

ALASKA STATE LEGISLATURE
HOUSE EDUCATION STANDING COMMITTEE

March 12, 2010
8:13 a.m.

MEMBERS PRESENT

Representative Paul Seaton, Chair
Representative Cathy Engstrom Munoz, Vice Chair
Representative Wes Keller
Representative Peggy Wilson
Representative Robert L. "Bob" Buch
Representative Berta Gardner

MEMBERS ABSENT

Representative Bryce Edgmon

COMMITTEE CALENDAR

HOUSE BILL NO. 297

"An Act establishing the governor's performance scholarship program and relating to the program; establishing the governor's performance scholarship fund and relating to the fund; relating to student records; making conforming amendments; and providing for an effective date."

- MOVED CSHB 297(EDC) OUT OF COMMITTEE

HOUSE BILL NO. 367

"An Act relating to tax credits for cash contributions by taxpayers that are accepted for certain educational purposes and facilities; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 350

"An Act relating to the local contribution to public school funding; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 413

"An Act relating to the Alaska Challenge Youth Academy."

- SCHEDULED BUT NOT HEARD

HOUSE BILL NO. 393

"An Act relating to the Alaska Challenge Youth Academy."

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 297

SHORT TITLE: POSTSECONDARY SCHOLARSHIPS

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/10	(H)	READ THE FIRST TIME - REFERRALS
01/19/10	(H)	EDC, FIN
02/03/10	(H)	EDC AT 8:00 AM BARNES 124
02/03/10	(H)	Heard & Held
02/03/10	(H)	MINUTE(EDC)
02/12/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/12/10	(H)	Heard & Held
02/12/10	(H)	MINUTE(EDC)
02/15/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/15/10	(H)	Heard & Held
02/15/10	(H)	MINUTE(EDC)
02/17/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/17/10	(H)	Heard & Held
02/17/10	(H)	MINUTE(EDC)
02/19/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/19/10	(H)	Heard & Held
02/19/10	(H)	MINUTE(EDC)
02/22/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/22/10	(H)	Heard & Held
02/22/10	(H)	MINUTE(EDC)
02/26/10	(H)	EDC AT 8:00 AM CAPITOL 106
02/26/10	(H)	Heard & Held
02/26/10	(H)	MINUTE(EDC)
03/01/10	(H)	EDC AT 8:00 AM CAPITOL 106
03/01/10	(H)	Heard & Held
03/01/10	(H)	MINUTE(EDC)
03/08/10	(H)	EDC AT 8:00 AM CAPITOL 106
03/08/10	(H)	Heard & Held
03/08/10	(H)	MINUTE(EDC)
03/10/10	(H)	EDC AT 8:00 AM CAPITOL 106
03/10/10	(H)	Heard & Held
03/10/10	(H)	MINUTE(EDC)
03/12/10	(H)	EDC AT 8:00 AM CAPITOL 106

BILL: HB 367

SHORT TITLE: TAX CREDITS FOR EDUCATIONAL CONTRIBUTIONS

SPONSOR(s): MUNOZ

02/23/10 (H) READ THE FIRST TIME - REFERRALS
02/23/10 (H) EDC, FIN
03/10/10 (H) EDC AT 8:00 AM CAPITOL 106
03/10/10 (H) Heard & Held
03/10/10 (H) MINUTE(EDC)
03/12/10 (H) EDC AT 8:00 AM CAPITOL 106

BILL: HB 350

SHORT TITLE: PUBLIC SCHOOL FUNDING: LOCAL CONTRIBUTION

SPONSOR(s): EDUCATION

02/17/10 (H) READ THE FIRST TIME - REFERRALS
02/17/10 (H) EDC, FIN
02/17/10 (H) EDC AT 8:00 AM CAPITOL 106
02/17/10 (H) <Bill Hearing Rescheduled to 02/19/10>
02/19/10 (H) EDC AT 8:00 AM CAPITOL 106
02/19/10 (H) Heard & Held
02/19/10 (H) MINUTE(EDC)
02/22/10 (H) EDC AT 8:00 AM CAPITOL 106
02/22/10 (H) <Bill Hearing Rescheduled to 02/26/10>
02/26/10 (H) EDC AT 8:00 AM CAPITOL 106
02/26/10 (H) Heard & Held
02/26/10 (H) MINUTE(EDC)
03/03/10 (H) EDC AT 8:00 AM CAPITOL 106
03/03/10 (H) Heard & Held
03/03/10 (H) MINUTE(EDC)
03/10/10 (H) EDC AT 8:00 AM CAPITOL 106
03/10/10 (H) Scheduled But Not Heard
03/12/10 (H) EDC AT 8:00 AM CAPITOL 106

WITNESS REGISTER

EDDY JEANS, Director
School Finance and Facilities Section
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 297.

