

HOUSE FINANCE COMMITTEE  
March 28, 2008  
1:43 p.m.

March 31, 2008  
[8:43:54 AM](#)

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:43:51 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Harry Crawford  
Representative Les Gara  
Representative John Harris  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Mary Nelson  
Representative Bill Thomas Jr.

MEMBERS ABSENT

None

ALSO PRESENT

Representative David Guttenberg; Jerry Burnett, Director, Division of Administrative Services, Department of Revenue; Jeff Stepp, Staff, Representative David Guttenberg; McHugh Pierre, Liaison, Department of Military and Veterans Affairs; Debbie Richter, Director, Permanent Fund Division; Senator Johnny Ellis; Max Hensley, Staff, Senator Ellis; Carolyn Muegge Vaughan, President, Alaska Film Group; Kate Tesar, Lobbyist, Alaska Film Group; Bill Popp, President, Anchorage Economic Development Corporation; Brice Habeger, Juneau; Suzanne Armstrong, Staff, Representative Kevin Meyer; Representative Bob Buch, Sponsor; Gail Fenumiai, Director, Division of Elections, Office of the Lieutenant Governor; Deborah Brevoort, Staff, Representative Bob Buch.

PRESENT VIA TELECONFERENCE

Maurice Bailey, President, Matsu Chapter 903 Vietnam Veterans Of America & President, Veterans Aviation Outreach Program, Wasilla; Mel Sloan, Veterans Aviation Outreach Program, Wasilla; Ric Davidge, President, Vietnam Veterans Of America & Chairman, Alaska Veterans Foundation; Ron

Siebels, Military Order Of The Purple Heart, Anchorage; Mike Syzmanski, Anchorage; Chris Essel, Senior Vice President, Government and Community Affairs, Paramount Pictures; Angela Miele, Vice President, Government Affairs, Motion Pictures Association of America; Pam Foreman, Community Relations Director, Kodiak Chamber of Commerce, Kodiak; Bernie Karl, Cheena Hot Springs; Julie Saupe, President, Anchorage Convention and Visitor's Bureau; Britt Arnesen, Self, Anchorage; Keith Essex, President, Alpine Air Alaska, Anchorage; Scott Trimwell, Location Manager, Film Industry, Los Angeles; Larry Benson, President, American Postal Workers Union; Dorsey Roland, State Legislative Chair, National Association of Letter Carriers.

SUMMARY

HB 44 An Act relating to information from veterans on the permanent fund dividend application form.

CS HB 44(FIN) was REPORTED out of Committee with a "do pass" recommendation and with new zero fiscal note by the Department of Revenue and zero fiscal note #1 by the Department of Military and Veterans Affairs.

HB 277 An Act establishing a permanent absentee voting option for qualified voters.

HB 277 was HEARD and HELD in Committee for further consideration.

HB 419 An Act prohibiting certain state leases and lease-purchase agreements for equipment and other personal property; and providing for an effective date.

CS HB 419 (FIN) was REPORTED out of Committee with no recommendation and attached new zero fiscal note by the House Finance Committee for the Department of Administration and new zero fiscal note by the House Finance Committee for the Office of the Governor.

SB 230 An Act establishing the division of film in the Department of Commerce, Community, and Economic Development; and creating a transferable tax credit applicable to certain film production expenditures incurred in the state.

Confirmation of Governor's Appointments  
Alaska Mental Health Trust Authority  
Board of Trustees:

Ms. Paula P. Easley  
Mr. Larry G. Norene  
Mr. Timothy A. Schuerch

Ms. Paula P. Easley, Mr. Larry G. Norene, and Mr. Timothy A. Schuerch were forwarded to a joint session of the Legislature for consideration of appointment to the Alaska Mental Health Board of Trustees.

Confirmation of Governor's Appointments  
Alaska Mental Health Trust Authority  
Board of Trustees:  
Ms. Paula P. Easley  
Mr. Larry G. Norene  
Mr. Timothy A. Schuerch

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Vice-Chair Stoltze spoke in support of the candidates. Co-Chair Meyer and Representative Joule concurred.

Vice-Chair Stoltze MOVED that the Committee forward the names of Ms. Paula P. Easley, Mr. Larry G. Norene, and Mr. Timothy A. Schuerch to a joint session of the Legislature for consideration of appointment to the Alaska Mental Health Board of Trustees. There being NO OBJECTION, it was so ordered.

HOUSE BILL NO. 44

An Act relating to information from veterans on the permanent fund dividend application form.

Vice-Chair Stoltze MOVED to ADOPT Work Draft 25-LS0229\E, Cook, 3/17/08 (Copy on File). There being NO OBJECTION, it was so ordered.

REPRESENTATIVE DAVID GUTTENBERG, SPONSOR, gave a synopsis of the bill, which allows a place on the Permanent Fund Dividend (PFD) application for Alaskans to voluntarily identify themselves as veterans. The Department of Revenue (DOR) would create a list to be used by organizations that provide services to veterans and their families. Many of the approximately 74,000 veterans in the state do not adequately get notification of benefits available to them.

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Co-Chair Chenault asked if the State would verify that people claiming to be veterans on the form are in fact veterans. Representative Guttenberg answered that if someone intentionally or unintentionally checks the box, and they

subsequently get notification, the person still has to be a veteran to receive benefits.

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Vice-Chair Stoltze wanted to know what congressionally chartered veterans' organizations were. Representative Guttenberg referenced a list ("Congressionally Chartered Veterans Service Organizations," Copy on File).

Co-Chair Meyer OPENED PUBLIC TESTIMONY.

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Vice-Chair Stoltze was concerned about people misusing a list of veterans. He asked if there was a way to limit transmission of the list the bill would generate.

JERRY BURNETT, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF REVENUE, explained that currently the Department shares PFD information only with governmental agencies. Agencies must sign a memorandum of agreement stipulating what they can and cannot release. The bill would be required for DOR to release the information to a service organization. Under current law, any information other than names cannot be released to a service organization. Only the Department of Military and Veterans Affairs (DMVA) can receive information about veterans.

