

SENATE FINANCE COMMITTEE
February 28, 2008
9:08 a.m.

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at [9:08:36 AM](#).

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Charlie Huggins, Vice-Chair
Senator Kim Elton
Senator Donny Olson
Senator Joe Thomas
Senator Fred Dyson

MEMBERS ABSENT

None

ALSO PRESENT

Ann Gifford, Juneau; Mary Hakala, Great Alaska Schools, Juneau; John Alcantra, Government Relations, NEA-Alaska; Mary Francis, Executive Director, Alaska Council of School Administrators; Carl Rose, Alaska Association of Alaska School Boards (AASB); Reed Stoops, Motion Picture Association; Rex Shattuck, Staff, Representative Neuman; Representative Mark Neuman, Sponsor; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Darwin Peterson, staff, Senator Stedman; Max Hensley, staff, Senator Johnny Ellis

PRESENT VIA TELECONFERENCE

LaDawn Druce, President, Kenai Peninsula Education Association, Soldotna; Dave Jones, Assistant Superintendent, Kenai Peninsula School District, Soldotna/Kenai; Mark Brinster; Pam Foreman; Sandy Lorrigan, Sitka convention and Visitor Borough; Terri Gottstein; Bob Hammer, President, Alaska State Home Builders Association

SUMMARY

CSHB 273(FIN)

"An Act relating to school funding, funding for student transportation services, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date."

CSHB 273(FIN) was REPORTED out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Education and Early Development, fiscal note #3 by the Department of Education and Early Development, fiscal note #4 by the House Finance Committee, and a new zero fiscal note by the Department of Health and Social Services.

SSSB 230

"An Act establishing the film office 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."

CSSB 230(FIN) was REPORTED out of Committee with a "do pass" recommendation and with a new zero fiscal note by the Department of Revenue and with a new fiscal note by Department of Commerce, Community and Economic Development.

CSHB 61(FIN)

"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 to tax credits for cash contributions by tax payers that are accepted by a state-operated vocational technical education and training school; and providing for an effective date."

CSHB 61(FIN) was HEARD and HELD in Committee for further consideration.

CS FOR HOUSE BILL NO. 273(FIN)

"An Act relating to school funding, funding for student transportation services, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date."

Representative Hawker explained that CSHB 273(FIN) is the result of a work product from the Joint Legislative Education Funding Task Force (JLTF). He thanked all those who worked on and with the JLTF and noted the collaborative efforts from all parties involved. The provision is identical to the companion legislation, SB 178. He explained that the questions raised in Committee regarding the pupil transportation recalibration had been addressed in CSHB 273. The question regarding the recalibration of the pupil transportation for Matsus has been resolved to the

satisfaction of Senator Huggins. The components of the bill include: a declining enrollment cushion, an increase in funding for intensive needs students, the phase in of the Institute of Social & Economic Research (ISER) cost factors, and an adjustment of the Base Student Allocation (BSA) with an increase of \$100 a year for the next 3 years. He underlined that this provides for a 3 year stable platform from which schools have predictable funding. He noted the final fiscal note from House Finance recognizes FY 09 funding but includes the forward funding for FY 10.

[9:15:18 AM](#)

Co-Chair Hoffman asked Representative Hawker about a combined fiscal note from the CS regarding all district impacts.

Representative Hawker said the pupil transportation recalibration is reflected in fiscal note three.

EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, responded to the fiscal note question. He confirmed that fiscal note three reflects the recalibration for student transportation. He explained the two fiscal notes represent two different components in Department of Education and Early Development (DEED) budget.

Co-Chair Hoffman requested the total increase in funds for education over the next five years, including pupil transportation.

Mr. Jeans said the increase in the foundation program for a five year period totals slightly over \$2.5 million. The increase for the pupil transportation would be \$10 million.

[9:18:52 AM](#)

Co-Chair Hoffman quoted the total costs at \$260 million for the full implementation of the provision.

Mr. Jeans said the calculation was correct, but pointed out that school districts currently receive \$70 million in a one time funding for FY 08. The \$70 million is not included in the fiscal note as an offset.

Representative Hawker said the provision is one leg of a three legged stool. Other parts of the "stool" include some form of community revenue sharing which would represent a significant amount of cost sharing related to the unfunded pension liabilities.

