

HOUSE FINANCE COMMITTEE  
April 14, 2012  
10:25 a.m.

[10:25:21 AM](#)

CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 10:25 a.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair  
Representative Bill Thomas Jr., Co-Chair  
Representative Anna Fairclough, Vice-Chair  
Representative Mia Costello  
Representative Mike Doogan  
Representative Bryce Edgmon  
Representative Les Gara  
Representative David Guttenberg  
Representative Reggie Joule  
Representative Mark Neuman  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Peter Ecklund, Staff, Representative Bill Thomas; James Armstrong, Staff, Representative Bill Stoltze; Representative Steve Thompson; Mark Davis, Deputy Director, Alaska Industrial Development and Export Authority, (AIDEA), Department of Commerce, Community and Economic Development; Joe Michel, Staff, Representative Bill Stoltze.

SUMMARY

CSSB 23(FIN)

FILM PRODUCTION TAX CREDIT/AUDITS

HCS CSSB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with new

fiscal notes from the Department of Revenue and the Department of Commerce, Community and Economic Development and a new zero fiscal note from the Legislature.

CSSB 66(FIN)

AIDEA: NEW MARKETS TAX CREDIT PROGRAM

HCS CSSB 66(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from Department of Commerce, Community and Economic Development, and Department of Education and Early Development.

CSSB 160(FIN) BUDGET: CAPITAL

HCS CSSB 160(FIN) was REPORTED out of committee with a "do pass" recommendation as amended.

CSSB 182(EDC)

PUPIL TRANSPORTATION FUNDING

HCS CSSB 182(FIN) was REPORTED out of committee with a "do pass" recommendation and with three new fiscal impact notes from Department of Education and Early Development and two new zero notes from Department of Education and Early Development.

[10:25:34 AM](#)

#sb182

CS FOR SENATE BILL NO. 182(EDC)

"An Act amending the amount of state funding provided to school districts for pupil transportation."

Vice-chair Fairclough MOVED to ADOPT Work Draft HCS CSSB182 (FIN) 27-LS1283\0, (4/13/12, Mischel).

Co-Chair Stoltze OBJECTED for purpose of discussion.

PETER ECKLUND, STAFF, REPRESENTATIVE BILL THOMAS, explained the changes in the current version of the legislation. He noted that several new provisions were added. The bill maintained the supplemental payment of slightly over \$8 million to cover increased costs for pupil transportation.

He remarked that the supplemental payment for the Kenai Borough was increased by \$1.2 million in FY 13. He reported that the Senate version contained a provision that made the FY 2013 pupil transportation expenditure adjusted for inflation according to the Consumer Price Index (CPI) the base amount to determine future funding. The new CS uses the FY 13 expenditure as the base and adds 1.5 percent for FY 2014 and FY 2015 and does not provide the inflation factor in FY 2016; intended as a measure to negotiate for cost containment in future contract negotiations. He elaborated that most school districts will renegotiate its contracts in 2016. The CS retained the provision that required the school districts to adopt standardized regulations for safe and cost efficient pupil transportation which included standardized contract conditions.

Mr. Ecklund furthered that SB 199 (SB 199-Vocational Education Funding Factor) was rolled into the legislation. The legislation expanded vocational education funding for the middle school level; grades 7 through 12. The CS increased vocational funding by 50 percent. In addition a "mill rate disparity" on the full value of the required local contribution was remedied. Some city or borough school districts were contributing a mill rate of 2.7 and others were paying a rate of 3.7. Over time \$530 million of the local contribution shifted from the local communities to the state. The legislation proposed to equalize the mill rate to 2.65 percent on the full value [of the taxable real and personal property in the district]. The provision repealed a section of law that authorized the calculation of only 50 percent of the mill rate increase since 1999. Municipalities would receive an approximately \$21 million increase in state aid under the proposed changes. The municipalities have the option of using the additional money to fully fund education to the "local education cap." He added that current law required a new city or borough school district to phase in the mill rate calculation at zero, two, and four percent consecutively over 3 years. The provision in the committee substitute (CS) reduced the phase-in rates to zero, one, and two percent to provide relief from the immediate impact of the full local contribution.

