

ALASKA STATE LEGISLATURE
SENATE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

May 5, 2003

1:35 p.m.

MEMBERS PRESENT

Senator Thomas Wagoner, Chair
Senator Robin Taylor, Vice Chair
Senator Gary Stevens
Senator Georgianna Lincoln
Senator Kim Elton

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR HOUSE BILL NO. 194(L&C)

"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 SCS CSHB 194 (CRA) OUT OF COMMITTEE

PREVIOUS ACTION

No previous action to record.

WITNESS REGISTER

Representative Tom Anderson
Alaska State Capitol, Room 432
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor HB 194

Larry Crawford
President, Anchorage Economic Development Corporation
No address provided

POSITION STATEMENT: Testified on HB 194

Tim Rogers
Municipality of Anchorage
4501 South Bragaw
Anchorage, Alaska 99508

POSITION STATEMENT: Testified on HB 194

Jim Carter

Economic Development Director
14896 Kenai Spur Hwy
Kenai, AK 99611
POSITION STATEMENT: Testified on HB 194

Loren Gerhard
Policy Director for the Southeast Conference
P.O. Box 21989
Juneau, AK 99802
POSITION STATEMENT: Testified on HB 194

Mary Jackson
Alaska State Capitol, Room 427
Juneau, AK 99801-1182
POSITION STATEMENT: Answered questions on HB 194

ACTION NARRATIVE

TAPE 03-13, SIDE A

CHAIR THOMAS WAGONER called the Senate Community and Regional Affairs Standing Committee meeting to order at 1:35 p.m. Present were Senators Gary Stevens, Kim Elton and Chair Thomas Wagoner. Senators Robin Taylor and Georgianna Lincoln arrived momentarily.

#HB 194

HB 194-REGIONAL DEVELOPMENT ORG TAX CREDIT

REPRESENTATIVE TOM ANDERSON, bill sponsor, paraphrased from the sponsor statement:

HB 194 creates a tax credit for contributions made by businesses to Alaskan regional development organizations. This legislation limits the tax credit to the first \$10,000 contributed by a business to a regional development organization. The tax credit allowed under HB 194, when combined with credits allowed under various other tax credit provisions in statute, may not exceed the previously established limit of \$150,000. This tax credit will sunset in 2005.

The definition used in HB 194 for "regional development organizations" is from statutory language used to define an Alaska Regional Development

Organization (ARDOR). The Labor and Commerce Committee Substitute clarifies these organizations must be designated by the Department of Community and Economic Development as ARDORs. There are currently 13 ARDORs throughout the state covering all of Alaska except a section of the Interior and a portion of the Lower Yukon.

The ARDOR program is based on the notion that locally driven initiatives, in partnership with the State, can most effectively stimulate economic development and produce healthy, sustainable local economies. The tax credit established by HB 194 will encourage businesses to contribute to the ARDORs and assist regional development organizations' solicitation of contributions by having a tax credit as a further incentive.

SENATOR ROBIN TAYLOR asked why the Legislature should give a tax credit thus diminishing revenue to the state in this instance while voting to increase and add new taxes in other areas.

REPRESENTATIVE ANDERSON advised there is no fiscal impact with this bill. Of course that's debatable if a corporation opted not to give to one of the exempted entities and instead gave to an ARDOR. Whether this would affect corporate taxes from the state level is debatable but Mark Graber with the Tax Division said it would not.

This would encourage development in local communities from large corporations that have budgeted money for giving every year. Currently they get tax credits for certain contributions, but can't get any for contributing to local ARDORs.

SENATOR GARY STEVENS asked for examples of how this plan would work.

REPRESENTATIVE ANDERSON outlined the role the Anchorage Economic Development Corporation played to expand the airport, to bring Federal Express to town, and to contribute to Providence Alaska Medical Center. All the ARDORs don't work in exactly the same way, but they allow taxpayers the opportunity to support economic development.