JEAN MISCHEL, Attorney
Legislative Legal Counsel
Legislative Legal and Research Services
Legislative Affairs Agency

Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 297.

STEPHANIE BUTLER, Director Operations/Outreach
Postsecondary Education Commission
Department of Education and Early Development (EED)
Juneau, Alaska

POSITION STATEMENT: Testified during the hearing on HB 297.

KENDRA KLOSTER, Staff
Representative Cathy Munoz
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Introduced the committee substitute for HB 367 on behalf of Representative Munoz, sponsor.

ROBYNN WILSON, Income Audit Manager
Tax Division
Department of Revenue (DOR)
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on HB 367.

MARY FRANCIS, Executive Director
Alaska Council of School Administrators (ACSA)
Juneau, Alaska

POSITION STATEMENT: Testified in favor of HB 350.

ACTION NARRATIVE

[8:13:46 AM](#)

CHAIR PAUL SEATON called the House Education Standing Committee meeting to order at 8:13 a.m. Present at the call to order were Representatives Seaton, Gardner, Buch, and Keller. Representatives Munoz and Peggy Wilson arrived as the meeting was in progress.

[8:13:56 AM](#)

HB 297-POSTSECONDARY SCHOLARSHIPS

[8:14:05 AM](#)

CHAIR SEATON announced that the first order of business would be HOUSE BILL NO. 297, "An Act establishing the governor's

performance scholarship program and relating to the program; establishing the governor's performance scholarship fund and relating to the fund; relating to student records; making conforming amendments; and providing for an effective date."

[8:14:48 AM](#)

REPRESENTATIVE GARDNER moved to adopt HB 297, Version E, as the working document.

[8:15:00 AM](#)

There being no objection, Version E was before the committee.

[8:15:28 AM](#)

CHAIR SEATON directed attention to Sec. 14.43.815, beginning on page 6, line 27, of the bill. He paraphrased from the bill and read [original punctuation provided]:

(a) graduated, or will graduate not later than six months after the date of the application, from a high school in the state, including a public school, private school, and home school;

CHAIR SEATON surmised the referenced language allowed applicants to make an application after they graduate, but not sooner than six months before they graduate; however, a date certain after graduation was not specified.

[8:16:27 AM](#)

EDDY JEANS, Director, School Finance and Facilities Section, Department of Education and Early Development (EED), explained that the end date for scholarship eligibility was six years following high school graduation, thus the "window" of opportunity to apply, receive, and expend scholarship funds was six months prior to graduation from high school, to six years following graduation from high school. Mr. Jeans said this provision was clearly stated in paragraph (3), page 7, line 11, and paraphrased from the bill which read [original punctuation provided]:

(3) will receive and use, while an Alaska resident, the scholarship at a qualified postsecondary institution in the state not later than six years

after the beginning of the first school year after a student's graduation from high school ...

CHAIR SEATON questioned whether the department anticipated receiving late applications.

[8:18:02 AM](#)

MR. JEANS said the department expects that students would be aware of the time limit and would apply immediately.

[8:18:24 AM](#)

REPRESENTATIVE GARDNER referred to page 7, lines 15-16, and paraphrased from the bill which read [original punctuation provided]:

... standards for extension of time must include two additional years if the student is in military service; ...

REPRESENTATIVE GARDNER expressed her concern that the standard for the extension of time must include two years, rather than "up to two additional years."

MR. JEANS advised this was the component for the extension of military service, and agreed that "must include" was strong language.

[8:19:22 AM](#)

JEAN MISCHEL, Attorney, Legislative Legal Counsel, Legislative Legal and Research Services, Legislative Affairs Agency, advised inserting "not more than two additional years" after the word "include" on page 7, line 15.

[8:19:52 AM](#)

REPRESENTATIVE GARDNER suggested inserting "may include two additional years."

MS. MISCHEL cautioned "may" provides the commissioner authority to deny the extension.

CHAIR SEATON asked whether the proposed changes are equivalent.

MS. MISCHEL pointed out that they are not equivalent language; in fact, "may" defers to the discretion of the commissioner. She recalled the intent of the committee was to require the commissioner to grant a two-year extension if needed for military service.

[8:21:49 AM](#)

REPRESENTATIVE GARDNER, acknowledging the intent of the committee, suggested "standards [for] extension of time must include up to two additional years ..."

[8:22:08 AM](#)

MS. MISCHEL recommended "not more than."