Mr. Ecklund expounded that the CS incorporated HB 49 [HB 49-Early Childhood Ed: Parents As Teachers.] The legislation proposed the establishment of a Parent As

Teachers Program. The three year pilot program was designed to boost a child's readiness for school. The sunset date was adjusted to 2015 to allow for the full three years of the pilot program. The original bill required that the Department of Education and Early Development (DEED) compare performance of participants and non-participants in the program. The CS required a report on the "efficiency and effectiveness measures that demonstrated the results of the program relating to child school readiness." He noted that the cost of the program reflected on the fiscal note was \$3.9 million.

Co-Chair Stoltze offered that \$25 million was deducted from "local discretionary (individual districts) funding" in the capital budget and added to education spending.

[10:34:42 AM](#)

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO OBJECTION the committee substitute was adopted.

Representative Gara applauded the compromises in the legislation. He understood that the CS corrected the provision in law that allowed a community to only contribute 50 percent of its mill rate increases as its local contribution for school funding. When property values increased the local contribution only increased half as much in relative value. He asked what the impact of the change was on future state and local contributions. Mr. Ecklund agreed that the CS repealed the law that allowed only 50 percent of the mill rate increase calculated into the local contribution as property values grow. The change to a standard contribution for all municipalities equalized the disparity in local contributions. He referred to a new DEED fiscal note. He cited Page 3, which showed the increased state aid for each district that totaled \$21,296,396. He exemplified that Anchorage would receive \$8,159,847 more in state aid, which signified a savings to the municipality. The city could contribute the savings to fund education to the allowable local contribution maximum limit. Anchorage currently contributed a 2.9 mill rate at full value. The legislation would reduce the contribution to a rate of 2.65. In the future, if assessed values continue to grow that outcome could change.

Representative Gara understood that over time the change might require some localities to pay more. He asked if the

\$21 million increase in state aid for FY 13 was in addition to the \$51 million increase in education funding. Mr. Ecklund replied that the \$21 million was additional funding. He reported that the CS contained an additional approximately \$50 million in increased state aid to school districts in FY 2012 and FY 2013.

[10:39:35 AM](#)

Representative Neuman relayed that the Matanuska-Susitna Borough school population was growing at a rate of 432 pupils per year. The growth represented a new school every year. The borough cannot keep up with school construction at the present assessment of property values. The borough supported taxes in order to build new schools. He asked how the change to the local contribution could benefit the borough. Mr. Ecklund replied that the legislation was intended to balance the different components to educational spending. He noted that the borough benefited the most with the transportation funding. The Matanuska-Susitna Borough was currently paying a mill rate of 2.7. He commented that the change was due to a "policy call" by the legislature. The choice was to either equalize local contributions or continue with disparity on the full value.

Representative Neuman voiced that the additional transportation funding was appropriated from the capital budget and could not be counted on in the future. The mill rate changes were embedded in the foundation formula for education. Mr. Ecklund clarified that the pupil transportation was a "formula change" and was permanent until contracts were renegotiated in 4 or 5 years.

Co-Chair Stoltze OPENED public testimony.

Co-Chair Stoltze CLOSED public testimony.

[10:43:06 AM](#)

Co-Chair Stoltze acknowledged Senator Meyer and Senator Thomas who laid the ground work for the legislation.

Vice-chair Fairclough highlighted the fiscal notes. She referred to the new fiscal note affecting fund transfers (4/10/2012) into the Public Education Fund (PEF). She pointed out that the FY 2013 appropriation requested column should read FY 2012. The appropriation in FY 2012 was

\$86,811 million. For the out-years \$41,031.3 million was projected in FY 2015 through FY 2018. She moved to the new zero (DEED) fiscal note (4/13/2012) allocated to Pupil Transportation. She cited the new DEED fiscal note (4/13/2012) allocated to School Finance and Facilities in the amount of \$95.3 thousand from FY 2013 to FY 2018 for a full time School Finance Specialist II position. She turned to the new zero DEED fiscal note (4/13/2012) allocated to the Foundation Program. She noted the new DEED fiscal note (4/13/2012) allocated to Early Learning Coordination in the amount of \$3,902.5 million in FY 2013 through FY 15.

Co-Chair Thomas MOVED to report HCS CSSB 182(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

HCS CSSB 182(FIN) was REPORTED out of committee with a "do pass" recommendation and with three new fiscal impact notes from Department of Education and Early Development and two new zero notes from Department of Education and Early Development.

