

**ALASKA STATE LEGISLATURE**  
**SENATE EDUCATION STANDING COMMITTEE**

February 5, 2010

8:02 a.m.

**MEMBERS PRESENT**

Senator Kevin Meyer, Co-Chair  
Senator Joe Thomas, Co-Chair  
Senator Charlie Huggins  
Senator Donald Olson  
Senator Gary Stevens

**MEMBERS ABSENT**

Senator Bettye Davis, Vice Chair

**COMMITTEE CALENDAR**

SENATE BILL NO. 236

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

- HEARD AND HELD

**PREVIOUS COMMITTEE ACTION**

BILL: SB 236

SHORT TITLE: TAX CREDITS FOR EDUCATIONAL CONTRIBUTIONS

SPONSOR(S): EDUCATION

01/22/10	(S)	READ THE FIRST TIME - REFERRALS
01/22/10	(S)	EDC, FIN
02/05/10	(S)	EDC AT 8:00 AM BELTZ 105 (TSBldg)

**WITNESS REGISTER**

JOMO STEWART, staff to Senator Meyer  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Presented a sectional analysis of the CSSB 236.

MURRAY RICHMOND, staff to Senator Thomas  
Alaska State Legislature  
Juneau, AK

**POSITION STATEMENT:** Answered questions about the CSSB 236.

JOHANNA BALES, Deputy Director  
Tax Division  
Department of Revenue  
Anchorage, AK

**POSITION STATEMENT:** Answered questions about SB 236.

JAMES R JOHNSEN, Senior Vice President  
Administration  
Doyon Limited  
Fairbanks, AK

**POSITION STATEMENT:** Supported SB 236.

MARY RUTHERFORD, Associate Vice President  
Development  
University of Alaska  
Fairbanks, AK

**POSITION STATEMENT:** Supported SB 236.

JIM DODSON, President/CEO  
Fairbanks Economic Development Corporation  
Fairbanks, AK

**POSITION STATEMENT:** Supported SB 236.

#### **ACTION NARRATIVE**

[8:02:08 AM](#)

**CO-CHAIR KEVIN MEYER** called the Senate Education Standing Committee meeting to order at 8:02 a.m. Present at the call to order were Senators Stevens Huggins, Thomas and Meyer.

#### **SB 236-TAX CREDITS FOR EDUCATIONAL CONTRIBUTIONS**

[8:02:44 AM](#)

CO-CHAIR MEYER announced consideration of SB 236.

CO-CHAIR THOMAS moved to adopt the proposed committee substitute (CS) to SB 236, labeled 26-LS1191\P, as the working document of the committee. There being no objection, version P was before the committee.

[8:03:46 AM](#)

JOMO STEWART, staff to Senator Meyer, provided a sectional analysis of CSSB 236. He said it does not represent a change in

policy; it is an expansion of the existing policy regarding tax credits for educational purposes.

The title was amended to read "educational purposes and facilities" to better reflect the intent of the committee. That change is consistent throughout the CS.

He explained that Section 1 requires that the director of the Division of Insurance make an annual report to the legislature regarding the functioning of the expanded system. Section 2 creates a sunset for the new regime and amends existing statute to allow tax credits to state-owned vocational education courses, programs and facilities, and adds language to allow tax credits on contributions for facilities for Alaska non-profit public or private two-year and four-year colleges.

The expansion of the existing regime occurs in section 3, which amends existing statute to create a 50 percent tax credit for contributions above \$200,000. He referred members to the printed PowerPoint presentation that was included in their packets.

SENATOR OLSON joined the meeting.

MR. STEWART continued; CSSB 236 impacts seven different tax types within Alaska Code. Five of these are administered by the Department of Revenue (DOR): oil and gas property taxes, oil and gas production taxes, corporate income taxes, mining license taxes, and a couple of fisheries taxes. The Division of Insurance, Department of Commerce (DCCED), has health insurance providers' taxes and provides tax breaks for those insurance providers for educational purposes.