[8:22:34 AM](#)

REPRESENTATIVE GARDNER moved Amendment 1, which inserted "not more than."

[8:22:50 AM](#)

CHAIR SEATON restated Amendment 1 which read:

Page 7, line 15
After "include"
Add "not more than"

CHAIR SEATON objected for the purpose of discussion.

[8:23:10 AM](#)

REPRESENTATIVE KELLER offered Amendment 1 to Amendment 1 which read:

Page 7, line 15
Delete "must"
Insert "may"

REPRESENTATIVE KELLER said the intention of the amendment was to allow the commissioner discretion to deny an extension.

[8:23:35 AM](#)

REPRESENTATIVE GARDNER paraphrased from line 13 which read [original punctuation provided]:

the student qualifies for an extension of time allowed by the department;

REPRESENTATIVE GARDNER said she was comfortable with the amendment, although the department already has the discretion to deny.

There being no objection, Amendment 1 to Amendment 1 was treated as adopted.

[8:23:59 AM](#)

CHAIR SEATON restated Amendment 1, as amended, which read:

Page 7, line 15
"of this paragraph, standards for extension of time may [must] include not more than two additional years if the student is in military service;

There being no objection, Amendment 1 was adopted.

[8:24:40 AM](#)

CHAIR SEATON moved Amendment 2 which read:

Page 7, lines 8-9
After the word "state" delete "for not less than two years,"

[8:25:05 AM](#)

REPRESENTATIVE MUNOZ objected for the purpose of discussion.

[8:25:11 AM](#)

CHAIR SEATON explained Amendment 2 was recommended by the bill's drafter.

[8:26:29 AM](#)

REPRESENTATIVE MUNOZ surmised Amendment 2 removes the requirement for a student to attend high school in Alaska for two years. She expressed her support for the amendment, observing that the standard of state residency can be retained by family members of a parent in military service.

[8:27:15 AM](#)

CHAIR SEATON clarified that this is an allowance for an additional qualification for students who leave with their custodial parents due to military service. Students would still be subject to the remaining criteria to qualify for a scholarship, but have "an exception for the qualification of graduating from an Alaska school ..."

[8:28:12 AM](#)

REPRESENTATIVE MUNOZ gave an example of a student in a military family, who maintains his/her state residency, and remains Outside for all four years during high school. She asked whether that student would be eligible.

[8:28:59 AM](#)

MS. MISCHEL indicated no. In further response to Representative Munoz, she explained that two years is not specified in this amendment; in fact, attendance could be for any amount of time, although the time period could be clarified in regulation. The amendment attempts to equate high school graduation in-state with out-of-state high school graduates who are also residents. Ms. Mischel reminded the committee the purpose of the bill was to instill more rigor in the state's high school curriculum, thus the attendance requirement.

[8:29:55 AM](#)

REPRESENTATIVE MUNOZ restated her question about a student of a military family who retains his/her residency.

[8:30:05 AM](#)

MS. MISCHEL confirmed that student would not qualify.

[8:30:31 AM](#)

REPRESENTATIVE GARDNER gave an example to illustrate the purpose of the amendment.

[8:31:09 AM](#)

REPRESENTATIVE P. WILSON stated her support for the amendment, and noted that many military families maintain state residency for other purposes.

[8:31:57 AM](#)

REPRESENTATIVE MUNOZ indicated that she removed her objection.

[8:32:01 AM](#)

There being no further objection, Amendment 2 was adopted.

[8:32:12 AM](#)

CHAIR SEATON called attention to page 20, line 10, and read [original punctuation provided]:

Education or the Alaska Student Loan Corporation for
the guarantee and disbursing of financial aid

CHAIR SEATON informed the committee of a request from the Postsecondary Education Commission to delete "guarantee" and insert "servicing."

[8:33:06 AM](#)

STEPHANIE BUTLER, Director Operations/Outreach, Postsecondary Education Commission, Department of Education and Early Development (EED), explained that the word "servicing" is a broader term, and more appropriate for the bill.

[8:33:32 AM](#)

CHAIR SEATON moved Amendment 3 which read:

Page 20, line 10
Delete "guarantee"
Insert "servicing"

[8:33:53 AM](#)

There being no objection, Amendment 3 was adopted.

[8:34:28 AM](#)

REPRESENTATIVE MUNOZ related an inquiry from a constituent who asked whether the graduating classes of 2011-2013 would be held to lesser curriculum requirements.

[8:35:05 AM](#)

MR. JEANS advised the committee that the bill contains transition language that allows the department to develop regulations to implement transition eligibility requirements. For example, the math requirement for 2011 seniors would be three years, instead of four years.