Vice-Chair Stoltze reiterated concerns about the list. He did not want veterans targeted by political organizations. Mr. Burnett said DOR would have a contractual agreement with any organization they shared PFD information with. The agreement requires an organization to use the information for the specific purposes they agree to use it for. Vice-Chair Stoltze asked if DOR had ever released a list as long as the veterans list would be. Mr. Burnett said only to governmental organizations. Representative Guttenberg clarified that these lists are not meant to build up organization membership lists. He agreed there was concern.

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Representative Hawker pointed out that once a list is released, it is not confidential and the State has no control over it. Representative Guttenberg agreed and reiterated his concerns. Representative Hawker thought that was problematic as the information could be used for political purposes. Representative Guttenberg added that there are a variety of veterans' groups that are not congressionally chartered. Representative Hawker asked what it took to become a congressionally chartered organization.

JEFF STEPP, STAFF, REPRESENTATIVE DAVID GUTTENBERG, responded that there is a public, congressional process to identify the merits of an organization. He said DOR would engage in memorandums of agreement with any organization they release the information to. There is an application process and not everyone gets permission to use the information. The veterans' organizations that requested the legislation, the sponsors, DOR, and DMVA are committed to protecting the list.

Vice-Chair Stoltze referred to organizations that carefully guard their lists and he wanted that type of protection for the veterans list.

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MAURICE BAILEY, PRESIDENT, MATSU CHAPTER 903 VIETNAM VETERANS OF AMERICA & PRESIDENT, VETERANS AVIATION OUTREACH PROGRAM, WASILLA (testified via teleconference), spoke in support of HB 44. Veterans often are not aware of health, retirement, and death benefits, and are difficult to locate, especially in rural Alaska. His organizations provide flags for vets who are being buried. The federal government does not track veterans once they have left active duty. He knew of veterans who had lost their homes because of lack of knowledge of medical benefits. He thought the bill would help in the process of locating veterans and informing them of their benefits. Mr. Bailey and his vice president offered their PFDs for funding HB 44 if needed.

Co-Chair Chenault and Co-Chair Meyer acknowledged Mr. Bailey for his service.

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MEL SLOAN, VETERANS' AVIATION OUTREACH PROGRAM, WASILLA (testified via teleconference), spoke in support of the legislation. In his experience the veterans returning from Iraq were not aware of their benefits. He wanted veterans to be able to access medical benefits.

Mr. Sloan shared Vice-Chair Stoltze's concerns about veterans' privacy. He thought returning soldiers should be notified of their rights and benefits before they are released from active duty. Vice-Chair Stoltze thought every veteran would be proud to identify themselves as a veteran, and would not think about the potential for being taking advantage of.

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Mr. Stepp said the reason the language about confidentiality was taken out in a CS was to allow DOR to release the names. He suggested that the word "not" could be taken out, so that

veterans' organizations were required to keep the information confidential.

RIC DAVIDGE, PRESIDENT, VIETNAM VETERANS OF AMERICA & CHAIRMAN, ALASKA VETERANS FOUNDATION (testified via teleconference), spoke in support of the bill. He was speaking on behalf of the two organizations as well as the Military Order of the Purple Heart, the Veterans of Modern Warfare, and the Alaska Veterans Business Alliance. He and others worked closely with the sponsors in the House and Senate to address the concerns the Committee was discussing. Their opinion was that DOR should collect the list and work with DMVA to negotiate contracts with Congressionally Chartered Veterans' Service Organizations. If an organization violates the contract and uses the list for uses other than the agreed-upon uses, the organization should lose the right to use the list. They were comfortable that such a contract would control abuse.

Mr. Davidge commented that most of the 24 million veterans in the U.S. qualify for some veterans' benefits, including the nearly 80,000 veterans in Alaska. The benefits are also for their families. However, often the veterans are not aware of the benefits or how they can be accessed. Provision of the list annually would enable organizations such as Vietnam Veterans of America to work with DMVA to notify veterans and their families on a regular basis of changes in benefits and rights. There are federally certified veterans' services officers who go through extensive training. They are particularly able to assist veterans and their families in get connected with various benefits.

Mr. Davidge emphasized that there are now female veterans as the result of the current war. Alaska has lost three women in service.

Mr. Davidge added that the veterans' service organizations or DMVA qualifies individuals as veterans, if they apply for a program or a benefit. If a veteran applies for health care, the veteran has to work with the veterans' service officer and go through a process that includes proof of service, verification of injury, and so on. The State is not required to qualify individuals as veterans. The bill would enable the organizations to inform veterans of benefits.

Mr. Davidge described the latest updated booklet outlining benefits. He pointed out that each booklet costs \$5, which makes it very expensive to provide. Most of the non-chartered veterans' organizations do not have the financial capability to do that. He thought that making purchasing the booklets one of the requirements of the contract would limit the number of people who would access the list.

Mr. Davidge suggested the contract require that the list cannot be used for recruitment.

Mr. Davidge said the bill was not just in the best interest of veterans and their families. He pointed out that veterans in Alaska alone generate over \$1 billion in services, benefits, and direct cash payments, counting only the 17% of veterans that are currently being served. He referred to a letter outlining where those monies come from and where they go (2/26/08 letter from Ric Davidge, Copy on File).

Mr. Davidge stated that he had been working on the bill for four years. He urged that the list only be provided to congressionally chartered organizations as they have a lot to lose if they violate the agreement.

Mr. Davidge informed the Committee that his organizations' highest priority bill in the next legislative session would be an introduction of a criminal code dealing with scams on veterans and other problems in the veterans' community.

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RON SIEBELS, MILITARY ORDER OF THE PURPLE HEART, ANCHORAGE (testified via teleconference), spoke in support of the bill. The families of veterans need help. They are often not aware of their benefits.

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MIKE SYZMANSKI, ANCHORAGE (testified via teleconference), spoke in support of the bill. He is active with an amputee support group since he lost his leg. He spoke to how difficult it is to do outreach to veterans.

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MCHUGH PIERRE, LIAISON, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, emphasized that the State gives grants to established veterans' service organizations to conduct outreach. That funding source could be used to hold organizations accountable for the information after they get it from DMVA. He believed the established groups would act in the best interests of veterans. He reminded the Committee that each veteran had the choice to check the box on the application form.