Under current law, he explained, a contributor receives a 50 percent tax credit for the first \$100,000 and a 100 percent credit for the next \$100,000; no additional credits are given for amounts above \$200,000. For example, if an oil and gas company called "Alasko" made a contribution of \$500,000 to Alaska University, it would receive a 50 percent credit for the first \$100,000 and 100 percent credit for the next \$100,000, resulting in a total tax credit of \$150,000. Also under existing statute, the earned credits can be divided to impact multiple tax types or obligations that contributor might have. Alasko could divide that \$150,000 tax credit into thirds and use it to offset \$50,000 in production taxes, \$50,000 of its property taxes and \$50,000 of its corporate income taxes.

MR. STEWART said CSSB 236 amends that by removing the cap on tax credits, so on a \$500,000 contribution Alaska would receive a 50 percent credit on the first \$100,000, a 100 percent credit on the next \$100,000 and a 50 percent tax credit for the remaining \$300,000, for a total tax credit of \$300,000. The other change made by the CS is that contributors can no longer divide their earned tax credit; credits earned for a single contribution can only be applied to a single tax.

[8:11:18 AM](#)

SENATOR HUGGINS asked if it might be more advantageous to sweeten the pot for contributions of \$1 million or more.

MR. STEWART responded that he also questioned why the 100 percent tax credit should be set between \$100,000 and \$200,000. The University explained that the majority of their private donations fall in that range and they want to encourage private donors.

[8:12:30 AM](#)

SENATOR HUGGINS said that every dollar received from donors saves the state money, so it doesn't seem reasonable to reduce the tax incentives for larger donations.

[8:13:15 AM](#)

CO-CHAIR MEYER said when they wrote this bill they basically just expanded the ranges and took the cap off. They thought it would be best to let the Finance Committee define the levels of tax credit and whether or not there should be a cap on the amount of credit allowed per contribution.

[8:14:31 AM](#)

SENATOR HUGGINS stated that the Education Committee should ask for some of that information and develop a package that is much more deliverable and less likely to get bogged down in the Finance Committee.

[8:14:53 AM](#)

CO-CHAIR MEYER agreed that the more the Education Committee can do, the better, and said they will be hearing further testimony in today's meeting.

[8:15:08 AM](#)

MR. STEWART said the staff has been working with this for a couple of weeks and discussed a number of those financial issues, but felt their time would be better spent on policy questions. They put in some of the sideboards they felt the

committee would want, including annual reporting by the Director of Insurance and the Commissioner of Revenue, and added a sunset date of January 4, 2014 to review the impacts under this new legislation.

MR. STEWART said there is language in the existing statute that speaks to colleges "accredited by a regional accreditation association" and suggested that the committee may want to include that accreditation language in the newly written bits of statute that refer to "a facility by a non-profit public or private Alaska two or four-year college."

SENATOR STEVENS commented that he agrees with Senator Huggins; the Education Committee needs to set the parameters and send them forward to Finance.

[8:17:22 AM](#)

SENATOR STEVENS questioned who decides how contributions are used.

MR. STEWART answered that the contributor can request that money be used for a specific purpose, but he believes the receiving entity, the University or the school district, ultimately decides whether to use the money for that purpose.

[8:18:27 AM](#)

SENATOR OLSON asked if Mr. Stewart knows what other organizations are recipients of donations at that level.

MR. STEWART replied that local vocational educational programs, individual schools, or Alaska Pacific University could be recipients.

[8:19:46 AM](#)

SENATOR OLSON asked what provisions have been made for private institutions.

[8:20:10 AM](#)

MR. STEWART said the Department of Revenue may have more information on that.

SENATOR HUGGINS wondered if donations to Job Corps, which trains students across the state, would be eligible.

CO-CHAIR MEYER said he would like the Department of Revenue to address that question.

MR. STEWART said the capacity seems to exist, even under the current statute, which reads "an Alaska university foundation or by a nonprofit, public or private."

