

SENATE FINANCE COMMITTEE  
February 22, 2008  
9:09 a.m.

CALL TO ORDER

Co-Chair Bert Stedman called the Senate Finance Committee meeting to order at [9:09:06 AM](#)

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair  
Senator Kim Elton  
Senator Donny Olson  
Senator Joe Thomas  
Senator Fred Dyson

MEMBERS ABSENT

Senator Lyman Hoffman, Co-Chair  
Senator Charlie Huggins, Vice-Chair

ALSO PRESENT

Frank Richards, Deputy Commissioner of Highways & Public Facilities, Department of Transportation and Public Facilities; Greg Winegar, Director, Division of Investments, Department of Department of Commerce, Community and Economic Development; Mike Stedman, Director of Operations, Wings of Alaska and Vice President, Alaska Air Carriers Association; Representative John Coghill, Sponsor; Guy Bell, Assistant Commissioner and Director, Division of Administrative Services, Department of Labor and Workforce Development; Chris Harmon, International Brotherhood of Electrical Workers, Juneau; Robert Cesar, Apprentice Electrician, International Brotherhood of Electrical Workers, Juneau; Tom Brice, Alaska District Council of Laborers, Juneau; Barbara Huff Tuckness, Director of Legislative and Governmental Affairs, Teamsters Local 959; Senator Johnny Ellis, Sponsor; Max Hensley, Staff, Senator Johnny Ellis; Bob Crockett, Board Member, Alaska Film Group; Debra Schildt, Founding Member, Board Member, Alaska Film Group; Kate Tesar, Pro Bono Lobbyist, Alaska Film Group; Dan Stickle, Economist, Department of Revenue.

PRESENT VIA TELECONFERENCE

Jere Hayslett, Project Manager, Surveillance Broadcast Services & Capstone Program, Federal Aviation Association; Leonard Kirk, University of Alaska; Wilfred Ryan, Alaska Air Carriers Association; Ann Williams, Human Resources Administrator & Training Coordinator, Klebs Mechanical, Inc., Anchorage; Jeannine Provost, Grants Manager, Alaska

Laborers Training School; Rebecca Logan, President, Associated Builders and Contractors of Alaska.

SUMMARY

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."

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

SB 249 "An Act establishing the Alaska capstone avionics revolving loan fund and relating to the fund; and providing for an effective date."

SB 249 was HEARD & HELD in Committee for further consideration.

HB 61 "An Act relating to tax credits for cash contributions by taxpayers that are accepted for certain educational purposes, including vocational education programs and courses at the secondary school level; and providing for an effective date."

HB 61 was SCHEDULED but not HEARD.

HB 226 "An Act repealing the termination of the state training and employment program; and providing for an effective date."

HB 226 was HEARD & HELD in Committee for further consideration.

SENATE BILL NO. 249

"An Act establishing the Alaska capstone avionics revolving loan fund and relating to the fund; and providing for an effective date."

Co-Chair Stedman introduced the initial hearing for SB 249, sponsored by the Governor.

FRANK RICHARDS, DEPUTY COMMISSIONER OF HIGHWAYS & PUBLIC FACILITIES, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, explained that SB 249 would create the Alaska Capstone Avionics Revolving Loan Fund within the Department of Commerce, Community and Economic Development (DCCED). The purpose of the project is to increase the safety of aviation transportation within Alaska by providing low interest loans for the purchase and installation of Capstone avionics

equipment. Capstone avionics is the next generation of technology and will improve both flight safety and community access in Alaska. The technology is called "Automatic Dependent Surveillance-Broadcast" (ADS-B) and allows equipped aircraft to interact with ground infrastructure and satellite stations to provide pilots with essential information, including: exact location, airspeed, rate of ascent and descent, surrounding terrain, other aircraft and real time weather. The Federal Aviation Administration (FAA) sponsored the technology and tested it in rural Alaska.