[8:36:08 AM](#)

CHAIR SEATON cited page 22, line 4, which read:

(1) may be eligible for the program even though the student did not fully meet the required core academic curriculum for the school years beginning July 1, 2010, through [June 30], 2013;

[8:36:48 AM](#)

REPRESENTATIVE GARDNER asked about a transitioning year senior who is taking his/her second year of math.

MR. JEANS indicated a second year of math would suffice for a senior in the class of 2011.

[8:37:42 AM](#)

CHAIR SEATON asked whether the department will continue to require standardized test scores as part of the evaluation.

[8:38:07 AM](#)

MR. JEANS answered that the Alaska State Board of Education & Early Development (state board) will be setting the "cut scores" for the testing levels, as well as the transition regulations.

[8:38:26 AM](#)

REPRESENTATIVE GARDNER surmised that a student eligible for the program at its inception may only meet high school graduation requirements as they are today.

[8:38:43 AM](#)

MR. JEANS agreed that may be the case for students who wait until their senior year to take required courses.

REPRESENTATIVE GARDNER remarked:

...If we're getting students in without changing the behavior or the choices that they're making, or adding any rigor, that's not the intention.

CHAIR SEATON expressed his hope that the state board will adopt rigorous regulations.

[8:39:44 AM](#)

REPRESENTATIVE GARDNER said the testimony indicates not.

CHAIR SEATON pointed out a transition period is necessary; otherwise, scholarships would not be awarded for four years.

REPRESENTATIVE GARDNER opined three years of AP classes could be required during the transition.

[8:40:47 AM](#)

MR. JEANS assured the committee the department's intent was to increase rigor for students; however, flexibility is necessary so that juniors and sophomores have time to make adjustments. In fact, by the time the state board would be setting regulations, students eligible for this scholarship will have chosen classes for their senior year.

[8:42:26 AM](#)

REPRESENTATIVE P. WILSON noted that students who want one of the scholarships may have to change plans, and said, "that's the whole idea with this." The intent should be clear to the state board that the standards of rigor must apply for the first students who receive this award. She stressed the standards should be as high as possible.

[8:44:19 AM](#)

CHAIR SEATON agreed, and suggested students could take virtual classes or attend summer school; however, during the transition, requiring a student to meet every one of the qualifications may be difficult.

[8:45:26 AM](#)

REPRESENTATIVE KELLER said he expected the transition regulations to require the same rigor from students as in the future.

[8:45:56 AM](#)

REPRESENTATIVE MUNOZ reviewed the current requirements of four years of English, two years of math, and one year of science. She suggested the requirements for the transitional period could be an additional year of math and science.

[8:46:36 AM](#)

REPRESENTATIVE BUCH noted the term "transition" gives the board and the department discretion to establish the program that will be in place by the spring of 2014. He agreed that there should be no question about the intent of the bill.

[8:47:50 AM](#)

REPRESENTATIVE GARDNER suggested an amendment to require at least of three years of math and three years of science.

MR. JEANS restated the current graduation requirements of four years of language arts, three years of social studies, two years of math, and two years of science.

[8:49:00 AM](#)

REPRESENTATIVE BUCH pointed out this requirement is beyond the reach of schools in the Bush, and without time for schools to make programs available, may exclude students.

[8:49:34 AM](#)

CHAIR SEATON asked the department whether the "special circumstances ... beyond the student's control" provision of the bill applies when districts do not offer the required curriculum.

[8:50:29 AM](#)

MR. JEANS advised the alternative pathways are not waivers, but allow credit for correspondence courses or other alternatives. He asked the committee to allow the legislation to move forward without amendments, so that the state board can hear public

testimony and review all of circumstances and issues related to the transition language.

[8:51:05 AM](#)

REPRESENTATIVE GARDNER stated Mr. Jeans' comment holds true for every provision in the bill; however, the bill is not about giving students scholarships, but about reforming the K-12 education system by encouraging and requiring students to "reach higher."

[8:51:37 AM](#)

REPRESENTATIVE P. WILSON assured the committee that the teachers in small schools will provide what is necessary to help an interested student qualify for this program. She praised the efforts of the state's teachers, and their abilities to serve students, and warned against discounting the possibilities for any student who works hard.

[8:53:17 AM](#)

REPRESENTATIVE KELLER agreed that on-line courses are available, and 2011 graduates have time to prepare.

[8:53:49 AM](#)

CHAIR SEATON stated the conceptual amendment to page 22, line 6, adds "however, this shall include at least three years of math and three years of science."