[8:21:27 AM](#)

SENATOR STEVENS stated it is important for the committee to specify that only institutions accredited by one of the national organizations are eligible.

[8:21:53 AM](#)

MURRAY RICHMOND, staff to Senator Thomas, confirmed that Job Corps is not an accredited institution and would not be eligible. Tax credits are allowed only on contributions to regionally accredited institutions, public or private.

MR. STEWART commented that it is within the state's power to set up some kind of certification program to accommodate those other good organizations, entities, and purposes it would like to see benefit from donations.

[8:22:56 AM](#)

JOHANNA BALES, Deputy Director, Tax Division, Department of Revenue (DOR), Anchorage, Alaska, said the department is concerned that, although it may not be expected that tax payers will donate to the point that it erodes revenue, without a cap, the potential is there. If a company made a \$50 million donation to construct a two or four-year college, for example, that donation would result in approximately \$25 million credit to the donor.

She confirmed that Job Corps could not be a recipient for credits under this program. She also pointed out that the language specifically states "for a facility by a non-profit public or private," so it looks like that is to construct new facilities.

[8:25:15 AM](#)

CO-CHAIR MEYER thanked her and agreed that they need a cap to limit exposure and risk to the state. He asked how often donations have reached the current cap.

[8:25:40 AM](#)

MS. BALES said only a limited number of tax payers take advantage of the current credit; about 11 of the state's 15,000 corporate income tax payers have contributed on a regular basis and taken the credit against their corporate income taxes.

[8:26:29 AM](#)

SENATOR STEVENS said he wonders how other states handle this. He understands the risk to state, but thinks there are some pretty exciting possibilities. If the University needs a new science building, and a corporation wants to pay half of the cost, that might be a good way to expand the University facilities at less cost to the state.

[8:27:26 AM](#)

CO-CHAIR MEYER acknowledged his point and said that is why he thinks the cap should be dealt with in the Finance Committee; they may want some of that money to go to roads or elementary schools instead of putting all of it into a university building.

[8:27:57 AM](#)

CO-CHAIR MEYER thanked Ms. Bales and asked her to stay on the line in case the committee members have additional questions.

[8:28:23 AM](#)

JAMES R JOHNSEN, Senior Vice President, Administration, Doyon Limited, Fairbanks, Alaska, said Doyon is an Alaska Native Corporation that operates in 11 states across the country and state wide. He is here on behalf of Doyon and all of the other regional Alaska Native corporations (ANC), who last year sent a list of priorities to the University for educational programs, facilities, and curriculum. This tax credit issue was in the high-priority category. There is broad support from the Native corporations and among private sector business interests.

DR. JOHNSEN continued; at Doyon they look to the future, and their future growth is going to depend largely upon investments in two areas: natural resource development and human resource development. During the past summer, Doyon and its partners were encouraged to invest in gas exploration in the Nenana Basin under the state's current oil and gas tax credit program, which provides a 50 percent tax credit for that investment. They are turning that credit right back around to invest in further exploration work this winter in Stevens Villages, so the state's policy for encouraging exploration through a tax credit is working. However, if Doyon or some other corporation were to invest \$15 million in a research facility, it would get only a \$150,000 tax credit, or 1 percent. From a financial perspective, that just doesn't provide much encouragement to invest heavily in workforce development, in research, in much-needed facilities, and in the partnership between business and the state that they see long-term as critical for the state's future.

[8:31:53 AM](#)

He said they support the bill as written, to have a rather broad scope, including vocational and technical programs. While most jobs certainly require postsecondary education, only 75 percent of the jobs in Alaska and across the nation require baccalaureate degrees, so they strongly encourage vocational and technical programs.

[8:32:54 AM](#)

DR. JOHNSEN commented that the use of the money has to be by agreement. The University of Alaska Foundation, which is the formal recipient of donations, has guidelines, and the Board of Regents has policies with respect to how gifts are used, but ultimately it is about a partnership for the long-term.