Vice-Chair Stoltze expressed his confidence in the service offices, but he thought veterans' organizations could be manipulated. Once the information is out, the State can't get it back. He asserted there is no room for mistakes. Mr. Pierre did not see how a private entity could be held accountable after the information gets to them.

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Representative Kelly did not think there was an easy solution. He asked about use of the internet to get information to veterans. Representative Guttenberg answered that organizations do not know how to contact many vets. Mr. Pierre added that it was also a generational issue. Younger veterans have a better understanding of benefits and use of internet. Older veterans might be more familiar with the benefits that were available to them federally when they left the military. Benefits have changed. The legislation will help them get back in touch and get new information.

Representative Kelly asked if it was clear that checking the box on the PFD form was voluntary. Mr. Pierre answered that checking the box is not a requirement for receiving the PFD. Representative Kelly asked if it was also clear that checking the box meant being put on a list. Mr. Pierre said it would be highlighted as voluntary, and that address, name, and place of contact would be released to service organizations. It would be clear that the information would be used to contact the person. Representative Kelly was satisfied that veterans who checked the box would know what they were doing.

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PUBLIC TESTIMONY CLOSED.

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Representative Hawker MOVED to ADOPT Amendment #1 (Copy on File):

Page 1, starting on line 9:

Delete "under this subsection to the Department of Military and Veterans' Affairs and, on request, to congressionally chartered veterans service organizations in the state. The department may not otherwise release the information."

Insert "under this subsection to the Department of Military and Veterans Affairs and may not otherwise release the information. The Department of Military and Veterans Affairs may only release the information to congressionally chartered veterans service organizations in the state."

Page 1, line 13:

Delete "by the department"

Page 1, line 14:

Delete "recipients of the information"

Insert "veterans service organizations"

Co-Chair Meyer OBJECTED for discussion.

Representative Hawker explained that the Amendment had been put together with cooperation from the Sponsor and DOR. It allows the Permanent Fund Division to directly give the information to the DMVA and to congressionally chartered organizations. Further, the DMVA may only release the information to qualified organizations. The intent is to put responsibility in the right place, the DMVA. Co-Chair Meyer WITHDREW his OBJECTION. There being NO additional OBJECTION, the Amendment was adopted.

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Vice-Chair Stoltze MOVED to ADOPT conceptual Amendment #2 to delete the word "not" on line 14. Co-Chair Meyer OBJECTED.

Representative Hawker commented that the section provides for the application form giving notice that the information is voluntary and will be released and that the recipients would be required to keep the information confidential. Changing the language would not change the statute that would require the recipients to keep it confidential, it changes the notice requirements.

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Vice-Chair Stoltze WITHDREW Conceptual Amendment #2. He wanted the bill to move forward but he hoped to work with the Department. He maintained that the privacy issue is serious.

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Representative Thomas told a personal story related to the bill. Many veterans are not open about their status. He supported the legislation so that veterans could find a way to access benefits.

Co-Chair Chenault asked about the fiscal note funding for the administrative clerk position.

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DEBBIE RICHTER, DIRECTOR, PERMANENT FUND DIVISION, answered that the Division anticipated an increase in paper work. The request is for a partial funding position. Many of the costs are one-time costs and the implementation of the first year funding.

Representative Hawker asked about the other partial funding source of the position. Ms. Richter stated that the purpose of the note is to let people know that the Division will experience an increased activity because of the note. Representative Hawker thought that a note for the bill

should be zero and then increased as the program advances. Ms. Richter agreed.

Co-Chair Meyer suggested adopting a zero note for the Permanent Fund Division.

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Vice-Chair Stoltze MOVED to REPORT CS HB 44 (FIN) out of Committee with individual recommendations and with the accompany fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 44(FIN) was REPORTED out of Committee with a "do pass" recommendation and with new zero fiscal note by the Department of Revenue and zero fiscal note #1 by the Department of Military and Veterans Affairs.

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SENATE BILL NO. 230

An Act establishing the division of film in the Department of Commerce, Community, and Economic Development; and creating a transferable tax credit applicable to certain film production expenditures incurred in the state.

SENATOR JOHNNY ELLIS, SPONSOR, described the bill as an opportunity to diversify and strengthen Alaska's economy. He listed movies and television shows set in Alaska that have been and are currently being filmed and produced in other states and countries. Benefits beyond the revenue generated at the time of the productions include increased tourism and local product placement. Alaska's major competition is Canada. Forty-five states have film offices, nearly all with some kind of financial incentive such as tax credits, direct cash grants, rebates, and loans. Model states are Louisiana, Mississippi, Michigan, New Mexico, and Connecticut. The bill proposes the institution of a small film office to help promote film production, and a transferrable tax credit of 30% of spending on qualified expenditures. These provisions could make Alaska immediately competitive.

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Senator Ellis said producers want to come to Alaska, but will not without incentives. He listed the businesses and groups that support the bill.

MAX HENSLEY, STAFF, SENATOR ELLIS, provided a sectional overview of the bill.

- Sec. 1 authorizes the Department of Revenue and the Department of Commerce, Community and Economic Development to provide transferrable and divisible tax credits that have to be used within three years to film producers for qualified spending on qualified projects.
- Sec. 2 establishes an Alaskan Film Office and the administration of a film incentive program. Subsections direct how the Department will proceed with the film industry in relation to tax credits.

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CAROLYN MUEQGE VAUGHAN, PRESIDENT, ALASKA FILM GROUP and KATE TESAR, LOBBYIST, ALASKA FILM GROUP, gave a PowerPoint presentation about the Alaska Film Group and SB 230 (Copy on File). The presentation highlighted how film production can have an economic impact on Alaska and explained how tax credit incentives work:

- The production company applies for a tax credit.
- The film office pre-approves production, issues a preliminary certificate with estimated credit amount.
- The movie gets made in Alaska; all money has to be spent up-front.
- The production company submits a spending report verified by Department of Commerce, Community and Economic Development (DCCED) and an independent CPA.
- The film office and DOR issues a transferrable tax credit.
- The producer sells the credit to an Alaskan corporation that has tax liability tax, generally through a broker.
- The Alaskan taxpayer redeems the transferrable tax credit to offset tax liability any time in the next three years.