Mr. Richards stressed that the aircraft equipped with the new avionics experienced a 47% reduction in accidents and a 33% reduction in fatalities. He said FAA wants to expand this technology statewide and has funding to build the necessary infrastructure. The FAA has determined that over 4,000 aircraft need to be equipped with the avionics. Senate Bill 249 creates a low-interest loan program through DCCED for aircraft owners unable to shoulder the initial purchase cost out-of-pocket. He emphasized that the Department of Transportation and Public Facilities supports SB 249.

[9:13:43 AM](#)

GREG WINEGAR, DIRECTOR, DIVISION OF INVESTMENTS, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, described the loan program. He explained that the Division of Investments has been administering state loan programs since the early 1970s and has experience, expertise and loan related infrastructure in place to successfully operate the program proposed by SB 249. Many of the provisions contained in the bill were patterned after other programs administered by the Division.

Mr. Winegar explained that the loan fund would allow aircraft owners who log a substantial number of flight hours in Alaska to purchase and install the necessary Capstone avionics. The program would be set up as a revolving fund. Repayments into the fund would finance loans to additional participants and the operating costs of the program.

Mr. Winegar said SB 249 stipulates that the program can loan up to 80% of the cost to purchase and install the avionics, the interest rate cannot be less than four percent, and the term may not exceed ten years. He described an average loan for the program of \$12,000, which would mean payments of approximately \$122 each month or \$1480 annually. The Division's goal was to provide loan terms that resulted in a manageable repayment plan for aircraft owners, while providing sufficient cash flow to cover expenses, provide loans to future participants, and return capital to the General Fund (GF).

Mr. Winegar referred to the fiscal note, which capitalizes the loan fund with a \$4.8 million appropriation. The amount would allow the Division to provide approximately 400 loans during the first year and around 60 additional loans each year thereafter. The program would sunset in 2020, at which time the money in the fund as well as all future earnings would revert back to the GF. Senate Bill 249 requests two positions, one loan officer and one loan closer to handle the increased workload; however, the positions would be filled only if loan demands required them. The Division plans to absorb accounting-related work.

[9:15:29 AM](#)

Senator Olson wondered if the State would save search and rescue money that would not be needed because of the new technology. Mr. Richards thought there would be savings.

[9:16:13 AM](#)

Senator Thomas noticed that the fund would be available to individuals, corporations, limited liability partnerships, and so on. He understood the cost to equip an aircraft would be in the range of \$15,000 to \$25,000 and wondered if this was for small planes and small carriers rather than large planes.

[9:17:01 AM](#)

Mr. Winegar answered that the loan program is set up for commercial operators to have access to the funds. Senator Thomas was concerned that the funds in the program would be available to larger carriers that would be more able to afford the avionics. Mr. Winegar replied that the loan is first-come, first-served, and would be for commercial carriers or individual, private pilots.

[9:18:27 AM](#)

Senator Elton wondered if the loan fund would be accessible to people who have already installed the Capstone avionics and are paying off a loan at a higher percentage rate. Mr. Richards thought that would be determined through regulations. In other programs, most loans are set up for new loans, although there are provisions to pay off interim financing.

Senator Elton wondered if the loan would be available to non-Alaskan residents, such as a big game guide who resides in another state. Mr. Richards responded that eligibility relates not to residency but to the number of flight hours logged in Alaska. The number of flight hours required would be determined by regulation. Senator Elton wondered what

"substantial percentage" of flight hours in the state meant. Mr. Richards guessed the number would be 90%.

[9:20:27 AM](#)

Mr. Winegar explained that there are about 10,000 aircraft in Alaska, of which 6,500-7,000 are operable. FAA chose 4,000 as the number of aircraft that they felt needed to be equipped because those aircraft represented around 90% of the flight hours logged in the state.

Senator Elton referred to the provision regarding the loan term of ten years and wondered if it were possible to extend the term of the loan. Mr. Richards replied that there is some flexibility.