[8:54:37 AM](#)

MS. MISCHEL said the conceptual amendment would amend page 22, line 4, and she recommended removing the phrase "even though the student did not fully meet" and specifying that the core curriculum requirements are met except that the student must have at least three years math and three years science.

CHAIR SEATON asked Representative Gardner to comment.

[8:54:23 AM](#)

REPRESENTATIVE GARDNER surmised the amendment waives the fourth year of math and science and requires three, which was correct.

[8:56:09 AM](#)

REPRESENTATIVE MUNOZ agreed with the amendment.

[8:56:31 AM](#)

CHAIR SEATON restated Conceptual Amendment 4, offered by Representative Gardner, and objected for the purpose of discussion.

[8:56:58 AM](#)

CHAIR SEATON confirmed that the amendment did not change the standards, but affected the transitional requirements.

[8:58:16 AM](#)

CHAIR SEATON withdrew his objection. There being no further objection, Conceptual Amendment 4 was adopted.

[8:59:07 AM](#)

REPRESENTATIVE BUCH recognized the chairman's work on the bill, which may be a great start towards reform.

[8:59:52 AM](#)

CHAIR SEATON noted there was an unmet student need component in the bill that would ensure that all Alaskans can access the program, and pursue the path that they choose for postsecondary education. He anticipated the legislation would increase the rigor of all high schools, elevate the workforce, and result in more postsecondary students attending schools in the state.

[9:01:03 AM](#)

REPRESENTATIVE MUNOZ related work on the bill began in the interim, and the thorough process continued under the focus of the committee. She praised the leadership of the committee and said members should be proud of the work that was done.

[9:01:47 AM](#)

REPRESENTATIVE GARDNER expressed her hope that the scholarship program will match the success seen in other states with similar programs, and that the legislation will continue to progress "in a form that we recognize." She acknowledged that rural areas have valid concerns about the bill, such as the challenge of

learning by distance education. Representative Gardner said the legislation may result in a "clamor and push for change, and that's the point of the legislation."

[9:03:33 AM](#)

REPRESENTATIVE KELLER opined the bill builds the incentives for parents and school districts to increase success levels for students.

[9:04:19 AM](#)

CHAIR SEATON cited the influence of various programs and contributions from committee members to the GPS bill.

[9:04:48 AM](#)

REPRESENTATIVE MUNOZ thanked Mr. Jeans and Ms. Mischel for their assistance on the bill. She then moved to report the Committee Substitute for HB 297, Version E, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 297(EDC) was reported from the House Education Standing Committee.

[9:06:04 AM](#)

The committee took an at-ease from 9:06 a.m. to 9:09 a.m.

HB 367-TAX CREDITS FOR EDUCATIONAL CONTRIBUTIONS

[9:09:17 AM](#)

CHAIR SEATON announced that the next order of business would be HOUSE BILL NO. 367, "An Act relating to tax credits for cash contributions by taxpayers that are accepted for certain educational purposes and facilities; and providing for an effective date."

REPRESENTATIVE MUNOZ moved to adopt the committee substitute (CS) for HB 367, Version E, as the working document.

[9:09:32 AM](#)

CHAIR SEATON objected for the purpose of discussion.

[9:09:45 AM](#)

KENDRA KLOSTER, Staff to Representative Cathy Munoz, Alaska State Legislature, informed the committee Version E incorporates the amendment previously adopted, and also removes Sec. 4 of Version R by request from the Department of Revenue (DOR). She explained that according to DOR, the general rule in tax administration is that tax credits are not refundable, do not enjoy "carry-forward," and cannot be transferred or sold unless the privilege is written into the law. Further, the "default" interpretation is that a tax credit is only good to apply in the same tax year. Therefore, if the language in Sec. 4, Version R, is included in the bill, it is suggested that credit in these sections is "silent" and may be refunded, carried-forward, or transferred.

[9:12:08 AM](#)

CHAIR SEATON confirmed that Sec. 4 does not appear in Version E, and asked for further changes, if any.

[9:12:22 AM](#)

REPRESENTATIVE GARDNER asked whether Version E provides that taxpayers may sell, trade, transfer, or apply tax credits to subsequent years.

MS. KLOSTER said no, and added that DOR's intent was to ensure consistency with other insurance tax credit law, and to avoid setting a precedent in statute.

[9:13:41 AM](#)

REPRESENTATIVE BUCH asked for a brief summary of the bill.

