks or the United Way, he asked.

CHAIR ANDERSON noted that this [additional type of tax credit] forces charities to compete for donations, and he said he applauds that. Charities should compete to prove themselves efficient and worthy, he said; ARDORs are equally important in terms of development.

Number 0672

REPRESENTATIVE CRAWFORD asked if only \$10,000 out of \$150,000 cap could be given to an ARDOR.

Number 0765

MARK GRABER, Auditing Manager, Division of Taxes, Department of Revenue, said there is a flat \$10,000 limit for each corporation, which could be divided among several ARDORs. But a corporation can't get more than a \$10,000 credit [for this type of donation].

REPRESENTATIVE GATTO stated that a tax credit is a tax forgiveness, dollar for dollar - a great deal for corporations. He said corporations can use tax money that would go to the state to donate to an ARDOR of their choice. How does the public benefit, he asked; what is the advantage to the citizen and to the state. He noted that the advantage to the corporation is enormous.

Number 0903

MERTEN BENGEMANN-JOHNSON, Vice President, Anchorage Economic Development Corporation [AEDC], stated that his organization supports HB 194. He said he believes this bill will have a positive impact on economic development. It will make it easier for AEDC and other regional development organizations to solicit contributions from corporate taxpayers to support local economic development efforts. HB 194 will give regional development organizations an incentive to build strong relationships with local businesses. It may have a positive impact, not just on the state budget, but also on local budgets by encouraging economic growth, he testified.

Number 1016

REPRESENTATIVE GATTO questioned how the state gets a tool to help develop businesses with HB 194.

MR. BENGEMANN-JOHNSON said this [new type of tax credit] is not a matter of taking money away from the state. The \$150,000 limit remains in place. The money would be used to recruit businesses into the state and to help retain and expand existing businesses, all activities that would increase the tax base, he said.

REPRESENTATIVE GATTO said he would prefer to invest the \$10,000 himself.

Number 1129

MR. BENGEMANN-JOHNSON explained that the AEDC is a public-private partnership. The group receives funds to support economic development from the [Municipality] of Anchorage, the State of Alaska, and from private corporations. The AEDC, for example, successfully recruited Federal Express to locate at the Ted Stevens Anchorage International Airport.

CHAIR ANDERSON listed the letters of support received for HB 194 from various ARDORs, local governments, and businesses.

Number 1224

REPRESENTATIVE GATTO noted that the letters are from groups who will benefit from the bill. He said he does not object to the bill, but he disagrees that these corporations are allowed to direct their tax money, something he said he'd like to be able to do. Taxpayers are not allowed to chose how their tax money is spent on the federal level, but it's okay [for corporations] to do it on the state level, he said.

CHAIR ANDERSON reviewed the concepts behind HB 194. He suggested that if Representative Gatto objects to the concept of the tax credit, he needs a different bill to deal with that objection. This bill simply says that a company can receive another type of tax credit under the \$150,000 tax cap.

Number 1421

LEE THIBERT, Chief of Staff, Chugach Electric Association, explained that his company is the largest electric utility in Alaska, serving 60,000 member-owners. He said that roughly half of the retail load is from commercial customers, and these small- and medium-sized businesses benefit the most from overall economic development. He said that organizations such as the Anchorage Economic Development Corporation provide valuable

information to businesses who are trying to expand and attract new markets. Chugach Electric supports HB 194.

REPRESENTATIVE ROKEBERG asked whether Chugach Electric qualifies for a tax credit [as a business] or whether it is a nonprofit organization.

MR. THIBERT explained that Chugach Electric is a tax-exempt organization so it will receive no direct benefit from HB 194.

Number 1506

CARL BERGER, Executive Director, Lower Kuskokwim Economic Development Council, testified that the council is a very small organization; he is the sole employee. The council operates in Southwest Alaska and represents Bethel and 26 other villages that are accessible only by air. The program has operated since 1992. He noted that the council receives \$47,000 in state funding and raises other funds to keep the program functioning. The cost of doing business is much higher [in this part of the state]. The new tax credit in HB 194 gives him one more tool, but there's no guarantee that he'll get such a contribution. Many local businesses assist with cash contributions as well as in-kind contributions for the various activities promoted in the region.

CHAIR ANDERSON noted the types of tax credits currently available in state law: insurance tax credits for gifts to colleges, insurance tax credit for gifts to the Alaska Fire Standards Council, income tax education credit, oil or gas producer education credit, oil or gas property education credit, mining business education credit, fisheries business education credit, and fisheries resource landing tax education credit.

Number 1647

MR. BERGER responded to two questions from Representative Rokeberg about his council. The annual budget last year was \$74,170; \$26,100 of that was cash contributions because of an inadequate state grant. He described several successful projects. The council provided ice bags to commercial fishermen, which improved the quality of the catch, thereby earning a slightly higher price. With the low return of fish in the region, he said, there have been disaster declarations for the last four out of five seasons. Another project involved the visitor industry. The council sponsored familiarization trips for travel industry representatives. He explained that these

visits demonstrated the local attractions of sport fishing, river rafting, and bird watching. He indicated a small increase in the number of visitors to the region; every new visitor brings money to the region.

CHAIR ANDERSON noted these tax credits are related to business enterprise and resource development.

Number 1902

MR. BERGER explained that his group is not a charity. Answering two questions from Representative Guttenberg, he explained that the council is a nonprofit with 501(c)(3) status from the IRS. The council does not earn any income through gaming.

REPRESENTATIVE GUTTENBERG asked Mr. Berger to describe the economics of the icing project and inquired whether it provides enough of an enhanced product to pay for itself.

