

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE
February 19, 2009
8:05 a.m.

MEMBERS PRESENT

Representative Bob Herron, Co-Chair
Representative Cathy Engstrom Munoz, Co-Chair
Representative Wes Keller
Representative Sharon Cissna
Representative Berta Gardner

MEMBERS ABSENT

Representative John Harris
Representative Charisse Millett

COMMITTEE CALENDAR

OVERVIEW: OFFICE OF ECONOMIC DEVELOPMENT

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

JOE AUSTERMAN, Director
Office of Economic Development (OED)
Department of Commerce, Community, & Economic Development
(DCCED)
Juneau, Alaska

POSITION STATEMENT: Completed his overview of the Office of Economic Development.

CARYL MCCONKIE, Tourism Development Manager
Office of Economic Development
Department of Commerce, Community, & Economic Development
Juneau, Alaska

POSITION STATEMENT: During overview of OED, provided additional information.

ACTION NARRATIVE

8:05:30 AM

CO-CHAIR BOB HERRON called the House Community and Regional Affairs Standing Committee meeting to order at 8:05 a.m. Representatives Herron, Munoz, Keller, and Gardner were present at the call to order. Representative Cissna arrived as the meeting was in progress.

Overview: Office of Economic Development

8:05:43 AM

CO-CHAIR HERRON announced that the only order of business would be the completion of the February 5, 2009, overview of the Office of Economic Development.

8:06:32 AM

JOE AUSTERMAN, Director, Office of Economic Development (OED), Department of Commerce, Community, & Economic Development (DCCED), began by providing the committee with a document regarding the tourism activities that the Office of Economic Development (OED) provides. He recalled that at the prior hearing there were questions regarding how OED could further develop its program into other sectors. The tourism programming works well as it's adequately staffed for the programs delivered and the interest in those programs. He noted that much of the funding [for tourism in rural areas] comes from the U.S. Economic Development Administration (EDA). Much of the program development comes from inquiries from rural Alaska. At the last hearing, Co-Chair Munoz suggested developing the yacht sector of tourism, which he indicated is fairly active in Alaska. Mr. Austerman acknowledged that OED would like to emulate the tourism process with other programs. However, funding is a component. For instance, there is one person in OED who is the conduit between the commercial fisheries industry and state government. Two staff focus on minerals and one staff person focuses on forestry. He pointed out that OED is a small and nimble organization that's effective with the resources it has.

8:10:56 AM

MR. AUSTERMAN then turned to the film sector. He reminded the committee that Alaska doesn't have the traditional administrative mechanisms for gathering information. Furthermore, not much was known about the film industry other

than that the states and countries that engage in the film industry and offer incentives end up with film being a large component of their economy. British Columbia, he highlighted, is a perfect example of an area that uses a similar incentive program that encourages the producers to spend production dollars on site. He indicated that Alaska's incentive has drawn film activity to the state. He then noted that OED has worked quite extensively with Evergreen Studios, which invested in Alaska even prior to the incentive program. In fact, Evergreen Studios made a sizable investment in Anchorage in 3-D technology. He highlighted that on the East Coast theatres are beginning to show live sports broadcasts. The technology has made a big come-back. Furthermore, 3-D film is said to be the next generation of film. Evergreen Studios has chosen Alaska to develop its 3-D production studios. Had the incentive program not been in place, OED likely would not have heard about the aforementioned. The initiative, he explained, provides a tax credit of a minimum of 30 percent of the qualifying [production] expenditures in the state and up to 44 percent for off-season production work or production work in rural Alaska. He informed the committee that Evergreen Studios has produced a salmon shark documentary with National Geographic.

MR. AUSTERMAN pointed out that one of the drawbacks with encouraging more production is that Alaska doesn't have much film industry infrastructure. One of the main items missing is a sound stage. At this point, there seems to be a strong possibility that private money will develop this sound stage. This film initiative has certainly brought new dollars to the state. He said that it's up to legislators to determine whether allowing the initiative is worth lost income tax revenue in exchange for the new dollars coming to the state. The OED's job is to administer the program as best it can and report to the legislature the progress of the film industry annually. Mr. Austerman highlighted that there is an administrative mechanism in the initiative that allows for evaluation. To qualify for the tax credit film production companies will have to show their books and share how much money they've spent in Alaska. The tax incentive, he noted sunsets in five years. Thus far this year, a mechanism for companies doing production work in Alaska has been created to allow production despite an incomplete regulations process. The regulations process would further define what exactly would be a qualifying production expenditure in Alaska. To date, OED has received four applications from production companies that want to work in Alaska. The estimated qualifying spending of those four applicants is just under \$5 million of which \$1.5 million would be the tax credit.