[8:33:49 AM](#)

SENATOR STEVENS wondered if Doyon saw an issue that affected its membership, such as graduation rates in rural Alaska, could it or would it try to work toward improvements for those members.

DR. JOHNSEN responded that Doyon could certainly work for student support programs and student services, but he thinks there would be a legal issue with running money through the University that was directed solely to Doyon shareholders. In addition to making donations, Doyon, the other Alaska Native corporations, and many private companies provide scholarships; those they can target. Doyon spends over \$1 million per year on its foundation and scholarships. This is an additional tool that can certainly help Doyon's shareholders, but its priority is the state of Alaska.

[8:36:22 AM](#)

SENATOR OLSON asked Dr. Johnsen whether he sees SB 236 significantly increasing the amount of contributions from Doyon and similar corporations to institutions of higher learning.

[8:37:06 AM](#)

DR. JOHNSEN replied that workforce development is a key issue to them, and he knows this would encourage them to collaborate more and invest more in education. He said they also recognize the enormous commercial potential of the research done in this state.

[8:38:23 AM](#)

CO-CHAIR THOMAS asked if Dr. Johnsen would anticipate a quicker response from the University to some areas of interest because they are receiving private money.

8:39:18 AM

DR. JOHNSEN said he thinks this would enable "jump starts," bringing in some private-sector funding to partner up with people at the University. He does not think the University is hesitant or resistant; the regular budgetary process just takes longer and is a bit more of a challenge due to the many competing demands in such an institution.

8:40:08 AM

SENATOR HUGGINS observed that the conversation has been around universities, but there is a secondary school provision in the bill also. He asked how Dr. Johnsen thinks this will work for secondary schools.

DR. JOHNSEN said vocational and technical programs are provided for now; he will be meeting with people from the Galina School District next week to talk about a project to provide some private-sector support. Programs that help postsecondary or higher education programs reach out to students in secondary schools would be a high priority. He referred to the list of priorities that the native corporations sent to the University back in August, and said that outreach programs are included in the top category. They see these programs as a very important link to employment in Alaska, with Alaskan companies. Too many of the state's bright students don't see the employment opportunities here in the state.

8:43:35 AM

SENATOR STEVENS asked whether the accreditation requirement would cause any problems.

DR. JOHNSEN answered that Doyon is looking only at accredited institutions at this time.

8:44:09 AM

SENATOR OLSON asked whether it would make a difference in Doyon's contributions if the committee were to expand the bill to include non-accredited institutions.

DR. JOHNSEN said he supposed it could; they would like to rely on the certification of educational quality represented by that accreditation.

SENATOR OLSON asked if there are any provisions for a student who, for example, goes to flight school and receives an APC license, which is a valuable commodity in rural Alaska.

DR. JOHNSEN said he does not believe so, but will check on it and get back to the committee.

8:45:53 AM

CO-CHAIR MEYER confirmed that the current intent of the bill is to limit it to accredited institutions.

8:46:53 AM

MARY RUTHERFORD, Associate Vice President, Development, University of Alaska, Fairbanks, Alaska, expressed the University Foundation's support for SB 236. The Alaska Higher Education Tax Credit has been a good tool to help the University expand the base of private corporate support and, as the committee was just discussing, private funds enable the University to be more entrepreneurial than do traditional methods of acquiring resources. The most obvious example is the expansion of the nursing program, which was done in collaboration with many of the hospitals in the state, to increase the number of nurses and space in the nursing program.

8:48:14 AM

CO-CHAIR MEYER asked if Ms. Rutherford has ever run into a situation when a donor wanted to make a large contribution for a specific program or project that wasn't in line with the University's needs or in their best interests.

MS. RUTHERFORD said negotiation is sometimes necessary, and it can be difficult to reach that delicate balance that is mutually satisfactory. However, she pointed out that things that come into the University Foundation are charitable gifts; there is a distinction between a gift and an outright grant or a contract. These donations must meet the standard for a charitable gift according to IRS guidelines, which means the University agrees to the purpose and the donor relinquishes all control over it when the gift is made.