10:47:08 AM

AT EASE

10:49:45 AM

RECONVENED

#sb23

CS FOR SENATE BILL NO. 23(FIN)

"An Act relating to transferable film production tax credits and film production tax credit certificates; requiring the legislative audit division to audit the Alaska film production incentive program; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

Vice-chair Fairclough MOVED to ADOPT HCS CSSB 23 (FIN) Work Draft 27-LS0252\00, (4/14/12, Bullock) as a working document.

Co-Chair Stoltze OBJECTED for purpose of discussion.

Representative Costello reviewed the changes in the CS. She noted that on Page 6, line 30, the word "may" was replaced with "shall." She remarked that the change echoed the

intent of the subcommittee. She cited that on Page 9, line 16 the word "may" was again changed to "shall." She related that the changes were oversights and that the changes reflected the work of the subcommittee on SB 23, as well as the bill sponsor.

Vice-chair Fairclough MOVED to RECIND the previous ADOPTION of HCS CSSB 23 (FIN) Work Draft 27-LS0252\XX, (4/13/12, Bullock). There being NO OBJECTION it was so ordered.

Co-Chair Stoltze WITHDREW his OBJECTION to ADOPT HCS CSSB 23 (FIN) Work Draft 27-LS0252\OO, (4/14/12, Bullock). There being NO OBJECTION the committee substitute was Adopted.

Vice-chair Fairclough MOVED to report HCS CSSB 23(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

HCS CSSB 23(FIN) was REPORTED out of committee with a "do pass" recommendation and with new fiscal notes from the Department of Revenue and the Department of Commerce, Community and Economic Development and a new zero fiscal note from the Legislature.

[10:54:27 AM](#)

AT EASE

[10:54:44 AM](#)

RECONVENED

#sb160

CS FOR SENATE BILL NO. 160(FIN)

"An Act making and amending appropriations, including capital appropriations, supplemental appropriations, and other appropriations; making appropriations to capitalize funds; and providing for an effective date."

Vice-chair Fairclough MOVED to ADOPT HCS CSSB 160(FIN), Work Draft 27-GS2600\T (4/13/12, Martin) as a working document.

JAMES ARMSTRONG, STAFF, REPRESENTATIVE BILL STOLTZE, explained that the CS contained a \$28 million increase over the previous draft version. He noted that \$25 million of the increase was primarily due to education spending found

on Page 176, Section 20. Some technical changes still needed consideration. He requested that the committee members review the CS and corresponding reports generated by the Legislative Finance Division. The final draft would be presented to the committee during the afternoon meeting.

Co-Chair Stoltze OPENED public testimony.

Co-Chair Stoltze CLOSED public testimony.

Mr. Armstrong indicated that the CS was available to the public on BASIS found under the bill number in the documents box on the bill page.

10:57:21 AM  
RECESSED

3:39:51 PM  
RECONVENED

Vice-chair Fairclough MOVED to ADOPT HCS CSSB 160(FIN), Work Draft 27-GS2600\O (4/14/12, Martin).

Co-Chair Stoltze OBJECTED for purpose of discussion.

Mr. Armstrong briefly described the changes in the CS. He mentioned that net zero changes were made in District 39, and technical alterations completed throughout the bill. He noted an additional appropriation of \$4 million to the Blood Bank of Alaska. The total amount appropriated in the Capital Budget was \$2,906,002.5 [billion.] The total amount of general funds appropriated was \$1.959, 439.7 and \$51,659.7 [million] in designated general funds, \$66,974.4 [million] in other state funds and \$829,928.8 in federal receipts. He furthered that a new re-appropriation section of carry forward funds was included by request from the governor.

Co-Chair Stoltze WITHDREW his OBJECTION. There being NO further OBJECTION, the committee substitute was ADOPTED.

Co-Chair Stoltze MOVED to ADOPT Amendment 1:

Sec.20. DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
An amount equal to 50 percent of the revenue collected during the fiscal year ending June 30, 2011, from the alcoholic beverage tax (AS 43.60.010), not to exceed

\$19,300,400, is appropriated from the general fund to the Department of Health and Social Services for behavioral health grants under AS 47.37.030 for the fiscal years ending June 30, 2013, June 30, 2014, and June 30, 2015.

3:43:21 PM

Vice-chair Fairclough OBJECTED for the purpose of discussion.

Mr. Armstrong explained Amendment 1. He reported that the amendment removed 50 percent of revenue collected from the FY 2012 fiscal year from the alcoholic beverage tax and appropriated the funds to the Department of Health and Social Services for behavioral health grants for the next three fiscal years.