8:20:08 AM

MR. AUSTERMAN, in response to Co-Chair Herron, explained that when OED considered the film industry regulations it did so in an Alaska centric manner. He acknowledged that there were some concerning components of the law, but the regulations seemed to address those without changing the intent of the law. He noted that OED has spoken with the film industry about concerns of potential abuse with the program and relayed that if the program isn't working for Alaska, then it would end. Mr. Austerman informed the committee that one of the concerns with the [film incentive] is the removal of the cap on the "superstar" clause. At one point there was a \$2 million cap for superstars doing work in Alaska; the removal of that cap is a large hit without realizing any economic benefit. However, those in tourism would argue that there would be an inferred benefit in terms of Alaska's exposure through film.

8:23:27 AM

CARYL MCCONKIE, Tourism Development Manager, Office of Economic Development, Department of Commerce, Community, & Economic Development, explained that DCCED is required to notify the legislature when \$100 million in tax credits based on existing productions has been identified. She posed a scenario in which the production companies say they will spend \$50 million, but only end up spending \$20 million in the state. That extra \$30 million has been set aside so that upon the sunset date or the \$100 million in tax credits has been reached, the final audit would reveal, in this case, that not all of the funds were spent. The aforementioned may be an issue that needs to be addressed at some point.

8:25:26 AM

REPRESENTATIVE GARDNER opined that the aforementioned is similar to Alaska Housing Finance Corporation's (AHFC) weatherization program.

MS. MCCONKIE noted her agreement.

8:26:06 AM

CO-CHAIR HERRON inquired as to those who merely want to capture Alaska on film and might not take advantage of the tax credit because they don't know about it or it's too much of a hassle.

MR. AUSTERMAN clarified that the tax credit doesn't apply to news broadcasts. He then related that the film industry is fairly efficient and it's unlikely that a production company would work in Alaska without taking advantage of the tax credit, which represents 30 percent of production costs. He mentioned that it's likely that the production company wouldn't receive the entire 30 percent since the production company has to broker the certificate.

[8:28:34 AM](#)

CO-CHAIR MUNOZ asked if the tax credit includes an incentive for local hire.

MR. AUSTERMAN replied yes, adding that labor is a qualifying expense. The base incentive for all qualifying expenses is 30 percent. Alaska hire results in an additional 10 percent while filming off season or filming in a rural location result in an additional 2 percent tax credit for each. Mr. Austerman pointed out that if a production company spent \$1 million, it could receive a tax credit in the amount of \$440,000. The production company would receive the tax credit as a certificate. Since it's likely that the production company doesn't pay taxes in Alaska, it would likely sell the certificate to a company that does pay taxes in Alaska.

[8:30:16 AM](#)

MR. AUSTERMAN mentioned that a local Juneau writer Dave Hunsaker is working with Evergreen Studios on a production. One of the challenges is determining when the qualifying activity starts. At this point, OED is sticking to the rule that no expenses qualify prior to approval of the application. Mr. Austerman explained that there is difficulty with regard to the actual purchase of the screen write, which clearly occurs prior to production in the state. However, the deal is generally consummated on the first day of production. Mr. Austerman opined that he doesn't want to provide any incentive for screen plays that are written outside of the state, although the deal was consummated in Alaska. However, he questioned whether local writers should be encouraged to build their business as part of this tax incentive. He suggested that some of these issues won't play out until some of the work has been done. The motivation behind this tax incentive is to capture some of the funds from films set in Alaska that are actually filmed elsewhere and thus funds spent elsewhere.

[8:33:48 AM](#)

CO-CHAIR HERRON identified "The Guardian" as such a movie. He then inquired as to how to help communities attract the film industry.

MR. AUSTERMAN opined that in rural Alaska part of the difficulty is that there are no new dollars and the cost of living continues to increase.