CARL ROSE, ASSOCIATION OF ALASKA SCHOOL BOARDS (AASB), testified in support of HB 273. He said AASB supports an increase of the BSA to \$200. He cited his history in the

education field and the numerous changes to the foundation formula and the discussions on forward funding of education. He reiterated the request for the increase to the BSA to \$200. He acknowledged the monumental accomplishments and significant increase of funds outlined in HB 273.

Co-Chair Hoffman commented that the BSA is not stagnant, this year there is a \$100 increase and there will be additional increases for 2010 and for 2011, totaling \$46.6 million. He maintained that the increase is a substantial move forward.

[9:25:21 AM](#)

MARY FRANCIS, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, (ACSA) testified in support of HB 273. She said that the work of the JLTF was a great effort. She pointed out that ACSA had a resolution that request forwarded funding of education for three years. She said her organization is pleased the provision will be in statute.

ANN GIFFORD, JUNEAU, testified in support of HB 273. She is a parent of three students that have been through the Alaska school system. She pointed out how school districts have been flat funded for some time. She supported the Governor's proposal of a \$200 increase to the BSA. She maintained that there is a surplus of oil revenues and education is the appropriate place to invest those funds.

MARY HAKALA, GREAT ALASKA SCHOOLS, JUNEAU, testified in support of HB 273. She explained that her organization is made up of volunteers that provide time and energy to schools. She thanked those involved with the JLTF and emphasized the hard work in addressing the needs of education. She urged the committee to increase the BSA to \$200. She maintained that with funding at that level, the money will reach the classroom.

[9:33:08 AM](#)

JOHN ALCANTRA, GOVERNMENT RELATIONS, NEA-ALASKA, testified in support of HB 273. He thanked those who served on the JLTF. He noted the difficulty of expressing sincere appreciation for the work done and making additional requests. NEA does support the Governor's proposed \$200 increase to the BSA. He reiterated Mr. Jeans's comments; the \$70 million are duplicative funds from FY 08, not new money. He referenced the Southwest region in the fiscal note quoting the \$934,000 that is duplicative funds from FY 08. The increase in funds is actually \$340,000. The efforts and the bill are considered a great product. He referenced other funding amounts to provide an example of actual increases versus duplicative funds. He underlined the

support of NEA and that the organization recognizes the accomplishment and collaborative efforts in producing the legislation. He said that many employees he represents question, with the surplus oil and gas revenue, why the BSA is not increased.

9:37:26 AM

LADAWN DRUCE, PRESIDENT, KENAI PENINSULA EDUCATION ASSOCIATION, SOLDOTNA (Testified via teleconference), testified in support of HB 273. She thanked the JLTF for their hard work. She supported the positive results of their efforts specifically the pupil transportation adjustment, the increase in funds for intensive needs students, and the decline in enrollment cushion. She further commented on the importance of placing the recommendations regarding area cost differential, from the ISER study, into statute. She said the report illustrates how much the Kenai School District has been underfunded. Additionally, the Kenai School District had to adjust its budget back to accommodate the \$100 BSA rather than the Governor's proposed \$200 a day. She listed specific areas the district would like to improve on through additional programs. She reiterated comments from previous speakers regarding surplus oil revenue and recommended the fund be put towards education funding.

DAVE JONES, ASSISTANT SUPERINTENDENT, KENAI PENINSULA SCHOOL DISTRICT, SOLDOTNA/KENAI (Testified via teleconference), in support of HB 273. He thanked the Committee and the JLFT for their hard work in addressing the needs of education. He commented on the importance of several of the recommendations from JLFT in the provision:

- He said intensive needs funding represents new money. He maintained that districts have been underfunded for some time.
- He supported the placing of the District Cost factor recommendations from ISER, in statute.
- He supported the Pupil Transportation Calculation recalibration noting that Kenai has been losing money through transportation costs.
- He said the BSA amount of \$100 is approximately the amount received through school improvement grants and was glad to see this in statute. He was appreciative of all efforts.

9:45:37 AM

Co-Chair Hoffman MOVED CSHB 273(FIN) to REPORT out of Committee with individual recommendations and the accompanying fiscal notes.

CSHB 273(FIN) was REPORTED out of Committee with a "do pass" recommendation and with fiscal note #1 by the Department of Education and Early Development, fiscal note #3 by the Department of Education and Early Development, fiscal note #4 by the House Finance Committee, and a new zero fiscal note by the Department of Health and Social Services.