Co-Chair Stoltze expressed concern about procedure. He felt that the amendment was best addressed through legislation but agreed to make an exception.

Vice-chair Fairclough WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amendment 1 was ADOPTED.

Co-Chair Thomas MOVED to ADOPT Amendment 2:

Page 101, following line 30:

Insert new material to read:  
"Appropriation Items 200,000  
General Fund 200,000

Takshanuk Watershed Council  
- Land Acquisition and Conservation (HB 5)"

Adjust fund sources and totals accordingly

Delete Section 29

There being NO OBJECTION, it was so ordered. Amendment 2 was ADOPTED.

Representative Wilson MOVED to ADOPT Amendment 3.

Insert new project  
on Page 85, after line 25

Golden Valley Electrical Association - Liquefied  
Natural

\$3,750,000

Fas Facility - Engineering and Design

Fund Source: General Funds (1004)

REPRESENTATIVE STEVE THOMPSON, explained the reasons for Amendment 3. He communicated that the amendment adds \$3,750,000 to the capital budget for a plan to truck natural gas into Fairbanks. The funds were needed for engineering and design work.

Representative Wilson added that the funds helped keep energy costs lower for rate payers. Without the additional funding money from the energy co-op savings account would have been needed. She thanked the co-chair for the amendment.

There being NO OBJECTION, it was so ordered. Amendment 3 was ADOPTED.

[3:47:18 PM](#)

AT EASE

[3:48:22 PM](#)

RECONVENED

Co-Chair Stoltze noted the compressed schedule for completion of the capital budget. He had hoped for more time for discovery and public process but commended the collaborative effort between the legislative bodies.

Representative Doogan announced that he did not support the FY 2013 capital budget and did not intend to vote in favor of the bill. He would explain his policy reasons on the house floor.

Representative Gara commented that "a lot of important things" were contained in the capital budget. He also felt the budget was "too big" and was uncertain how he was going to vote. He stated that the budget was, "too big and good at the same time."

Vice-chair Fairclough thanked the Co-chairs office's for all of their hard work on the budget. She supported the capital budget with the caveat that future budgets remain uncertain with the decline in oil production.

[3:53:18 PM](#)

Representative Guttenberg commented that he received a lot of feedback on the capital budget. He opined that the capital budget process "may not be perfect but it's the best one around." He felt that the process "turned the wealth of the state back to the people." The budget accomplished a lot of good things for the state.

Representative Wilson thanked the Co-chairs staff for their hard work. She thought that the budget contained some good appropriations to help Fairbanks achieve lower energy costs.

Co-Chair Thomas MOVED to report HCS CSSB 160(FIN) out of committee with individual recommendations.

HCS CSSB 160(FIN) was REPORTED out of committee with a "do pass" recommendation as amended.

[3:56:31 PM](#)

AT EASE

[3:56:38 PM](#)

RECONVENED

[3:57:53 PM](#)

RECESSED

[4:33:46 PM](#)

RECONVENED

#sb66

CS FOR SENATE BILL NO. 66(L&C)

"An Act creating a new markets tax credit assistance guarantee and loan program within the Alaska Industrial Development and Export Authority and relating to the program; and providing for an effective date."

Representative Wilson MOVED to ADOPT CS CSSB 66(FIN), Work Draft 27-GS1747\I (4/14/12, Martin).

Representative Doogan OBJECTED for the purpose of discussion.

[4:34:24 PM](#)

MARK DAVIS, DEPUTY DIRECTOR, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, (AIDEA), DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, spoke to the legislation. He explained that SB 66 provided loan guarantees in conjunction with the federal New Markets Tax Credit Program (NMTC). Investors making qualified equity investments would receive a federal tax credit totaling 39 percent of the cost of the investment. The program required that the remaining portion of the funding come from a loan through a financial institution. He noted that the NMTC programs, intended to foster economic development in economically challenged areas was successful in Alaska. He cited the fish processing plant [Goodnews Bay Salmon Processing Plant] in Platinum and the long term care facility in Kotzebue as examples.