[9:14:07 AM](#)

MS. KLOSTER summarized that current law allows a 50 percent tax credit for the first \$100,000 donation and an 100 percent tax credit for the second \$100,000 donation. The proposed bill extends a 50 percent tax credit for over \$200,000 in donations, adds a \$25,000,000 cap, and allows donations to facilities and programs.

[9:14:56 AM](#)

CHAIR SEATON removed his objection thus CSHB 367, Version E, was the working document before the committee.

9:15:15 AM

REPRESENTATIVE P. WILSON questioned the zero fiscal note attached to the bill. She pointed out that as the proposed legislation allows entities tax credits against their charitable contributions, the state will collect less tax income, and the fiscal note should reflect this loss.

9:15:36 AM

MS. KLOSTER directed attention to the fiscal note from DOR.

REPRESENTATIVE P. WILSON asked for clarification of the fiscal note.

MS. KLOSTER deferred to DOR.

9:16:14 AM

ROBYNN WILSON, Income Audit Manager, Tax Division, Department of Revenue (DOR), informed the committee DOR provided a fiscal note dated 3/9/10. She directed attention to the analysis attached to the fiscal note and explained that fiscal notes are indeterminate on credit bills because the department has no way of knowing who may take advantage of the tax credits. The fiscal note indicated that for corporate application, the loss to state revenue may be approximately \$200 million, if all corporate taxpayers take the maximum credit allowed by the proposed legislation. In response to Chair Seaton, she added that the \$200 million estimate does not include losses from other taxes such as mining license taxes and fish business taxes.

9:18:43 AM

REPRESENTATIVE P. WILSON heard corporations are enthusiastic about the bill, and estimated that the loss of income to the state could be \$50,000,000.

9:20:11 AM

REPRESENTATIVE GARDNER asked whether there is active participation within the existing tax credit structure.

MS. WILSON said approximately 15 corporate taxpayers took advantage of the credit during the last fiscal year. Three corporations took advantage of the insurance premiums tax, one

corporation for fisheries resource landing tax, and three corporations for fisheries business tax. No corporation taxpayers took advantage of the program for oil and gas production tax, nor for property tax. Ms. Wilson advised the current limit of \$150,000 probably causes a corporation that is subject to all three taxes, to direct all of its credit under one tax.

[9:22:08 AM](#)

REPRESENTATIVE GARDNER requested a list of the claims for the last three years, including the donations and the fiscal impact to the state.

MS. WILSON responded in the last fiscal year the total claims for credits were approximately \$2,000,000, based on total contributions of \$3,000,000. However, that figure does not include possible contributions above the limit for tax credits.

[9:23:17 AM](#)

CHAIR SEATON concluded \$3,000,000 in contributions and \$2,100,000 in credits claimed meant corporations took credits up to the current limit of \$200,000, although more contributions could have been made, but not reported.

MS. WILSON said that is correct, and added that contributions could have been over and above \$3,000,000, but the tax return only indicated the \$200,000 that generated the credit.

[9:24:24 AM](#)

REPRESENTATIVE MUNOZ asked for the number of corporate taxpayers in the state.

MS. WILSON answered that there are about fifteen thousand corporations, but only one-half pay income tax in the state.

REPRESENTATIVE MUNOZ observed from 7,500 corporations, about 11 donors take advantage of the tax credit.

MS. WILSON indicated yes, and added that some of these corporations may not be paying taxes due to losses or other reasons.

[9:25:24 AM](#)

REPRESENTATIVE GARDNER asked whether all of the taxpayers who make donations to the University of Alaska (UA) also receive federal tax relief.

MS. WILSON said yes, and continued to say contributions to UA would be subject to the federal charitable contribution deduction and therefore, also qualify for a state income tax benefit.

[9:26:09 AM](#)

REPRESENTATIVE P. WILSON gave the example of a corporation with taxes of \$100,000 that contributes \$200,000 to charitable entities. She asked for the difference in income tax due between the example corporation and one with an equal tax liability that makes no charitable contributions.

MS. WILSON advised that big corporate taxpayers are often doing business in multiple states and/or countries. If said corporation does 10 percent of its business in Alaska, the state would tax 10 percent of the corporation's federal taxable income. Thus, if a corporation contributes \$500,000 to UA, it would deduct \$500,000 from its federal tax liability, Alaska would receive 10 percent of the federal taxable income, and the corporation would receive a benefit of its apportioned charitable contributions. In response to Chair Seaton, she estimated that the corporate Alaska taxpayer in the example would receive a deduction for \$50,000. However, under current statute, the state allows either the deduction for the charitable contribution, or the tax credit, but not both. Ms. Wilson concluded that for the state's purposes, said corporation would be allowed an \$150,000 credit, which comes directly off the state income tax.