MR. BERGER replied that the council has received funds from groups as diverse as the Alaska Conservation Foundation, ExxonMobil Corporation, and the U.S. Department of Agriculture. Most of the funds go into equipment for fishermen to use without charge, for example, the flesh ice bags. In this fishery, he noted, people use open skiffs, pick fish from the nets, put them right into the bags filled with slush ice, then transport the fish directly to the buyer. The single buyer, Coastal Village Fisheries, insists on iced fish but is paying several cents more a pound than it did in the past. This project gives a return to the fishermen, he said, and it makes a good quality product. The fishermen face tremendous shipping prices getting their fish to market.

Number 2078

TIM ROGERS, Legislative Program Coordinator, Municipality of Anchorage, explained that the municipality supports AEDC with about \$450,000 per year from tax revenues. He said this public-private partnership has successfully promoted economic development. AEDC has been instrumental in attracting Federal Express, UPS, and several smaller businesses. He noted that HB 194 will not dilute the revenue that the state receives from [corporate income] taxes.

REPRESENTATIVE GATTO quoted a letter of support from an ARDOR that noted it had made 150 small business loans in order to

stimulate business opportunities. He asked if there is room for abuse in loans and questioned who oversees these activities.

MR. ROGERS replied that AEDC does not make loans. Primarily it attracts new businesses to Anchorage and provides technical assistance to existing businesses.

CHAIR ANDERSON noted that Representative Gatto was quoting a [March 26, 2003] letter of support from Mayor Roswell Schaeffer Sr., of the Northwest Arctic Borough.

Number 2195

REPRESENTATIVE GUTTENBERG asked whether a corporation getting this tax credit also gets a deduction off its federal return.

MR. GRABER, Department of Revenue, responded that the federal rules operate independently of the state tax credit. Whether the corporation receives a federal deduction depends on whether the ARDOR has a 501 [charitable organization] federal designation. He answered another question from Representative Crawford, saying that the corporation could get a tax credit from the state and a deduction from the federal government [for the same contribution to an organization with a 501 charitable status].

Number 2277

MR. GRABER, at the request of Chair Anderson, clarified that the education credit currently in the statute goes to four-year colleges in Alaska and is limited to \$150,000. Under the \$150,000 cap in state law, there are three types of current credits: the education credit, a credit to the Alaska Fire Standards Council, and a new third credit for the Alaska Veterans Memorial Fund. HB 194 would add a fourth credit type for ARDORS. [Contributions to ARDORS] shouldn't affect charitable contributions at all, but there might be an [an impact on donations to] colleges and universities.

CHAIR ANDERSON reiterated that corporate donations to charities are not affected by this bill.

TAPE 03-30, SIDE B

Number 2360

REPRESENTATIVE ROKEBERG asked Mr. Graber to clarify whether a corporation is double-dipping with a contribution to an ARDOR -

if it has 501 status - because it receives both a state tax credit and a deduction on its federal return. He asked if the language on page 3, lines 18-21, prevents such double dipping. This language reads in part:

(b) A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title;

(2) also be allowed as a deduction under 26 U.S.C. 170 against the tax imposed by this chapter;

MR. GRABER replied that this language means for Alaska income tax purposes, a corporation cannot take a [state] charitable deduction [in addition to a state tax credit]. He added that Alaska has no say over whether the corporation claims a federal deduction. In response to a question from Representative Rokeberg, he surmised that the federal government wouldn't care about Alaska's tax credits; states commonly treat charitable contributions differently than the federal government. He explained that the section of the bill references the federal revenue code because [AS 43.20], the Alaska Net Income Tax Act, adopts the Internal Revenue Code with some exceptions. That rule says that if a business takes a credit for an Alaskan purpose, the business won't get the deduction on the Alaska income tax return.

Number 2218

REPRESENTATIVE GUTTENBERG asked if HB 194 throws ARDORS into the same pool [competing for donations] as [charitable organizations such as] Big Brothers Big Sisters.

REPRESENTATIVE ROKEBERG noted that a business can "double-dip" by donating to a charity such as Big Brothers Big Sisters, getting a deduction on both state and federal returns; but the business doesn't also get a tax credit on its Alaska income tax. He confirmed with Mr. Graber that HB 194 involves a tax credit instead of a tax deduction, so it's a dollar for dollar reduction in the taxes owed, rather than a reduction of its adjusted gross income. He noted that the tax credit offered for a contribution to an ARDOR is a more inviting donation for corporations because they get a better tax benefit.

CHAIR ANDERSON noted, as a board member of [the Anchorage] Big Brothers Big Sisters, that various corporations regularly donate

to this organization. He said he did not think they would stop giving because of HB 194.

CHAIR ANDERSON closed the public testimony.

Number 2000

REPRESENTATIVE DAHLSTROM moved to report the proposed CSHB 194, Version 23-LS0773\H, Kurtz, 4/4/03, out of committee with individual recommendations and the two accompanying zero fiscal notes.

Number 1985

REPRESENTATIVE GUTTENBERG objected. He noted that all the sources of funding for nonprofits - the legislature, the federal government, and other grantors - are decreasing, and HB 194 is one more consideration [making it harder for nonprofits to raise money]. Development is important to get out of the [economic] hole, but he said, he's not sure where the return [to the state] is on HB 194.

REPRESENTATIVE CRAWFORD said HB 194 is a zero gain under the existing \$150,000 tax credit. He said the fact that businesses making donations get a dollar for dollar credit for ARDORS but only a deduction for charities disturbs him greatly. However, he noted, HB 194 is the wrong vehicle for looking at the whole tax credit issue.

Number 1903

REPRESENTATIVE GUTTENBERG removed his objection.

Number 1893

With no further objection, CSHB 194(L&C) passed out of the House Labor and Commerce Standing Committee.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:20 p.m.