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Ms. Vaughan and Ms. Tesar described specific projects that had been set in Alaska but filmed elsewhere, with details about how much money was spent and how that money impacted other states and Canada. Feature films offer the greatest economic opportunities. They explained that in the film dynamic, incentives attract films, which in turn affect markets, which helps build infrastructure, and employs a larger labor force, which attracts more projects. New businesses are created and become taxpayers. Producers want to bring projects to Alaska.

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Vice-Chair Stoltze asked if the tax incentives applied to the net or the gross. Ms. Vaughan replied that it is on 30% of hard dollars spent in Alaska. Vice-Chair Stoltze listed movies that were made in Alaska and described bad experiences. He wondered how to avoid those problems. Ms. Vaughan replied that times have changed because of a more competitive market. Now decisions are based on incentives.

Vice-Chair Stoltze asked if the tax credits applied for documentaries as well. Ms. Vaughan said they did if the project meets the qualifications of \$100,000 ground-spend. Vice-Chair Stoltze stated concerns about political documentaries.

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Representative Hawker was concerned that the State would be asked to subsidize the cost of producing national television advertisements. Senator Ellis replied that the film office would have review and approval authority of productions that would be incentivized. Ms. Tesar added that the bill excludes any production that solicits funds. She thought the language was clear. Representative Hawker responded that he does not read the language the same. Senator Ellis asserted that the intent was clear and they would welcome help tightening up the language. He emphasized that they would not be required by the bill to treat everyone equally. The State gets the final say. Co-Chair Chenault expressed doubts about who would be making those decisions in the future.

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Representative Crawford did not want to pass up the opportunity offered by the legislation. He related a personal story related to incentives in Louisiana and stated that Alaska needs the diversification.

Representative Hawker asked how the qualified expenditures could be affected by interstate commerce laws.

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Representative Hawker wondered how the rates of the tax credit of 30% plus 10% plus 2% would rank Alaska in the nation. Senator Ellis referred to a chart (Copy on File) listing the states offering incentives that shows Alaska as one of the most competitive states with passage of the legislation. Representative Hawker thought that would put Alaska at the high end of subsidy.

Senator Ellis described the high cost of doing business in Alaska and thought the State needs to be at the head of the list in order to be competitive.

Representative Hawker worried that the transferrable credit would be collected by an oil company. He said this would not generate revenue for the State but would be a treasury subsidization of something that brings economic activity into communities, since Alaska has no state income, sales or property taxes.

Co-Chair Meyer called the proposal a revenue sharing program. Representative Hawker agreed.

Senator Ellis talked about the choices Alaskans have made to avoid income and property taxes. The State has also chosen not to tax a Limited Liability Company (LLC). To tax LLCs would be an enormous policy decision. Two of the three major oil companies do not traffic in transferrable tax credit. There are other corporate taxpayers in Alaska that would benefit, such as phone companies. He did not want emotions about oil companies to become attached to the bill. The total exposure of the treasury is speculative. For this reason, an annual review process is built into the bill.

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Co-Chair Meyer OPENED PUBLIC TESTIMONY.

Representative Gara wanted clarification regarding how transferable tax credits work. Ms. Tesar explained that spending has to take place first and go through a process with a CPA. If a project spent \$10 million, the tax credit would be worth \$3.3 million. The production company would go to a broker that deals in production tax credits, negotiate a price, such as 85 or 95 cents on the dollar, and sell those to a corporation that has a tax liability.

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BILL POPP, PRESIDENT, ANCHORAGE ECONOMIC DEVELOPMENT CORPORATION, spoke in support of SB 230. He described the impact the film industry could have on the state. He described many professional services that would be needed, including construction crews with electricians, plumbers, and masons. Alaska has an opportunity to plant a new niche industry that could grow in many communities and diversify the economy. He shared experiences connected with film production while traveling in Massachusetts.

Vice-Chair Stoltze queried the Anchorage Economic Development Corporation's connection with the city of Anchorage. Mr. Popp said the Corporation was funded through a grant program from the City and is now a private non-profit. He described experiences in Anchorage assisting in film projects. Anchorage negotiates incentives for such projects on a case-by-case basis.

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BRICE HABEGER, JUNEAU, spoke in support of the bill. He attended film school in Chicago and has dreamed of making films in Alaska. He thought SB 230 would create jobs for Alaskans like himself and people completing the film program at the University of Alaska, Fairbanks. He wants a career here in his home state. There was a discussion about his film school program.

Co-Chair Chenault stated that he supports the concept of the film industry and what the legislation does.

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CHRIS ESSEL, SENIOR VICE PRESIDENT, GOVERNMENT AND COMMUNITY AFFAIRS, PARAMOUNT PICTURES (testified via teleconference), spoke in support of SB 230. She follows incentive programs enacted around the country and thought the base transferrable tax incentive at 30% would be attractive and competitive. Other states like to attract the film industry as it provides opportunity to expand local employment and boost revenues for local vendors. She supported creating the state film office; it helps production companies to have a single contact.

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Vice-Chair Stoltze queried how the "sexually explicit conduct" restriction applies.

ANGELA MIELE, VICE PRESIDENT, GOVERNMENT AFFAIRS, MOTION PICTURES ASSOCIATION OF AMERICA (testified via teleconference), responded that all the other states with tax incentives use the obscenity statute. She thought the most offensive films would be excluded under the definition. Vice-Chair Stoltze pointed out that an X-rated film did win an academy award. Ms. Miele interjected that constitutionally, states are supposed to treat pornographic films equally when it comes to taxation. No one has challenged that. Vice-Chair Stoltze stated that his district values freedom of expression.

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Representative Gara asked if there was a provision limiting the types of films that qualify. Ms. Miele referred to page 3, number 5. Senator Ellis referenced the similar code that other states have successfully used to exclude sexually explicit productions.

Representative Gara wondered about litigation. Ms. Miele replied that the issue has not been litigated in other states.