[9:23:21 AM](#)

MIKE STEDMAN, DIRECTOR OF OPERATIONS, WINGS OF ALASKA; VICE-PRESIDENT, ALASKA AIR CARRIERS ASSOCIATION, testified in support of 249. He spoke as a pilot with thirty years of experience in Alaska. He piloted 24 of those years without Capstone avionics. He described the safety benefits of having an aircraft equipped with the avionics. Before Capstone was available, there was an accident approximately every 29 days in the Yukon-Kuskokwim Delta. More recently, there was a 29 month period between accidents. Capstone enhances situational awareness substantially. He emphasized the importance of real time weather information. Wings of Alaska currently has 12 airplanes with the equipment and the pilots fully embrace it.

[9:26:25 AM](#)

Mr. Stedman demonstrated what a pilot sees in an airplane equipped with Capstone avionics. He projected onto a drop screen in the Committee room what currently operating aircraft could see. Green, moving diamonds showed the position of aircraft in the area. The program gave identification, altitude, and relative position of the different aircraft.

[9:30:45 AM](#)

Co-Chair Stedman asked if there had been a decrease in accidents and fatalities in other areas around the state. Mr. Stedman said generally yes, although data is still being collected. Co-Chair Stedman asked if the industry supports the amount of allocation and the time frame recommended by SB 249. Mr. Stedman thought the proposed revolving loan program is a good start. He explained that Alaska would need to equip 4,000 within five years to get the full funding from FAA.

Senator Thomas wondered if the appropriation were sufficient to cover equipping 4,000 planes. Mr. Stedman answered that the amount would cover approximately 90 airplanes the first year. Over the five years the amount would be around \$34 million to equip 4,000 planes.

Co-Chair Stedman asked for an overview of the federal government's participation. Mr. Stedman replied that the federal government has committed \$497 million to this point and if Alaska does not equip 4,000 planes, \$187 million of that will be lost.

[9:33:19 AM](#)

JERE HAYSLETT, PROJECT MANAGER, SURVEILLANCE BROADCAST SERVICES AND CAPSTONE PROGRAM, FAA (TESTIFIED VIA TELECONFERENCE), clarified that FAA currently has a commitment of \$493 million for infrastructure. If the 4,000 aircraft are not equipped in five years, FAA would only commit to \$306 million.

[9:34:51 AM](#)

Senator Olson wondered how far off shore the Capstone coverage went. Mr. Stedman thought it went around 30 miles, although it depends on the altitude of the aircraft. Senator Olson asked how rapidly the data is updated. Mr. Stedman replied that the information is real time.

Senator Olson wondered what kind of commitment has been secured from the general aviation community. Mr. Stedman said the Alaska Airmen's Association has conducted a survey to see how many aircraft owners would equip their planes and how much they would be willing to pay for it. There is general support.

Senator Elton asked if the Air Carriers Association had a position regarding whether re-financing should be available for aircraft that already have the system, or should the priority be to add equipment to additional aircraft that have none. Mr. Stedman thought that the more airplanes equipped the better.

[9:38:51 AM](#)

Senator Olson pointed out that he did not see letters of support from the Alaska Airmen's Association and wondered if the program would be more attractive if the loan structure was better. Mr. Stedman thought it would be difficult to equip 4,000 air planes within five years and any incentive to help the general aviation pilot would help immensely.

[9:40:13 AM](#)

Senator Dyson realized how prohibitive it was for general aviation pilots to carry insurance, and wondered if insurance carriers would drop rates for aircraft equipped with avionics. Mr. Stedman thought that as the accident rate went down, premiums would go down as well. Senator Dyson asked if the insurance carriers would only respond to the accident rate. Mr. Stedman did not know.

[9:41:44 AM](#)

LEONARD KIRK, UNIVERSITY OF ALASKA (TESTIFIED VIA TELECONFERENCE), spoke in support of SB 249. He said the University of Alaska (UA) has been part of the safety evaluation of the Capstone system in the Yukon-Kuskokwim Delta. The University has also been involved in pilot training.

Mr. Kirk answered Senator Olson's question about how far ADS-B reaches: approximately 120 nautical miles line-of-sight. A ground-based transceiver located at Sitka could see an aircraft 120 miles out over the ocean. He said the information is updated every second.