SENATOR GARY STEVENS asked if the corporations gave for a specific project or made a general contribution that the ARDOR allocated as they see fit.

REPRESENTATIVE ANDERSON suggested one of the ARDOR representatives could better answer that question. He thought a contribution could be earmarked but it probably couldn't be a definitive contribution.

There were no further questions for Representative Anderson.

LARRY CRAWFORD, President of the Anchorage Economic Development Corporation, pointed out this provided a tool to all regional development corporations around the state. It should have a positive impact in terms of economic development and provide more incentive for the private sector to work with ARDORS and that sector creates wealth.

Given the current economic situation, it's important to develop as many creative tools as possible for use at the local level. HB 194 is an effective tool for that purpose.

SENATOR ELTON stated his concern that this may make it possible for a business to give \$10,000 to an ARDOR and earmark the money for a project that would specifically enhance that business. In effect that business would receive a tax credit to contribute money to benefit their company. He suggested it might be advisable to prohibit earmarked contributions.

MR. CRAWFORD advised he could only respond with regard to how AEDC does business. In that case, all contributions are made in the form of a membership and the board of directors determines the overall direction for how monies are spent.

SENATOR ELTON asked if it was correct that amending HB 194 to prohibit the earmarking of funds would make no difference in the way AEDC operates.

MR. CRAWFORD said that was correct.

SENATOR TAYLOR remarked the university should be examined as well because of the controversy that arose over the question of how much private corporations could deduct from their Alaska corporate taxes to make endowment gifts to the university. The committee should know whether any of those endowments are from businesses that are then benefited directly or indirectly by the subject they have chosen to contribute to. For example, did an engineering firm that builds bridges contribute money to the School of Engineering to improve bridge design? Although he has

no particular concern with earmarking contributions, he though the point should be raised.

MR. CRAWFORD clarified that funds could be earmarked to sponsor a general-purpose event but not for an event for the purpose of promoting their project.

TIM ROGERS, Legislative Program Coordinator for the Municipality of Anchorage, testified the municipality has been the public side of the public/private partnership with AEDC for many years. They provide AEDC just under a half million dollars a year and believe that ARDOR is a critical component in attracting new economic development to the Anchorage area.

The bill is crafted to have minimal fiscal impact to the state other than to attract new business and therefore new revenue to the state. He noted Anchorage Mayor George Wuerch sent a letter of support as well.

JIM CARTER from the Economic Development District of Kenai testified they have used the money to support public events in Kenai Peninsula communities nine times in the last two years.

LOREN GERHARD, Policy Director for the Southeast Conference, testified he understood this would work in the same way as contributions to scholarship funds the University of Alaska receives from corporate donors. The Southeast Conference established a scholarship fund with the University of Alaska and one corporate donor made a sizeable contribution to that fund, largely due to the tax credit.

This would allow corporations that are already taking advantage of the tax credit opportunity to redirect some of their funds to ARDORs if they elect to do so. It would be up the ARDORs to convince those corporations that what they are asking for is worthy of their support. It simply allows those corporate donors one more avenue to reinvest in their communities. Economic development as a concept is generally good business for most of these larger corporations.

With regard to earmarking funds, he would have no problem either way as long as it allowed a way to access the tax exempt funding. With the tightening of the state budget, it's an uncertain time for ARDORs and they need every available tool to support their budgets.

SENATOR ELTON remarked it is his opinion the Southeast Conference, which works from Ketchikan and Metlakatla north to Yakutat, is one of the best ARDORS in the state and he appreciated everything they've done.

With regard to earmarking funds, he asked what "direct operation" meant on page 3, line 7.

MR. GERHARD replied that would be similar to the grant they receive from the state. The reason they need every possible source of unencumbered funds is because they leverage that money as a match for grants.

SENATOR ELTON asked if direct operation would preclude a cash contribution for a specific project.

MR. GERHARD believed it would. As Mr. Crawford pointed out, no contributions have been earmarked to date.

SENATOR TAYLOR asked whether any contributors were available to testify.