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PAM FOREMAN, COMMUNITY RELATIONS DIRECTOR, KODIAK CHAMBER OF COMMERCE, KODIAK (testified via teleconference), spoke in favor of the bill, which will allow Alaska to participate in the multi-billion dollar film industry. She related personal experience with a film set in Alaska but shot out-of-state. Alaska has missed many opportunities. She urged that the bill move forward.

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BERNIE KARL, CHEENA HOT SPRINGS, FAIRBANKS (testified via teleconference), spoke in favor of SB 230. He thought it was an opportunity to grow a business. Alaska could generate a lot of revenue in the interior through film production. He saw this as a way to sell nature and keep it at the same time.

JULIE SAUPE, PRESIDENT, ANCHORAGE CONVENTION AND VISITOR'S BUREAU (testified via teleconference), spoke in favor of SB 230. She thought Alaska was missing out as one of only five states that do not offer rebates and incentives. The legislation would allow Alaska to be in the game. From a tourism perspective, films would reach a wide audience with images of Alaska.

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BRITT ARNESEN, SELF, ANCHORAGE (testified via teleconference), spoke in opposition to the bill. She felt the mechanics of the SB 230 are flawed and that the bill needed extensive work to ensure it benefits Alaskans and encourages desirable economic outcomes. The highlights of her concerns include (taken from statement topic headings, Copy on File):

- The bill begins with a high subsidy and hiring Alaskans is only an extra few percent. Rather than an after-thought, Alaska hire should be at the base of the subsidy.
- The bill does not address other major factors influencing industry decisions, such as the cost of doing business.
- The major factor influencing production decisions regarding Alaska is lack of infrastructure.
- Non-resident workers continue to dominate some sectors of the Alaska economy, and SB 230 will exacerbate this.
- The bill creates a whole breed of lawyers, consultants, and middlemen.

- Sec. 44.33.236(a)(13) and (14) are flawed. By subsidizing premiums for insurance and airline tickets if purchased through an Alaskan-based agency, SB 230 provides a much larger financial benefit to the producer than to the local company providing the service.
- The State will pay repeatedly through construction and later leasing of subsidized projects, with no equity share.
- Through clever lawyers and LLC arrangements, the subsidy can easily be taken advantage of, with little protection for the State.
- Sec. 44.33.233(a)(1) sets the minimum spend too high, edging out start-up entrepreneurs.
- Sec. 44.33.235(f) removes the State's right to recoup improperly paid subsidies if corruption, fraud or mistakes are uncovered. This language MUST be removed.
- The program described in the bill is not a proper role of the government. It is, however, a proper role of a trade association formed for the benefit of its members.
- There is no Alaska-specific economic analysis which justifies this as the proper vehicle to achieve the intended outcomes.
- While the bill might "level the playing field" for Alaska to attract big business, it actually makes competition tougher for small, Alaska-based entrepreneurs.
- The justification for exclusions in Sec. 44.33.232(b) is not clear. If the goal is to stimulate spending, why have any exclusions at all, or why pick and choose ones on the list?
- Externalities of the bill have not been adequately characterized.
- Subsidies will result in increased use of public infrastructure such as roads, while at the same time diverting General Fund money away from the maintenance of such infrastructure.
- The potential environmental impacts of the dramatic increase in filming have not been addressed. These impacts are real and will be felt by Alaskans outside the industry.
- Subsidizing the industry to shoot on public lands may deliver a short-term boost at the expense of long-term prudent management of public land, requiring catch-up funding later.
- The film industry has a reputation for wasteful spending and the State should not subsidize waste.
- SB 230 should be amended to exclude subsidies for expenses which result from failures to comply with

federal, local, and State laws, regulations, permits, or lease agreements for use of public land.

- Major productions negatively impact air quality.
- The dramatic increase in film activity from the subsidy will increase greenhouse gas emissions, counteracting efforts by the Palin Administration and Legislature to be proactive on climate change.
- There should be a Department of Natural Resources fiscal note to analyze the impacts of permitting film projects on State land.
- SB 230 does not contain adequate provisions to prevent corruption, favoritism, or misuse.
- Sec. 44.33.231(d) should be amended so that the State can consider the most qualified applicant for the Film Officer Director.
- The position of Film Office Director has too much discretion to be taken lightly. There appears to be no independent oversight of this discretion.
- The Film Office budget is not adequately funded and staffed to properly evaluate qualified expenditures.
- Other economic development models may be more appropriate than a full-on subsidy, and these should be explored.

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Ms. Arnesen recommended creating a task force. She urged that the subsidy be eliminated.

Representative Gara was impressed by the amount of work that Ms. Arnesen had done. He stated that he was in support of the bill. He thought the language relating to who gets hired in the film office was reassuring as the Commissioner is asked to consider the individuals. He pointed out that one of the major points Ms. Arnesen addressed, the problem with LLCs in the State, was not the fault of the Sponsor. Because of how the tax code is written in Alaska, a corporation avoids paying taxes by becoming an LLC. He has been concerned about that for a long time, but it will not change this year.

Representative Gara added that he would have more concerns if the industry was very large, but he thought the fact that film production was new coupled with the bill's five year sunset addressed many of Ms. Arnesen's concerns. He reiterated that the LLC taxation was of more concern. There is only one other state that exempts LLCs and has no income tax. Ms. Arnesen urged him to keep his eye on the "shall consider" language. She added that the main point is that the bill constitutes a "big corporate give away," a different issue than taxing LLCs.

[4:28:16 PM](#)

Co-Chair Meyer commended Ms. Arnesen on her efforts.

Representative Crawford referenced the incentive program in the Idaho model that Ms. Arnesen had described. He asked how much business they had generated. He mentioned the economic impact on his home state of Louisiana. He acknowledged there would be some corruption in a business that big but did not think the amount of the fraud in Louisiana was significant in light of how much money the state takes in overall. Ms. Arnesen replied that the \$65,000 dollars was the indictment amount in Louisiana, but there were untold tens of millions of credits that were erroneously issued. We do not know the true magnitude of the corruption. She added that Idaho did not pass the subsidy and instead created a task force to determine what they wanted and needed. She pointed out that Idaho's policy recommendations were copied on page 20 of her report (On File). She highlighted the link between the subsidy programs and achieving those goals.