WILFRED RYAN, ALASKA AIR CARRIERS ASSOCIATION (TESTIFIED VIA TELECONFERENCE), spoke in favor of HB 249 and gave further answers to Committee members' questions. Regarding Senator Elton's question about the position of the Association on refinancing, he said the official position is that operators should have the opportunity to refinance their equipment. He added that the Alaska Airmen's Association does support the program fully. He said there has been approximately a 20% reduction in insurance rates since the program's inception.

[9:46:15 AM](#)

Mr. Ryan said Alaska has been on the forefront with research and development for the ADS-B program. Currently Alaska is competing against the rest of the nation in receiving ground-based transceivers.

Mr. Ryan gave testimony in support of SB 249, representing the Alaska Air Carriers Association, the Alaska Airmen's Association and the Alaska Aviation Safety Foundation. These groups represent nearly all commercial and general aviation constituents in Alaska. Because more than 90% of Alaska is accessible only by air, Alaska has the highest aviation accident rate in the nation. The expedited state-wide implementation of proven Capstone safety technologies is essential for the future of flying safety. During a ten year period from 1997 to 2006, there were 124 fatal aviation crashes in Alaska. Many of these pilots were mid-career. The National Institute for Occupational Safety and Health has determined that based on their annual salaries, the total loss in earnings exceeded \$226 million.

[9:49:41 AM](#)

Mr. Ryan noted that the five-year plan includes 4,000 Alaskan-based aircraft, approximately 1,000 commercial aircraft and 3,000 general aviation aircraft. The safety incentive program will enable Alaskan operators to install the safety equipment. Once implemented statewide, FAA anticipates a 33% reduction in fatal accidents, more effective search and rescue operations, and a public benefit of approximately \$824 million over the next 27 years.

[9:51:34 AM](#)

Senator Olson asked if Mr. Ryan could think of any other incentives the State could use to entice people to use the program. Mr. Ryan thought it would be extremely challenging to bring the general aviation group into the incentive program. Research has indicated that the population is only willing to spend about \$2,500 each to equip their airplane, and the avionics package costs about \$12,000. Alaska Airmen's Association currently has about 180 people interested in the program, but feel it would be difficult to attract 3,000 equippers from the general aviation group unless there is financial incentive.

[9:52:44 AM](#)

PUBLIC TESTIMONY CLOSED.

Co-Chair Stedman reminded the Committee that the implementation of SB 249 would open up another fund. He wanted to critically look at the \$120,000 for travel and supplies in the fiscal note.

SB 249 was HEARD and HELD in Committee for further consideration.

AT EASE                    9:54:15 AM  
RECONVENE                [10:04:05 AM](#)

HOUSE BILL NO. 226

"An Act repealing the termination of the state training and employment program; and providing for an effective date."

[10:04:56 AM](#)

REPRESENTATIVE JOHN COGHILL, SPONSOR, introduced HB 226, related to the State Training and Employment Program (STEP). This program puts unemployment insurance (UI) money into grant capacity to train and re-train workers within Alaska. The current version of the bill would sunset the program in

2018 and requires the Department of Labor (DOL) to provide a review of the program. The review will look at union and non-union entities, publish a report and make recommendations.

Representative Coghill explained that DOL has set up a task force to develop the report to be presented to the Alaska Legislature in early 2009. He expressed his confidence in the Department. The program is designed for workers who have paid into UI and who cannot afford to pay for their own training or re-training.

[10:08:21 AM](#)

Representative Coghill wanted workers to have access to the program as it effectively helps to get young people and hard-to-place people back into the workforce. He said that the grant process currently is very complex. The process has been streamlined this year. He recommended extending the program out to 2018 with an annual review.

[10:10:26 AM](#)

Co-Chair Stedman referred to an audit made of the program and asked if the issues brought up in the audit had been resolved. Representative Coghill replied there were still issues with the grant process. The Commissioner of DOL has begun to deal with the issues by changing the application process and how allocations are made.