CHAIR WAGONER said everyone that signed up to testify had done so.

SENATOR TAYLOR speculated the contributions made in the form of a membership are written off in that tax year as a federal deduction against income but with regard to the state, each dollar contributed to an ARDOR is subtracted from net tax due to the state.

MR. GERHARD acknowledged that wasn't entirely clear to him, but he thought it worked that way.

SENATOR TAYLOR said he would be remiss if he didn't mention that, although there is no personal income tax in the state, Alaskan corporate income taxes are among the highest. In light of that, there might be a fiscal impact not reflected in the fiscal note. There could be a number of businesses that don't currently take advantage of available tax credit options but like ARDORS.

MR. GERHARD agreed that might be the case, but the effects would be minimal. Generally they found it is difficult to attract large corporate donations because they're already spoken for. This would allow a corporation the opportunity to do something a

bit different and would make contributions to ARDORs a bit more attractive.

SENATOR TAYLOR stated he has always supported someone getting a credit against taxes or eliminating taxes. He made a motion to adopt amendment #1 then objected for discussion purposes.

MARY JACKSON, staff to Senator Wagoner, explained the amendment removes the sunset provision found throughout the bill and provides an effective date of July 1, 2003.

CHAIR WAGONER added the Legislature spends considerable time passing bills because of sunset clauses and he saw no reason for having one in this bill, particularly in light of the fact that legislators may review bills at any time.

SENATOR TAYLOR asked Representative Anderson if he had any objections to the amendment.

REPRESENTATIVE ANDERSON replied he did not object.

SENATOR TAYLOR withdrew his objection to amendment #1.

SENATOR ELTON asked what other exemptions they were eliminating the sunset from.

MS. JACKSON explained this eliminates the sunset provisions in the bill for just the proposed ARDOR exemption.

SENATOR TAYLOR asked if the fisheries education credit was still in the statutes.

MS. JACKSON said that was called the fisheries resource landing tax education credit and that is in Section 16 of the bill. She assured him this legislation touches none of the existing statute provisions.

SENATOR TAYLOR pointed out this was against corporate taxes and that was against fisheries resource landing taxes.

SENATOR LINCOLN observed the amendment removed the sunset clause. She expressed her continuing support of ARDORs, but preferred to keep the 2005 sunset provision in the bill. The fiscal impact to the state wasn't clear, as indicated by the fiscal note.

CHAIR WAGONER replied the Department of Revenue would ask for a review if the bill negatively impacted state revenues.

SENATOR LINCOLN pointed out that would depend on who was in the driver's seat.

CHAIR WAGONER agreed then pointed out this legislation could be an avenue to support some of the projects that were funded through the Science and Technology Foundation that was recently eliminated.

SENATOR ELTON noted the chart from the Department of Revenue showed the tax credits for FY00 were about \$2.3 million and for FY01 they were about \$2.2 million and for FY02 they were about \$3.1 million. He couldn't remember that the Department of Revenue ever approached him to discuss current exemptions, but he thought it made sense to revisit the issue in several years to review how much money went out of the system because of the exemption.

SENATOR LINCOLN made a motion to amend to remove the provisions of amendment #1.

MS. JACKSON advised amendment #1 should be defeated if the intention was to repeal the provisions.

CHAIR WAGONER called for a roll call on amendment #1. The amendment passed with Senators Gary Stevens, Taylor and Chair Wagoner voting yea and Senators Lincoln and Elton voting nay.

SENATOR TAYLOR moved SCS CSHB 194 (CRA) and attached fiscal notes from committee with individual recommendations. There being no objection, it was so ordered.

SENATOR ELTON suggested that the sponsor contact Mr. Graber from the Department of Revenue to address this question before the hearing in the Labor and Commerce Committee. He advised he would contact him as well.

REPRESENTATIVE ANDERSON agreed to do so.

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CHAIR WAGONER adjourned the Senate Community and Regional Affairs Committee at 2:20 pm.