Representative Crawford thought that Louisiana had accomplished the goals listed for Idaho. Louisiana had also encouraged the gambling industry; he preferred the film industry to the gambling industry in Alaska.

[4:34:32 PM](#)

Representative Hawker applauded the testimony of Ms. Arnesen. He commented that he could drive a truck though the loopholes provided by Ms. Arnesen. He wondered what motivated her on this particular legislation. Ms. Arnesen stated that SB 230 is a bad bill and very expensive. She wanted a chance for locally raised people to create the solutions. She would love to be part of a task force.

[4:37:03 PM](#)

KEITH ESSEX, PRESIDENT, ALPINE AIR ALASKA, ANCHORAGE (testified via teleconference), described his experience with film production as a clean industry. The industry creates a lot of jobs and has far reaching impact. The impacts are light and small. He would like to see larger productions. Alaska has outstanding scenery. There are crews ready to work on such productions, but they are limited in size and there is not the work yet. As the market expanded, so would the number of competent people to work on larger productions.

Mr. Essex commented on traveling in New Zealand and how the film industry has taken off there because of incentive programs. It has double-benefited their tourism. He stated that if Alaska wants to be competitive and grow, government has to step in and level the playing field with Canada and

other states. Alaskans have the responsibility to respond and provide good service. He reiterated that the incentives need to be in place to build and market the industry.

[4:43:03 PM](#)

SCOTT TRIMWELL, LOCATION MANAGER, FILM INDUSTRY, LOS ANGELES (testified via teleconference), spoke in support of the bill. He commented on two projects that Alaska lost because the legislation was not in place. He was in Alaska filming background shots for a film that was set in Alaska but filmed someplace else. If the entire project had been filmed in Alaska, the industry would have spent up to \$10 million dollars in the state. He referred to a study that showed that film production money gets re-spent repeatedly about six to eight times into the local economy.

PUBLIC TESTIMONY CLOSED.

SB 230 was HELD over the weekend recess.

RECESSED: [4:48:14 PM](#) March 28, 2008

RECONVENED: [8:43:48 AM](#) March 31, 2008

[8:44:55 AM](#)

HOUSE BILL NO. 419

An Act prohibiting certain state leases and lease-purchase agreements for equipment and other personal property; and providing for an effective date.

Representative Hawker noted an Alaska statute with an adequate definition of lease purchase agreement that addresses his concerns from a previous meeting. He was comfortable with the definition.

TOM WRIGHT, STAFF, REPRESENTATIVE MIKE CHENAULT, identified the section AS 36.30.990(15) and agreed it addressed the concern.

Co-Chair Meyer referenced the fiscal notes. [8:46:58 AM](#)

SUZANNE ARMSTRONG, STAFF, REPRESENTATIVE KEVIN MEYER, addressed the fiscal note that was written to the original version of the bill. With the adoption of the work draft, the prohibition was removed.

There being NO OBJECTION, the two fiscal notes were zeroed out.

[8:48:26 AM](#) Vice-Chair Stoltze MOVED to REPORT CS HB 419 (FIN) out of Committee with individual recommendations and with

the accompanying new fiscal notes. There being NO OBJECTION, it was so ordered.

CS HB 419 (FIN) was REPORTED out of Committee with no recommendation and attached new zero fiscal note by the House Finance Committee for the Department of Administration and new zero fiscal note by the House Finance Committee for the Office of the Governor.

[8:49:10 AMHOUSE BILL NO. 277](#)

An Act establishing a permanent absentee voting option for qualified voters.

REPRESENTATIVE BOB BUCH, SPONSOR, said the bill would create a permanent absentee voting option for Alaskan voters. For every election operated by the Division of Elections, an absentee ballot would automatically be sent to anyone choosing the option. The voter would not have to re-apply for the absentee ballot for every election. The bill would make voting convenient for all, especially those in the military or working in mining industries or the North Slope. Permanent absentee voting is gaining popularity all over the country. Oregon has had permanent absentee voting since the late 1980s and was consulted in the drafting of HB 277.

Representative Buch explained that HB 277 does not make changes to statutes or procedures that govern absentee balloting procedures, and all statutes and regulations governing regular absentee ballots will govern permanent absentee ballots. The bill will apply only to state elections because the Division does not have jurisdiction over municipal elections, which are adopted through local ordinance.

Representative Buch noted that Alaskan voters will still have the option of requesting a one-time absentee ballot or voting at their regular polling places. The bill will streamline the absentee voting process by cutting down on paperwork and administrative cost. The bill has bi-partisan support and the support of the United States Postal Service (USPS).

[8:53:40 AM](#)

LARRY BENSON, PRESIDENT, AMERICAN POSTAL WORKERS UNION (testified via teleconference), stated his support for the legislation. He listed the advantages of voting by mail. The bill would allow Alaskans to vote by mail permanently by registering only once. Permanent absentee ballots would not be forwarded to the voter's new address when they move. The postal service would return those to the Division. He liked the paper trail created by vote by mail. He described some of the many tasks performed by the postal service related to government services. He urged support for passage of the bill.

[9:01:37 AM](#)

DORSEY ROLAND, STATE LEGISLATIVE CHAIR, NATIONAL ASSOCIATION OF LETTER CARRIERS (testified via teleconference), fully endorsed the legislation. In Alaska each vote counts. The bill does not change the current system and allows more convenience for the voters. He mentioned the escalating fuel costs affecting voting especially in an off- year election. He listed some of the successes in other states. He requested moving HB 277 from Committee.

[9:05:12 AM](#)

Vice-Chair Stoltze asked how the process would work with a voter without a party affiliation. He wanted to know the latitude of the Director of Elections in those situations.

GAIL FENUMIAI, DIRECTOR, DIVISION OF ELECTIONS, OFFICE OF THE LIEUTENANT GOVERNOR, responded that the Division marks on the voter's record that the voter is eligible to receive the Ballot Measure Only Ballot. The voter is then notified in writing that their ballot choice was not indicated. If they do not indicate which ballot they want, they would be sent the Ballot Measure Only Ballot. The Division statutorily cannot select a ballot that the voter would not be eligible to receive.