[10:11:25 AM](#)

GUY BELL, ASSISTANT COMMISSIONER AND DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, spoke in support of HB 226. He said the program has demonstrated success for over 19 years and has served over 23,000 Alaskans. The program is evaluated annually. The most recent report indicates that more than 94% of trainees were employed within 12 months of receiving the training. Those people earned over \$71 million in the year following their training, an increase of 35% over their pre-training earnings. Over 90% of 2003 participants were still Alaska residents in 2006. The Department supports the on-going annual review which has begun, supervised by David Stone, the Deputy Commissioner of the Department of Labor and Workforce Development.

[10:14:19 AM](#)

ANN WILLIAMS, HUMAN RESOURCES ADMINISTRATOR AND TRAINING COORDINATOR, KLEBS MECHANICAL INC. (KMI), ANCHORAGE (TESTIFIED VIA TELECONFERENCE), spoke in opposition to HB 226. She emphasized that unless there are major revisions, KMI would like to see STEP sunset. She gave an overview of

KMI experience with the program. They partnered with another business to provide joint job training for approximately 80 underemployed and potentially at-risk construction workers. The vision was to achieve stable employment of a diverse and well-trained local construction force. The program was a success.

Ms. Williams said their experience with the administration of the program was not as successful. The requirements for a private employer were a burden. She listed restrictions, especially removal of payment for instructor fees.

[10:18:05 AM](#)

Ms. Williams believed that KMI was one of the few private employers who received a STEP grant. Immediately upon completion, the grant program was restructured and effectively eliminated the possibility of future private employer funding. She said it is well understood that the STEP grant program has allocated the vast majority of its training money to organized labor while purporting to provide training opportunities to any Alaskan with need. STEP is funded by the UI contributions of all Alaskans and should be accessible to all.

[10:19:24 AM](#)

JEANNINE PROVOST, GRANTS MANAGER, ALASKA LABORERS TRAINING SCHOOL (ALTS) (TESTIFIED VIA TELECONFERENCE), spoke in favor of HB 226. She spoke about the positive impact of the program on the construction workforce. Alaska Laborers Training School trains about 300 people per year through STEP, focusing on preparing the workforce in the construction industry. Outreach includes members of the union as well as other Alaskans, most of whom come from remote rural areas of the State. Training requests come from village councils. Statistically speaking, 50% or more of the individuals served are from minority populations and over 45% are from areas outside of Anchorage, Fairbanks and Juneau. The program's success rate has consistently been above 87%.

[10:22:09 AM](#)

CHRIS HARMON, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS (IBEW), JUNEAU, spoke in favor of HB 226 and described how the training money helped him. He said he would not have been able to complete the apprenticeship without the grant, as he had to be away from home for five terms of 7 weeks each for 8,000 hours of on-the-job training.

Senator Thomas asked about his training. Mr. Harmon said he trained about 1400 hours in the classroom in addition to the

on-the-job training. Co-Chair Stedman asked if the training was beneficial. Mr. Harmon listed expenses. Senator Olson asked how many people are affected by the program. Mr. Harmon knew of twenty or so apprentices in Juneau who are recipients of the program.

[10:25:29 AM](#)

ROBERT CESAR, APPRENTICE ELECTRITION, IBEW, JUNEAU, spoke in favor of HB 226. Mr. Cesar, who is a single father of an ill child, was not able to receive assistance from STEP due to administrative problems. He had financial problems and the STEP grant would have been greatly beneficial. He urged the Committee to extend the program.

Senator Dyson asked if he had been asked to come and testify and if he received help preparing his testimony. Mr. Cesar said it was suggested he come at an IBEW union meeting and he was given help with preparation.

Senator Elton acknowledged Mr. Cesar's struggle as the father of a child with a bone marrow transplant. Mr. Cesar said Senator Elton and other Legislators had helped.

[10:29:49 AM](#)

TOM BRICE, ALASKA DISTRICT COUNCIL OF LABORERS, JUNEAU, spoke in favor HB 226.

Senator Olson referred to earlier testimony that the STEP program was only targeting special interest groups and asked Mr. Brice's opinion. Mr. Brice thought the doors are open to anyone who can show they have a viable accounting system and can show they are doing real training. He cited a non-union program that has been successful. His organization trains both union and non-union individuals.