SPONSOR SUBSTITUTE FOR SENATE BILL NO. 230

"An Act establishing the film office 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."

Co-Chair Hoffman MOVED to adopt the Work Draft to SB 230, 25-LS1275/V, 2/28/08, Bullard.

Co-Chair Stedman OBJECTED.

[9:50:51 AM](#)

DARWIN PETERSON, STAFF, SENATOR STEDMAN, addressed the changes in CSHB 273:

- Page 1 includes a title "and providing for an effective date".
- Page 2, line 5 inserts a new section requiring the credits to be used within 3 years.
- Page 2, line 29 added sections (c) and (d) requires the commissioner to appoint the director of the film office from a list of five names provided to the commission by the Alaska Film Group. The intent is to make sure that there is partnership between the public and private sector to ensure success of the office.
- Page 3 line 9, increases the qualifying expenditures from \$50,000 to \$100,000. Additional language clarifies that the \$100,000 has to be reached within a consecutive 24 month period.
- Page 3, line 12, subsection (b) provides a list of productions that are not eligible for the credit. Three productions were removed from that section which takes them from the ineligible list, thereby making them eligible for the credit. The three productions removed are: finance, talk and game shows, sporting events and award shows.
- Page 5, line 25 provides a list of expenses that qualify for the tax credit. The cost of state and municipal taxes levied on rental cars and lodging was added as a qualified expense.
- Page 5, line 29, subsection (b) is a list of expenditures that do not qualify for credit. The

addition to that list is on page 6, line 9; compensation and wages paid to a highly compensated individual, (defined on page 10).

- Page 6, lines 16 & 18, definitions for "commissioner" and "department" were added.
- Page 6, line 28 is repealer language due to the 5 year sunset for the tax credit.
- Page 7, line 9 establishes the July 1, 2013 sunset language and transition language. Lines 1-8, allow a company to receive the tax credit if they qualify prior to the sunset date.

Senator Elton asked about a change on page 2 regarding the hiring from a list provided by the Alaska Film Group. He registered concern that a special interest group would prepare the list and the commissioner was limited to hiring from that list. He was unaware of any other authority within government employing this form of hiring.

Mr. Peterson said the previous film office had not been very successful. He explained that it is important that those hired for the position have an understanding of the film industry and the ability to establish and maintain a relationship with the private sector.

[9:56:57 AM](#)

Senator Elton said there are many positions that require an ability to work with the private sector. He said he appreciated the reason for the accommodation, but was still uncomfortable with the change. He felt that it is the responsibility of the commissioner to resolve employee problems as well as hire adequately qualified staff.

Senator Ellis said he appreciated the work of the Committee and that there has been a good collaborative process.

Co-Chair Stedman said he felt that there has been success with the fish tax credit. The bill is an attempt to provide the same incentive to the film industry. The sunset date allows the legislature to review credits and the potential impact to the state treasury. It will allow them to determine if there is a benefit from the provision.

[9:59:25 AM](#)

Senator Ellis said there have been over 75 letters of support for SB 230 including, cities, native corporations, municipal conferences, University of Alaska, labor, and business groups.

Co-Chair Hoffman referenced page 6 line 25 and pointed out that Bethel would not be considered rural under the

definition. He asked where "rural" is referred to in the bill.

[10:01:11 AM](#)

Senator Ellis said SB 230 uses the standard definition of "rural" from other statutes. He said he would be open to a change if some adjustment needed to be accommodated.

Co-Chair Hoffman said he thought the overall definition should be addressed at some point. He stated the community had grown over the years, changing the rural status. He wondered if there were other rural communities in a similar situation. He asked the sponsor to identify the reference to rural in the legislation.

Senator Stedman was uncertain as to why Juneau would be included in the definition and Bethel would not be included.

Senator Elton said he understood rural to be defined as "not connected by road or rail". The Alaska Marine Highway is not considered road and that is why Juneau would qualify as rural even though the population is over 30,000. He thought the reason for the distinction within the provision was to address the higher costs of production in rural areas.

MAX HENSLEY, STAFF, SENATOR JOHNNY ELLIS, clarified that on Page 4, lines 13 & 14 provide for an additional 2 percent credit above the base credit, for qualified expenditures made in rural areas.