[9:31:18 AM](#)

REPRESENTATIVE P. WILSON asked whether the deduction and the credit would be added together for a total of \$200,000.

MS. WILSON further explained that for state purposes, the corporation would receive the credit of \$150,000, and she assumed the federal tax benefit would be approximately \$175,000.

[9:32:05 AM](#)

CHAIR SEATON confirmed that a corporation in Alaska that does not receive the credit can receive a \$50,000 deduction, but not the \$50,000 deduction and the \$150,000 tax credit.

MS. WILSON said correct.

[9:32:39 AM](#)

REPRESENTATIVE P. WILSON re-stated her question as to the difference in taxes between a corporation that participates and one that does not, in order to determine the incentive for participation, and to determine the impact to the state in lost revenue.

[9:33:50 AM](#)

REPRESENTATIVE MUNOZ estimated the corporate tax liability to the state in the example was 10 percent, or \$50,000.

MS. WILSON clarified that her reference was to apportionment in a multistate environment. She changed her example to that of a corporation operating only in Alaska, and said that an Alaskan corporation, at the top of the tax bracket, that makes a charitable contribution to UA could enjoy a 9.4 percent tax break. The corporation then would have a choice of whether to take the tax deduction or the proposed tax credit: a tax deduction of about \$18,000, or a tax credit of \$150,000. Ms. Wilson provided a personal tax liability example of the difference between a mortgage interest deduction and a childcare expense tax credit; in fact, it is "always a higher benefit to look at a credit, than a deduction."

[9:36:11 AM](#)

CHAIR SEATON proposed the scenario of a corporation that contributed to the construction of a \$10,000,000 vocational center.

MS. WILSON advised the bill would provide a 50 percent rate on the incremental, additional contribution equal to a tax credit of \$5,000,000, compared to a deduction that would equal about \$940,000.

CHAIR SEATON observed the benefit would result in a \$10,000,000 building that a corporation could build for a \$5,000,000 investment.

[9:38:08 AM](#)

REPRESENTATIVE P. WILSON opined the difference between a liability of \$940,000 and \$4,000,000 would be an incentive for corporations.

CHAIR SEATON affirmed that the proposed bill provides an incentive for corporations to make large contributions to educational institutions. In fact, a corporation could build a needed facility "from out of their corporate pocket, instead of the state bonding, or the state ... building the building for 100 percent.... Do we want to provide that kind of incentive ... for that kind of response from corporations?"

[9:39:50 AM](#)

REPRESENTATIVE P. WILSON asked whether a group affiliated with a university, such as a foundation, could contribute to UA and pay "half of what they normally would pay." She again expressed concern about the possible loss of state revenue.

[9:40:47 AM](#)

MS. WILSON expressed her understanding that the University of Alaska Foundation was a tax exempt organization.

REPRESENTATIVE P. WILSON acknowledged the proposed legislation would be beneficial to universities; however, she questioned the impact of the legislation on the general fund.

[9:41:49 AM](#)

REPRESENTATIVE GARDNER re-stated her interest in the impact of tax credits that have been granted under legislation in previous years.

CHAIR SEATON pointed out that many contributions are limited by the \$200,000 cap. He disagreed with a policy that allows taxpayers to direct where their taxes are credited, which is the effect of an 100 percent tax credit. Chair Seaton then asked for confirmation on whether a corporation that was currently receiving tax credits for the exploration and development of oil and gas, would qualify for additional credits under the proposed bill.

[9:44:19 AM](#)

MS. WILSON clarified that the current statute provides for an overall credit maximum of \$150,000. As most of the oil and gas related taxpayers are subject to income tax, production tax, and property tax, these corporations have a choice of where to apply the \$150,000 tax credit. Most, for the sake of convenience, apply the tax credit to income tax. Further, the statutes do not direct how credits would be applied.

[9:45:35 AM](#)

CHAIR SEATON called attention to page 3, lines 14-15, which read:

(2) when combined with contributions that are the basis for credits taken during the taxpayer's tax year under AS 21.89.075, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, or AS 43.77.045, result in the total amount of credits exceeding \$25,000,000 [EXCEED \$150,000].

MS. WILSON explained that the above section does not address credits, but provides that notwithstanding all of the taxes that apply to an entity, the maximum tax credit allowable is \$150,000.

[9:46:58 AM](#)

CHAIR SEATON noted that Version E of the bill raised the limit on tax credits to \$25,000,000 and asked whether an oil company that receives \$100,000,000 in oil production tax credits, would be allowed to receive additional tax credits for contributions to educational organizations.