[8:35:45 AM](#)

REPRESENTATIVE GARDNER asked if the tax incentive is changing the behavior of the film industry, especially when one considers companies such as Evergreen Studios that is already doing business in the state.

[8:36:33 AM](#)

CO-CHAIR HERRON indicated that it would be more important for the state to lose a bit of revenue in order to have the film industry in the state.

MR. AUSTERMAN noted his agreement that there will be situations in which some companies will come to Alaska no matter the existence of the incentive. He relayed that the staff person leading the film industry component of OED just went to a tax credit symposium/forum in Los Angeles, California. This staff person found that since many states are scaling back [film industry programs]; Alaska's tax incentive program is receiving a lot of national attention.

[8:38:43 AM](#)

REPRESENTATIVE CISSNA recalled living in San Diego, which she characterized as a "film crazy" area. She then turned attention to the Developing Alaska Rural Tourism (DART) program and some of the programs under it that hold out the Alaska experience to the world without requiring putting money aside. She noted that the independent traveler will spend money on such experiences and then come into town and spend money.

MR. AUSTERMAN highlighted that tourism, unlike almost any industry, offers a way to bring new money into the state. Moreover, tourism is a renewable industry for which he holds much pride. He noted that those in urban Alaska don't need as

much help with tourism as those in rural Alaska. This incentive is a mechanism to get new money out to communities, which is certainly part of the governor's legacy initiative.

[8:43:16 AM](#)

REPRESENTATIVE CISSNA pointed out that DART gets people into rural communities. She then inquired as to whether the anthropological camp in Afognak is still in business.

MS. MCCONKIE answered that she believes it's still in business. Certainly, such a program is the type of [tourism] those in the rural areas are interested in because these are unique to the areas and attracts the independent traveler. She pointed out that in the rural communities a new business employing a couple of people is important.

[8:45:11 AM](#)

REPRESENTATIVE CISSNA expressed interest in knowing more about the DART program and possibly meeting with OED staff regarding what activities exists [in rural Alaska].

[8:45:48 AM](#)

CO-CHAIR HERRON noted his agreement, adding that there might be activities going on in his district that he doesn't know about and could share in his newsletter. He requested that OED provide the committee with the activities occurring and the area in which they're occurring. He then directed attention to the Alaska Regional Development Organization (ARDOR), and inquired as to how an ARDOR accomplishes anything with the budget it has.

MR. AUSTERMAN said that most ARDORS are very successful in using state funds to match and leverage other funds. The ARDORS provide OED with an outreach opportunity to rural Alaska. Technically, OED merely administers the ARDORS much like the Alaska Travel Industry Association's (ATIA) contract. He highlighted the value in having the on-the-ground intuition for a region. He then noted that tourism folks are good about working with the ARDORS.

[8:48:42 AM](#)

REPRESENTATIVE KELLER related that he has been impressed with how ARDOR personnel link with the chamber.

[8:49:11 AM](#)

CO-CHAIR HERRON inquired as to how OED measures the effectiveness of the ARDORs throughout the state.

MR. AUSTERMAN answered that the statute doesn't establish performance measure criteria. However, in an attempt to bring the ARDOR program on the radar, OED has encouraged ARDORs to include in their report all their activities, financial standing, and objectives. The report is provided to the legislature. Although OED has tried to work with the ARDORs in establishing some performance measures, the statute doesn't necessarily require it and OED is a coordinating agency not a policing agency.

[8:51:36 AM](#)

MR. AUSTERMAN, in closing, informed the committee that OED maintains a small business assistance center, a web site, and manages the Made in Alaska program and the Alaska product preference program. The Made in Alaska symbol was just legally trademarked, which provides a bit more teeth with regard to enforcing the use of it. He related that the Made in Alaska is gaining value as a marketing tool. Mr. Austerman told the committee that OED is available to answer questions or address specific industry or economic development issues. He then related that many years ago a small business grant was passed, but never funded. It's an annual appropriation of up to \$3 million per year that can go toward helping small businesses start through a grant program that would be co-administered through OED and the Alaska Industrial & Export Authority (AIDEA). He opined that the aforementioned would be effective tool for starting small businesses in rural Alaska.

[8:54:21 AM](#)

CO-CHAIR HERRON remarked that perhaps some funding could be obtained from Alaska Growth Capital, which the state could match.

[8:55:12 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 8:55 a.m.