Co-Chair Hoffman said he found no need to address the definition in SB 230.

[10:03:04 AM](#)

Senator Elton addressed the issue of defining "rural". He noted that under the definition Juneau could qualify for the credit and Bethel may not. He thought that was odd as the costs for production would likely be much higher in Bethel.

Mr. Hensley referenced page 6, line 25, which defines rural as a community with a population of 1,500 or a community with 5,500 or less that is not connected by road or rail to Anchorage and Fairbanks.

[10:05:17 AM](#)

MARK BRINSTER (Testified via teleconference), in support of SB 230. He explained that when film makers come to Alaska they do not hire Alaskans. He felt this could be addressed by providing incentives to hire qualified local Alaskans. He questioned the allowed "qualified expenses" and explained that many of the expenses are not within the local economy.

[10:10:17 AM](#)

TERRI GOTTSTEIN (Testified via teleconference), in support of SB 230. She endorsed comments regarding the diversification of our economy. She pointed out that film location selections are driven in two ways, by story; and by business. Alaska can do some things to promote story there are a number of things the state can do to promote business. She pointed out that the longer daylight hours provide the opportunity to shoot more footage in a day. She also pointed out that the cost of filming in Alaska is less than in Canada due to the value of the dollar.

[10:13:08 AM](#)

PAM FOREMAN (Testified via teleconference), in support of SB 230 and provided examples of missed opportunities due to a lack of tax credits available to producers. She urged passage of SB 230.

SANDY LORRIGAN, DIRECTOR, SITKA CONVENTION AND VISITOR BOROUGHS (Testified via teleconference), in support SB 230. She provided examples of missed opportunities to for Alaskan productions. She underlined the importance of film tax incentives to attract film makers to Alaska.

REED STOOPS, LOBBYIST, MOTION PICTURE ASSOCIATION, testified in support of SB 230. He explained that ten other states adopted similar legislation in the last year. He said both the tax credit and the reinstatement of the film office will encourage film production in Alaska.

AT EASE: [10:18:54 AM](#)

RECONVEINE: [10:20:54 AM](#)

Co-Chair Stedman noted a previous concern by Senator Elton.

[10:21:27 AM](#)

Senator Elton MOVED to adopt a conceptual amendment to reflect that the commissioner "shall" consider appointing the director of the film office from a list of 5 candidates submitted by the Alaska Film Group. This allows for the submission of names, but does not limit the commissioner's ability to hire outside of the list. Senator Ellis felt that the conceptual amendment was a reasonable compromise.

There being NO OBJECTION, the conceptual amendment was adopted.

Co-Chair Hoffman MOVED to REPORT CSSB 230 out of Committee, as amended, with individual recommendations and accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 230(FIN) was REPORTED out of Committee with a "do pass" recommendation and with a new zero fiscal note by the Department of Revenue and with a new fiscal note by Department of Commerce, Community and Economic Development.

[10:23:40 AM](#)

CS FOR HOUSE BILL NO. 61(FIN)

"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 to tax credits for cash contributions by tax payers that are accepted by a state-operated vocational technical education and training school; and providing for an effective date."

REPRESENTATIVE MARK NEUMAN, SPONSOR, explained that HB 61 amends the current provision for educational tax credits. The provision adds to statute that contributions made to school districts for secondary school vocational education programs are eligible for a corporate tax credit. In essence, the provision allows a corporate tax credit for direct cash contribution to a school. The limitations are; a 50 percent corporate tax credit on the first \$100,000 and a 100 % credit on the second \$100,000. He felt it important to provide the high schools with an opportunity to receive funds from private industry and to help incent industry to do so.

[10:27:02 AM](#)

Representative Neuman shared dropout rate statistics: 60percent graduation rate, 40 percent drop out rate, and 25 percent in the native population. Of the 60 percent that graduate, approximately 48 percent attempt higher education but only 28 percent actually complete degree requirements. Of the 28 percent, 12-14 percent enters four year programs. He concluded that only 7 percent pursue and complete a four year college program. He used the information to point out the high percentage of students who could benefit from a vocational education program.