[10:33:02 AM](#)

BARBARA HUFF TUCKNESS, DIRECTOR OF GOVERNMENTAL AND LEGISLATIVE AFFAIRS, TEAMSTERS LOCAL 959, spoke in favor of HB 226. She said Teamsters Local 959 has both union and non-union training programs. The programs are funded through joint efforts in negotiations with the employers that Local 959 has collective bargaining agreements with. Local 959 also attempts to reach out to employers that were not part of the collective bargaining agreement. The tech engineer program, a four-year apprentice program for surveyors, has spent extra time and effort reaching out to individuals around the State. The cost of housing has been a major issue because of the six-week training program; STEP funds have helped with that.

[10:35:18 AM](#)

REBECCA LOGAN, PRESIDENT, ASSOCIATED BUILDERS AND CONTRACTORS OF ALASKA (TESTIFIED VIA TELECONFERENCE), spoke in support of HB 226. She pointed out the discrepancies in the program reflected in previous testimony: a private employer not being able to use funds for instructors while individuals use the same money for travel and housing. Associated Builders and Contractors supports the program but urges some clean-up before the program is extended.

[10:36:49 AM](#)

Co-Chair Stedman asked Mr. Bell to address concerns brought up in testimony. He asked him to also have the audit issues raised prepared for a future Committee meeting.

Mr. Bell stated that DOL uses a competitive grant proposal process to receive and process applications. The independent evaluation committee does not evaluate on a union/non-union basis but on the overall quality of the proposal. The distribution of grants over the past years has been reviewed and presented to the Legislature. The Department recognizes the criticisms and intends to resolve them. He invited critics to participate in the task force that is being developed.

[10:40:16 AM](#)

Co-Chair Stedman pointed out that more work will be needed on fiscal notes.

HB 226 was HEARD and HELD in Committee for further consideration.

[10:40:40 AM](#)

HOUSE BILL NO. 61

"An Act relating to tax credits for cash contributions by taxpayers that are accepted for certain educational purposes, including vocational education programs and courses at the secondary school level; and providing for an effective date."

SB 61 was SCHEDULED but not HEARD.

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, gave an overview of SB 230. He described the need to diversify Alaska's economy and thought SB 230 would make Alaska competitive by creating the Alaska Film Incentive Program and re-establishing the Alaska Film Office. Forty-five other states have active film offices. Senate Bill 230 proposes transferrable tax credits. The plan is built on the successes of other states. For example, New Mexico had \$1.5 million in film spending in 2001, the year they enacted tax incentives. In 2007, the film industry spent \$476 million in the New Mexico economy.

Senator Ellis listed films Alaska has lost in recent years that were set in Alaska but filmed in other countries and states.

MAX HENSLEY, STAFF, SENATOR JOHNNY ELLIS, summarized the sections of the bill.

- Sec. 1 authorizes the Department of Revenue and the Department of Commerce, Community and Economic Development to give tax credits to film producers for qualified spending on qualified projects.
- Sec. 2 establishes an Alaskan Film Office and the administration of a film production incentive program. Subsections direct how the Department will proceed with the film industry in relation to tax credits.

[10:44:35 AM](#)

Senator Ellis has been encouraged by the amount of business support the proposal has received.

Senator Elton referred to page 3, line 5, regarding productions that are now eligible. He wondered what the bill meant by "current events programming." Senator Ellis said he would get a specific definition. Sports broadcasts would not be covered for the incentive, but a show like "The Deadliest Catch" would be.

Senator Elton wanted more information regarding another type of non-eligible production, "sexually explicit conduct" as defined in federal law (page 3, line 16). Senator Elton had the impression that the federal definition was so broad that it would disqualify many projects. Senator Ellis explained that all states use the same standard and it has worked well. Senator Elton said he was satisfied with that.

Co-Chair Stedman referred to page 3, line 11, regarding non-eligible sports events or programs, and wondered if dog-mushing races would be excluded. Mr. Hensley replied that the definition is meant to exclude live broadcasts of sporting events such as ESPN at the Great Alaska Shootout.