MS. WILSON began another example . . .

[9:48:14 AM](#)

CHAIR SEATON returned attention to page 3, lines 14-17, and asked:

Doesn't that mean that the total amount of credits that they can get from all of these combined is \$25,000,000 for a year, and you can't take this education one ... when combined with the contributions for these others?

[9:49:12 AM](#)

MS. WILSON, in response to Chair Seaton, agreed to provide the committee a written explanation of this section. She advised that these tax sections of the bill refer only to the education credits; for example, AS 21.89.070 would be the education tax credit applicable to the insurance tax. Thus the sections do not address any other sort of credit, such as exploration credits, but only establish a limit on education credits at \$25,000,000.

[9:50:13 AM](#)

CHAIR SEATON said a further explanation in writing was not necessary.

[9:50:23 AM](#)

REPRESENTATIVE P. WILSON concluded that a petroleum corporation could apply other tax credits, and then contribute to an education entity and qualify for education tax credits of up to \$25,000,000.

MS. WILSON said yes, and added that a corporation with sufficient tax liability could apply other credits; in fact, the Alaska statute is largely silent with respect to the order of credits. An exception is the gas development credit, which must be applied first, due to carry-forward provisions.

CHAIR SEATON requested that Ms. Wilson provide a memo regarding the order of credits and the effect of carry-forward provisions.

[9:53:06 AM](#)

The committee took an at-ease from 9:53 a.m. to 9:54 a.m.

[9:54:39 AM](#)

REPRESENTATIVE P. WILSON also requested advice from DOR on how to limit the scope of the tax credit provisions.

[9:55:47 AM](#)

CHAIR SEATON further requested a spreadsheet depicting the effects of the bill on hypothetical taxpayers with a tax liability of \$5,000,000.

MS. WILSON expressed her understanding that the requested scenario depicts a \$5,000,000 tax liability over and above the current \$200,000.

[9:56:29 AM](#)

REPRESENTATIVE SEATON modified the scenario to a maximum of \$25,000,000.

MS. WILSON clarified that the contribution of the hypothetical taxpayers would be \$50,000,000, so that the tax credit is maximized, and the scenario addresses the maximum impact to state revenues.

[9:56:56 AM](#)

REPRESENTATIVE MUNOZ spoke about the perception that 7,500 corporate taxpayers would take advantage of the proposed tax credits and opined that is not realistic, given that only 11 participate now. She expressed her belief that the committee should focus on whether the state should have a policy to encourage private investment into the infrastructure of the state. Representative Munoz said that although she was not opposed to the committee's discussion on the financial impact of the bill, she pointed out that the financial details of the bill are the purview of the House Finance Committee.

[9:57:58 AM](#)

CHAIR SEATON stated that understanding the bill was necessary to make informed policy.

[9:58:14 AM](#)

REPRESENTATIVE GARDNER requested a list of the participating taxpayers, the amounts of their claimed donations, and the tax impact to the state for the past three years.

MS. WILSON, in response to Chair Seaton, affirmed that the names of the taxpayers cannot be disclosed and details of taxpayers' returns may not be provided.

[9:59:41 AM](#)

REPRESENTATIVE GARDNER questioned whether someone could claim a tax credit for a donation to a non-profit without disclosure.

[9:59:58 AM](#)

MS. WILSON confirmed that DOR cannot disclose that information, but she was unsure whether the recipient organization may.

REPRESENTATIVE GARDNER limited her request to the total amount of donations made and claimed, and the tax benefits thereof.

MS. WILSON agreed.

[10:00:52 AM](#)

CHAIR SEATON stated that HB 367 was held over.

[10:01:01 AM](#)

HB 350-PUBLIC SCHOOL FUNDING: LOCAL CONTRIBUTION

CHAIR SEATON announced that the final order of business would be HOUSE BILL NO. 350, "An Act relating to the local contribution to public school funding; and providing for an effective date."

[10:02:31 AM](#)

MARY FRANCIS, Executive Director, Alaska Council of School Administrators (ACSA), informed the committee the majority of school superintendents present at a recent ACSA meeting believe HB 350 provides equity and fairness. Although at some point, local municipalities may not want to make up the difference in state funding, she concluded this was a fairness issue and ACSA was in support of the change. Ms. Francis related the belief that it was never intended that the mill rate was to be based on FY 99 in perpetuity.

[10:03:32 AM](#)

CHAIR SEATON stated that HB 350 was held over.

[10:04:03 AM](#)

ADJOURNMENT

There being no further business before the committee, the House Education Standing Committee meeting was adjourned at 10:04 a.m.