Mr. Davis reported that banks were reluctant to lend since the economic downturn in 2008. The program imposed two restrictions on lending: The leveraged lender is limited to interest only payments for the seven years of the tax credit period and a bank cannot foreclose during the seven year period. The Alaska Industrial Development and Export Authority (AIDEA) contacted the lending institutions and inquired how it could support the loan process in order to revitalize the program in Alaska. The banks responded that if AIDEA guaranteed the loan the banks will finance NMTC loans again. He added that often the equity investor purchased the tax credit at a discount and subsequently left money in the project to use as equity after seven years. The project can then refinance with a conventional loan. The program worked well with local banks. He assured the committee that the AIDEA loan guarantees do not affect the state. The loan guarantee was held against AIDEA's reserves. He cited Page 2, lines 22 - 23:

Sec. 44.88.710. Effect of guarantee. (a) A guarantee under AS 44.88.700 -23 44.88.799 does not create a debt or liability of the state.

Mr. Davis furthered that if the applicant can demonstrate that they have been unable to obtain a loan from two financial institutions then AIDEA may make a direct leveraged loan to the project.

[4:37:09 PM](#)

JOE MICHEL, STAFF, REPRESENTATIVE BILL STOLTZE, explained the changes in the Committee Substitute (CS). He identified that on Page 5, Section 3 was added to the legislation:

Sec. 3. The uncodified law of the State of Alaska is amended by adding a new section to read:  
LEGISLATIVE APPROVAL OF LOAN FROM THE POWER PROJECT FUND.

Provided the Alaska Energy Authority approves a loan for the Metlakatla Power and Light, Triangle Lake hydroelectric project, the legislature authorizes the Alaska Energy Authority to loan an amount not to exceed \$26,000,000 from the power project fund (AS 42.45.010) for the Metlakatla Power and Light, Triangle Lake hydroelectric project. This section constitutes legislative approval under AS 42.45.010(j) for a loan from the fund that exceeds \$5,000,000.

Mr. Michel explained that the section provided legislative approval to obtain a loan from the Power Project Fund for Metlakatla Power and Light. He noted that on Page 6, Sections 4 and 5 were also added to the bill:

Sec. 4. Section 8, ch. 10, SLA 2010, is amended to read:

Sec. 8. Section 2, ch. 10, SLA 2010, [OF THIS ACT] takes effect November 30, 2017 [2012].

Sec. 5. Section 10, ch. 71, SLA 2010, is amended to read:

Sec. 10. Section 2, ch. 71, SLA 2010, [OF THIS ACT] takes effect 10 November 30, 2017 [2012].

Mr. Michel reported that the sections extended the sunset date of the property tax exemptions for the Delong Mountain Transportation System from 2012 until 2017.

Representative Guttenberg requested confirmation that the loans were guaranteed by AIDEAS reserves. Mr. Davis confirmed the statement.

Representative Guttenberg wondered how much was held in AIDEA reserves. Mr. Davis replied that AIDEA had \$300 million in liquid assets.

Representative Doogan WITHDREW his OBJECTION.

There being NO further OBJECTION, the committee substitute was ADOPTED.

Representative Gara requested a summary of AIDEA programs that focused on economic development in lower income areas of the state. Mr. Davis agreed to provide the update.

[4:40:22 PM](#)

Vice-chair Fairclough OPENED public testimony.

Vice-chair Fairclough CLOSED public testimony.

Vice-chair Fairclough reviewed the fiscal notes. She noted the new zero (CED) fiscal note. She spoke to a fiscal note that would be attached to the bill when reported out of committee. The fiscal note affected Fund Transfers and was allocated to Savings Public Education Fund. The Red Dog Mine benefited from the DeLong Mountain Road tax exemption. The current valuation of the road was \$155,934,200. In lieu of the property taxes the Red Dog Mine contributed a payment to the borough for education. The borough was required to pay the 4 mil rate increase under the proposed educational funding legislation; an additional \$623,736.

Representative Joule explained that the borough would be responsible for the additional approximately \$650,000 in taxes without being able to collect because of the exemption.

Vice-chair Fairclough furthered that the total assessed property value was \$190,000,000 and could impact the state education funding by \$380,000 each year until a solution to fill the district's local contribution gap was found. She alerted the committee that an amount as large as \$380,000 could appear on the fiscal note.

Representative Wilson MOVED to report HCS CSSB 66 (FIN) out of committee with individual recommendations and the accompanying fiscal notes.

HCS CSSB 66(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from Department of Commerce, Community and Economic Development, and Department of Education and Early Development.

[4:45:38 PM](#)

RECESSED

#

ADJOURNMENT

[7:32:02 PM](#)

The meeting was adjourned at 7:32 PM.