ESPN already has to come to Alaska to cover that event; there is no reason to give them additional incentives to come. Mr. Ellis added that the bill would allow a special project relating to sled-dog racing, which would promote Alaska, create jobs and bring money into the state.

[10:51:00 AM](#)

BOB CROCKETT, BOARD MEMBER, ALASKA FILM GROUP (AFG); DEBRA SCHILDT, FOUNDING MEMBER, BOARD MEMBER, AFG; and KATE TESAR, PRO BONO LOBBYIST, AFG, spoke in support of SB 230. They gave a PowerPoint presentation (Copy on File). Mr. Crockett pointed out that a film production can have broad economic impact in Alaska. He explained how tax credit incentives work:

- The production company applies for a credit.
- The film office approves production, issues a preliminary certificate with estimated credit amount which the company can use as collateral for loans, financing, etc.
- The movie gets made.
- The production company submits a spending report verified by Department of Commerce, Community and Economic Development and an independent CPA.
- The film office issues a transferrable tax credit.
- The producer sells the credit to an Alaska corporate tax payer, generally through a broker.
- The taxpayer redeems the transferrable credit to offset tax liability any time in the future.

Ms. Schildt explained that Canada has been Alaska's biggest competitor. From 2001-2005, 142 features were produced in Canada. Canada built an infrastructure around the film industry. She described films that were set in Alaska and shot in other states because those states had incentive programs. Mr. Crockett discussed a chart showing examples of how much money can be spent on location by television shows and films. These projects create high paying jobs that can compare to North Slope jobs. Feature films pay high union rates; commercials pay even higher. Ms. Tesar described the film dynamic: Incentives attract films, which in turn affect markets, which help build infrastructure, that employs a larger labor force, and so on.

[10:58:39 AM](#)

Senator Thomas asked what the amount of tax credit would be if there were \$10 million spent in Alaska, of which \$1 million was wages. Ms. Tesar answered the tax credit would be approximately 30% of that.

[10:59:45 AM](#)

DAN STICKLE, ECONOMIST, DEPARTMENT OF REVENUE, stated that the Department does not have an official position on SB 230. He outlined the rates of the tax credit:

- 30% of eligible production expenditures;
- an additional 10% of Alaska wages;
- an additional 2% for off-season filming; and
- an additional 2% for rural spending.

Mr. Stickle explained that the tax credit would be available to film production companies. He said that most production companies are limited liability corporations which under State law are not subject to corporate income taxation. The Department sees that the tax credit will be a subsidy of the film industry. If Alaska is able to attract dozens of feature films, the impact could be quite large.

[11:02:10 AM](#)

Co-Chair Stedman wondered what a \$100 credit, just as an example, would go against. Mr. Stickler answered that the credit would be applicable to the corporate income tax. The company that incurs the production expenses, assuming it was a limited liability corporation and did not have the corporate income tax liability, would sell the credit to a company that does have a corporate income tax liability in the State. Co-Chair Stedman asked if there were limits on the credits. Mr. Stickler said there are no limits on the credits in SB 230.

[11:03:11 AM](#)

Senator Olson asked if there were any way to evaluate the impact the investment would have on the State. Mr. Stickler said he could not predict that. Senator Olson wondered if tax credits in general have been successful in the state. Mr. Stickler said he would look into any specific credits.

[11:04:17 AM](#)

Co-Chair Stedman asked Mr. Stickler to clarify the difference between a credit and an expense, using \$100 as an example. Mr. Stickler explained that a credit is going to have a much larger effect on revenues than an expense. A \$100 expense against an income tax would reduce net income by \$100. A credit applies directly to tax liability. A \$100 credit will reduce state revenue collections on the corporate income tax by \$100, while an expense would reduce net income that gets apportioned to Alaska by \$100.

Co-Chair Stedman added that a credit is more powerful by over ten times with a 9.4% corporate income tax. There is a

substantial difference between the ability to deduct an amount or take it as a credit.

[11:06:08 AM](#)

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

ADJOURNMENT

The meeting was adjourned at 11:06 AM.