[10:28:38 AM](#)

Co-Chair Stedman MOVED to ADOPT Amendment #1 to CSSB 61(FIN):

Page 3, lines 2 - 3:

Delete "the lesser of
(1) an amount equal to"

Page 3, line 4:

Delete "(A)"

Insert "(1)"

Page 3, line 5:
Delete "(B)"
Insert "(2)"

Page 3, lines 5 - 6:
Delete "; or
(2) 50 percent of the taxpayer's tax
liability under this title"

Page 3, lines 21 - 22:
Delete ", in current or emerging employment sectors"

Page 7, line 28:
Delete "2008"
Insert "2009"

Co-Chair Stedman objected.

REX SHATTUCK, STAFF TO REPRESENTATIVE NEUMAN, explained that there was a drafting anomaly and the amendment is offered to address that.

Mr. Shattuck reference the portion of the amendment on Page 3, lines 5-6. He explained that prior to 1991 this section was repealed from statute. The section was inadvertently put into the draft. The language in the amendment conforms to existing statute by removing the section. He added that on page 3, line 21-22 the language deletion is due to conversations with the Department of Revenue regarding the difficulties of administrating. On page 7, line 28 delete "2008", insert "2009". He explained that the bill was introduced last year and was uncertain of the time it would take to move through the legislature.

Co-Chair Stedman WITHDREW his OBJECTION to adopt Amendment 1.

There being NO OBJECTION, Amendment 1 was adopted.

[10:31:55 AM](#)

Senator Elton informed the Committee that the partnership with the Alaska Homebuilders Association at the Juneau Douglas High School is a great example of private industry support of vocational programs. The Juneau Douglas High School students' participating in the building program won a national contest in Orlando Florida last year.

Representative Neuman said the example by Senator Elton is exactly what HB 61 supports through the incentive of a tax credit for industry.

[10:34:27 AM](#)

BOB HAMMER, PRESIDENT, ALASKA STATE HOME BUILDERS ASSOCIATION (Testified via teleconference), in strong support of HB 61. He said Alaska will soon be facing a critical shortage of qualified workers in many of the trade and construction related areas. Sustainable funding for vocational education is critical to the future of our state. Future Alaskans will be called upon to fill the jobs vacated by our aging workforce as well as the new jobs created by the future gas line project. "It is imperative that these Alaskans have access to quality, well-funded training programs that will teach them the skills they will need to help build Alaska's future." He further maintained that not only can students be trained, but establishing incentive for the industry, a partnership is created for all to benefit.

Co-Chair Stedman noted the indeterminate fiscal notes and quoted from the analysis:

We anticipate that this bill will have a negligible effect on revenue. The education tax credit is little-used. In 2005, the most recent year for which data is available, 26 companies took education tax credits amounting to approximately \$2.5 million. We have no data to assess the amount of additional donations under the provision. It is anticipated that the additional amount will be a small fraction of the current credits.

[10:36:57 AM](#)

Senator Thomas asked if there were any changes from the original statute regarding the removal of 50 percent of the tax liability.

Mr. Shattuck replied that the percentage has not changed. The provision repeals and reenacts the existing language in statute for the university. He further clarified that at the suggestion of legislative legal, conforming language was added for continuity.

Senator Thomas referred to page 3, and asked why the language regarding 50 percent is removed. He also asked if there was a list of Regional Education Accreditation facilities (REA). Mr. Shattuk reported that the reason for settling on municipal school districts and REAs was to ensure that public funds were contributed to a public purpose. He further noted that the 50 percent suggested to be removed was present in Sec. 21.89.070. When the bill was drafted it was inadvertently added in Sec. 43.20.014. The language repeals the redundancy and extends the 50 percent tax credit to contributions made to vocational education.

Representative Neuman clarified that the funding would go through the Department of Education and Early Development to solely fund public education.

10:40:53 AM

Co-Chair Stedman questioned if private and non-profit vocational education programs would qualify for the credit.

Representative Nueman did not think that private facilities were eligible as it would be difficult to track the funds.

Senator Olson asked if technical educational programs had commented on HB 61. Representative Neuman responded that the legislation was amended in the House Finance Committee to assure that technical programs would be allowed to take advantage of the provisions.

Representative Neuman provided closing comments, noting the importance of providing opportunities to the high percentage of students who do not attend college. He felt that allowing private industry to assist in the effort through training and funds is the best way to help students.

CSHB 61(FIN) was HEARD and HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 10:43 AM.