[9:09:43 AM](#)

Representative Gara wondered if the Division was able to get updated information from the PFD when a ballot is returned because someone has moved. Ms. Fenumiai replied that the Division has the ability according to federal law to update mailing addresses based on information received from the USPS if there is a forwarding sticker on the mail. Representative Gara asked if PFD or USPS would have the better address. Ms. Fenumiai guessed that PFD had better addresses.

Representative Gara asked if the Division could then send an address update notice. Ms. Fenumiai explained that when a voter address is updated, that triggers a new voter registration card to be sent to them, which allows them the opportunity to update their physical address. The Division can only change their mailing address, not their physical address.

Representative Gara did not want a person who moved to think they would automatically get the absentee ballot. Ms. Fenumiai explained that currently the bill says the Division would no longer send ballots to a voter if their ballot was returned undeliverable. The bill also allows for the issue to be addressed through regulation.

Representative Gara wanted the Division to be able to send a person who has moved a notice with a new registration form asking for the new address. He asked if the Division was able to contact USPS or PFD to get the new mailing address to send that notification. Ms. Fenumiai said if that was put in statute, the Division would be willing to develop regulations to do various checks to find out new addresses. Representative Gara stated his intent to work on language for an amendment.

Representative Gara did not understand if the updated address could be obtained through the PFD. Ms. Fenumiai replied that is an option, although there are various database challenges.

[9:16:01 AM](#)

Co-Chair Chenault stated concerns about fraud connected with voters who have died or are no longer legal residents of the state. He wondered how the lists are purged. Ms. Fenumiai replied that the Division has two methods to remove deceased voters. The Division of Vital Statistics send notifications and the regional offices scan obituaries. The annual maintenance process has definite guidelines based on the National Voter Registration Act. The Division sends notices to voters whose mail has been returned undeliverable two years prior to looking at the list, those voters who haven't contacted the Division two years prior to looking at the list, and those who have not voted in two previous general elections. If that notice is then returned undeliverable, a second notice is sent notifying them that if they don't contact the Division within 45 days, the registration will be inactivated. If they do not vote or contact the Division for four years after the second notice, then they are removed from the rolls.

Co-Chair Chenault reiterated his concerns about fraud. He wondered if the Division kept track of absentee ballots that are not counted for various reasons. Ms. Fenumiai answered that the Division does keep track. She gave information on undeliverable ballots.

[9:21:18 AM](#)

Representative Buch added that people who have chosen the absentee ballot option are still free to use other methods of voting such as the polls or premature absentee without the ballot. Co-Chair Chenault assumed the Division cross-referenced those. Ms. Fenumiai said they did.

Ms. Fenumiai returned to the ballot choice question. Statute stipulates that only the voter may mark the voter's choice of a primary ballot. The Division cannot assume they want

any particular ballot without getting the information in writing from the voter.

[9:23:54 AM](#)

Representative Thomas referred to several communities where voters are automatically sent absentee ballots because they don't have voting machines, and wondered if they would have to file. Ms. Fenumiai called those voters "permanent absentee voters" and said they are mailed an absentee by mail application each year. They have to complete it and send it back. The new process would require that only once.

Vice-Chair Stoltze wondered if increased voter participation was one of the goals. Representative Buch responded that Oregon has vote by mail. Every registered voter in the state is sent a ballot whether they apply or not. There is 80% participation in general elections. It does not seem to impact participation along party lines, a frequently voiced concern.

Vice-Chair Stoltze referenced vote by mail elections that are spending a great deal on advertising. He was not sure it was the best way to spend money. Representative Buch asserted that the bill would save money.

[9:29:35 AM](#)

Vice-Chair Stoltze asked if the ballots have to go to a resident address. Ms. Fenumiai said current law stipulates that binary ballots are mailed to the mailing address provided by the voter. Vice-Chair Stoltze stated concerns.

Representative Gara pointed out that HB 277 tries to expand the franchise by putting people on a permanent absentee ballot status. He spoke to Vice-Chair Stoltze's concerns that a business would attempt to influence voters. He said the bill would not change that.

Representative Joule wondered if voter registration increased in states with vote by mail and high participation. Representative Buch assumed it had, since turnout had increased.

Representative Joule stated he wanted information sent out to individuals sooner so that they could be informed well enough to vote. He thought the bill would do that.

[9:36:51 AM](#)

DEBORAH BREVOORT, STAFF, REPRESENTATIVE BOB BUCH, said the Oregon experience has been studied extensively. Those studies have revealed that when a permanent option is made available, a lot of voters take advantage of it. With an

increase of absentee voting comes an increase in accuracy of the vote count. The studies have also shown that if someone is not a voter, permanent absentee voting will not make them a voter. It also does not affect supervoters. The occasional voter, however, tends to become a regular voter.

[9:38:37 AM](#)

PUBLIC TESTIMONY CLOSED.

Co-Chair Meyer referred to expected amendments.

HB 277 was HEARD and HELD in Committee for further consideration.

[9:39:53 AMCS FOR SPONSOR SUBSTITUTE FOR SENATE BILL NO. 230\(FIN\) am](#)

An Act establishing the film office in the Department of Commerce, Community, and Economic Development; creating a transferable tax credit applicable to certain film production expenditures incurred in the state; and providing for an effective date.

Senator Ellis addressed testimony by Britt Arneson and thought many of her comments would help make the legislation better. He stated his confidence that making films would not have long-term negative impact on public lands. He believed agencies would step up to deal with those issues. He urged a consensus-based CS.

[9:42:50 AM](#)

Representative Hawker walked the Committee through his list of concerns ("Conceptual Amendments for Discussion Purposes, 3/31/2008," Copy on File):

- 1) Change entire structure from transferable tax credit to a direct subsidy.
- 2) P3, L1: Do not limit selection of Film Office Director to candidates suggested by the "Alaska Film Group."
- 3) Define "Alaska Film Group" and length of tenure. Use generic language that the Commissioner may consider candidates suggested by Alaska film industry organizations
- 4) Increase oversight of film office.
- 5) Make Commissioners of DCCED and DOR jointly responsible for making final decision qualifying a production for subsidy.
- 6) Provision for post production review to verify continued compliance with initial qualification.
- 7) Clarify P3, L18-19. Make clear that any production with political or fundraising motives is NOT OK.