8:50:10 AM

SENATOR STEVENS asked whether the University could accommodate it if, for example, "Alasko" wanted to finance a summer camp offering remedial education in math and English and have it named the "Alasko Summer Camp".

8:51:02 AM

MR. RUTHERFORD said "absolutely;" they would work with the donor on that.

[8:51:38 AM](#)

JIM DODSON, President/CEO, Fairbanks Economic Development Corporation, Fairbanks, Alaska, said he supports SB 236. He believed it would create jobs by leveraging private money with state money, provide a new funding source for higher education institutions, and help diversify Alaska's economy through research, innovation, and job training. He cited initiatives like the Arctic Innovation Competition, Alaska Technology Business Accelerator, and the Economic Opportunity Task Force as good examples of economic activities generated by higher education institutions from business funding sources.

[8:54:16 AM](#)

CO-CHAIR MEYER closed public testimony.

[8:55:30 AM](#)

SENATOR STEVENS asked if these tax credits would be allowed on a contribution used to finance a chair at the University.

MS. BALES answered that the way the statute is currently written, contributions can be used for that purpose.

[8:56:41 AM](#)

SENATOR HUGGINS said he would like the Department of Revenue to give the committee some guidance and recommendations based on historical donation levels.

[8:57:50 AM](#)

MS. BALES responded that the department is concerned about the potential exposure that exists without a cap, but is not prepared to suggest what the limit should be. She said this credit has historically been taken primarily against corporate income taxes. One thing the committee might do is to restrict the use of the credit to only that tax type.

[8:59:19 AM](#)

CO-CHAIR MEYER asked if Conoco Phillips took a tax credit on their recent donation of \$20 million to the Integrated Science Center at the University of Alaska Anchorage.

MS. BALES said she cannot discuss the transactions of a specific tax payer, but in general, that contribution could be used in the calculation of net income for federal tax purposes. They

would also be allowed to deduct it in the calculation of their corporate income tax.

She pointed out that, under current law, if the company used the tax credit to the current maximum of \$150,000, it could not also use the contribution as a deduction in calculating its Alaska corporate income tax. Using the same scenario under CSSB 236, the company would get a \$10 million credit against the corporate income tax or one of its other tax obligations.

[9:00:45 AM](#)

CO-CHAIR THOMAS commented that the committee has discussed both individual and overall caps, and asked Ms. Bales to let them know if the Department of Revenue has any thoughts on the matter as they continue their deliberations.

CO-CHAIR MEYER added that the committee has had some informal discussions on a cap and, although they have not been able to agree, they were considering an overall cap in the area of \$50 million, as well as limiting individual companies.

[9:01:56 AM](#)

SENATOR STEVENS said he understands the concerns about a cap and the potential impact on revenue, but he doesn't think they should preclude the opportunity for those large donations. He reminded them that there is a three-year sunset in the bill and if there are abuses in that time, the legislature can make changes or refuse to renew it.

[9:02:48 AM](#)

SENATOR HUGGINS noted that the Veterans Administration (VA) is one of the larger educational contributors; as he recalled, accreditation usually occurs out of Oklahoma City, but in the case of the VA it is under the department of Military and Veterans' Affairs. He wondered if that accreditation qualifies it to receive donations under this program. He also asked if contributions to the governor's scholarship program would qualify

[9:04:09 AM](#)

CO-CHAIR MEYER asked Senator Huggins to clarify his question with regard to the governor's scholarship program.

SENATOR HUGGINS explained that he was asking if Doyon, for example, would get a tax credit for contributing funds to help finance the governor's scholarship program.

9:04:46 AM

MS. BALES was not sure, and suggested the senator ask the Department of Education.

9:05:12 AM

CO-CHAIR MEYER said he would hold SB 236 and bring it back next week.

9:06:42 AM

There being no further business to come before the committee, Co-Chair Meyer adjourned the meeting at 9:06 a.m.