- 8) Add subjective eligibility criteria that require the Commissioners to make a finding that the proposed production is in the best interests of Alaska.
- 9) Change "preliminary certificate" concept to a "Notice of Qualification" concept.
- 10) Require amendment to qualification if claimed credit is to exceed original estimate by more than 5%.
- 11) Reduce base subsidy to 20%.
- 12) Limit subsidy to \$20 million per production per year.
- 13) Sunset this program the earlier of 2013 or the issuance of qualification notices aggregating \$100 million.
- 14) P4, L19-23: Change CPA requirement from a CPA selected by the film board to a CPA acceptable to the film board.
- 15) Require post production review of work product and determination of continued compliance with qualification criteria.
- 16) P4, L24-26: Limit scope of this provision to stating that the "amount" of the subsidy shall be determined by the audit. Payment of the subsidy needs to be subject to compliance with all provisions of this law.
- 17) P4, L27-29: Eliminate "holder in due course" defense.
- 18) Add provision protecting the State's right to review and audit, and subsequent disallowance and recovery if any form of non-compliance is later determined. Add a statute of limitation consistent with or incorporating other audit provisions in tax law.
- 19) Qualified expenditures:
  - a) Add a requirement that expenditures be ordinary, reasonable, necessary and not in excess of fair market value.
  - b) Add related party exclusion for any expenditures made to or to entities with an ownership interest held by:
    - i) Production equity holders
    - ii) Production financiers
    - iii) Family members of the above
    - iv) Unless costs are demonstrated to be ordinary, reasonable, necessary and not in excess of fair market value AND are not otherwise readily available from Alaska sited vendors.
  - c) Exclude all payroll and related costs for
    - i) Production equity holders
    - ii) Production financiers.
  - d) (note: b and c above need to be thought through more thoroughly, but are critical and it is very important to get it right the first time.)
  - e) P5, L20-23: Exclude insurance and airfare costs.
  - f) P5, L30-31: Catch all inclusion should be "as determined by Department of Revenue regulation" not by the film office.

- g) P5, L24-27: Disallow costs incurred for real and personal property to the extent value is durable and remains with the production company, whether realized or not by the time the subsidy payment is applied for.
- h) Disallow costs that production expects will be recovered or reimbursed in the future.
- i) P6, L6-7: Require reimbursement for subsidy related to any claimed costs that are later reimbursed or recovered.
- j) Require the production company to provide notice of any such change, including workers comp audits, payroll audits, asset sales, etc.
- k) Do not allow cost shifting to Alaska, especially payroll, by requiring for the purposes of the subsidy payment, that such costs be recognized by the production over the entire term of the project and not allocated disproportionately to time spent in Alaska.
- l) P6, L10-11: Change to disallowing any administrative or management costs related to determining and obtaining subsidy
- 20) Need new section protecting the State.
  - a) Recover the cost of any damages caused by the production to the state or local government by taking the money from the subsidy. This would include costs of environmental or other physical damages and from failure to comply with any law, regulation, permit, lease or other agreement.
  - b) Withhold payment if there are any filed, but unresolved legal actions involving the production company.
  - c) Need major criminal penalties for any fraud, bribery, or conspiracy in connection with qualifying for, claiming, or receiving a subsidy.
  - d) Disallow any otherwise qualified production where fraud, bribery or conspiracy is proven.
- 21) Add a section regarding filing and payment of claim for reimbursement. Integrate with existing tax filing and refund statutes. Make timing of refund subject to review and determination of compliance with all related statutes.

[10:06:08 AM](#)

Senator Ellis thought the input would make the bill stronger and protect the interests of the State.

Representative Hawker acknowledged the merit in the legislation and that his intent was not to throw up a roadblock. He said he would be happy to work with the Sponsor over the interim.

Representative Gara shared some of Representative Hawker's concerns but thought there was a much easier way to resolve them. He did not want to give special preference to the film group as to who is on the board. He suggested removing the

deduction of out-of-state insurance and airfare costs. There could be a term regarding reasonable costs to be deducted, similar to agreements with oil companies.

Representative Gara expected that his largest concern, costing the State a lot of money, could be easily resolved. He referred to Representative Hawker's suggestion regarding limiting the subsidy to a total cap for the life of the bill. He did not know what the cap should be, but he did not think an annual cap was necessary.

Representative Gara thought the base subsidy should be high, which would be protected by a total cap. He added that a 44% cap makes sense because Alaska is an expensive place to film because of travel. Many of the other concerns are solved by an overall cap and sunset date, including the tax credit vs. General Fund subsidy issue.

[10:11:32 AM](#)

Representative Gara did not think the State needed new liability laws included in the legislation. He did not want to hold off the subsidy to see if there were claims. Fraud is already a crime. He counseled against coming up with new criminal rules. He asked the Sponsor's views on a cap.

[10:13:27 AM](#)

Senator Ellis believed a lifetime cap could be positive way to protect the interests of the State. He hoped to accomplish the goal this year.

Vice-Chair Stoltze pointed out that there had been no debate regarding the efficacy of establishing a film office. He has questions but hoped to see the film office move forward.

Senator Ellis stated his intent to try for the whole bill.

Representative Hawker thought his remarks were misheard regarding the issue of protecting the liability of the State. He does not want the State writing checks without setting up timing and parameters on refundable tax credits.

Co-Chair Meyer stated his support for the concept in the bill. He hoped most of Representative Hawker concerns could be addressed and wanted the bill to make it through this session. He recommended Representative Hawker work with Senator Ellis on a CS.

[10:17:34 AM](#)

Representative Gara agreed with #7, not using state money to promote political causes. He disagreed with #8 regarding "best interests" as he thought regulating content would be

cumbersome. He supported getting the bill through this session.

Co-Chair Meyer added that he agreed with limiting salaries.

SB 230 was HEARD and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 10:20 AM.