

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

February 22, 2012

3:20 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Craig Johnson, Vice Chair
Representative Mike Chenault
Representative Dan Saddler
Representative Steve Thompson
Representative Lindsey Holmes
Representative Bob Miller

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 301

"An Act amending the termination date of certain statutes relating to the use, operation, and regulation of boats, a uniform state waterway marking system, and civil liability for boat owners; providing for an effective date by amending the effective date of secs. 3, 5, 7, 9, 11, 14, 16, 18, 20, 23, 26, and 27, ch. 28, SLA 2000, as amended; and providing for an effective date."

- MOVED HB 301 OUT OF COMMITTEE

HOUSE BILL NO. 252

"An Act exempting certain small businesses from the corporate income tax; and providing for an effective date."

- MOVED CSHB 252(L&C) OUT OF COMMITTEE

HOUSE BILL NO. 300

"An Act relating to geographic cost-of-living salary adjustments for justices of the supreme court and judges of the superior and district courts; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 301

SHORT TITLE: SUNSET OF BOATING REGULATION

SPONSOR(s): REPRESENTATIVE(s) AUSTERMAN

01/27/12 (H) READ THE FIRST TIME - REFERRALS
01/27/12 (H) L&C
02/22/12 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 252

SHORT TITLE: INCOME TAX EXEMPTION

SPONSOR(s): REPRESENTATIVE(s) COSTELLO

01/17/12 (H) PREFILE RELEASED 1/6/12
01/17/12 (H) READ THE FIRST TIME - REFERRALS
01/17/12 (H) L&C, FIN
02/22/12 (H) L&C AT 3:15 PM BARNES 124

BILL: HB 300

SHORT TITLE: GEOGRAPHIC COLA FOR JUSTICES AND JUDGES

SPONSOR(s): RULES BY REQUEST

01/27/12 (H) READ THE FIRST TIME - REFERRALS
01/27/12 (H) L&C, FIN
02/22/12 (H) L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

REPRESENTATIVE ALAN AUSTERMAN

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Presented a brief synopsis of HB 301 as prime sponsor.

ASTRID LIEVANO, Staff, Representative Alan Austerman

Alaska State Legislature

POSITION STATEMENT: Presented HB 301 on behalf of the prime sponsor.

REPRESENTATIVE MIA COSTELLO

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 301.

JEFF JOHNSON, Boating Law Administrator

Office of Boating Safety

Division of Parks & Outdoor Recreation

Department of Natural Resources (DNR)

Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 301.

BEN ELLIS, Director

Division of Parks and Outdoor Recreation

Department of Natural Resources (DNR)

Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion HB 301.

CHRIS OSOWSKI, Member

Alaska Boating Safety Advisory Council

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion HB 301.

REPRESENTATIVE MIA COSTELLO

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified as prime sponsor during the discussion of HB 252.

JOSH WALTON, Staff

Representative Mia Costello

Alaska State Legislature

Juneau, Alaska

POSITION STATEMENT: Testified during the discussion of HB 252.

TYLER ARNOLD, Founder

Tyler Systems; Chief Executive Officer

SimplySocial, Inc.

Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion HB 252.

JOHNATHAN BITTNER, Director

Business and Economic Development

Anchorage Economic Development Corporation (AEDC)

Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 252.

ALLAN R. JOHNSTON, Chief Encouragement Officer

Team Network, Inc.

Anchorage, Alaska

POSITION STATEMENT: Testified during the discussion of HB 252.

DOUG WOOLIVER, Deputy Administrative Director

Administrative Staff

Office of the Administrative Director

Alaska Court System

POSITION STATEMENT: Presented HB 300 on behalf of the Alaska Court System.

ACTION NARRATIVE

[3:20:51 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 3:20 p.m. Representatives Miller, Saddler, Thompson, and Olson were present at the call to order. Representatives Holmes, Chenault, and Johnson arrived as the meeting was in progress.

HB 301-SUNSET OF BOATING REGULATION

[3:21:16 PM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 301, "An Act amending the termination date of certain statutes relating to the use, operation, and regulation of boats, a uniform state waterway marking system, and civil liability for boat owners; providing for an effective date by amending the effective date of secs. 3, 5, 7, 9, 11, 14, 16, 18, 20, 23, 26, and 27, ch. 28, SLA 2000, as amended; and providing for an effective date."

[3:21:56 PM](#)

REPRESENTATIVE ALAN AUSTERMAN, Alaska State Legislature, stated that he served in the legislature when the initial boating safety bill sponsored by former Representative Bill Hudson passed the legislature. He offered his belief that this program has saved lives.

[3:22:58 PM](#)

ASTRID LIEVANO, Staff, Representative Alan Austerman, stated that the purpose of HB 301 is to repeal the sunset dates of the Statewide Boating Safety and Education Program, which will terminate on July 1, 2013. She explained that funding is provided by the U.S. Coast Guard. In 2000, the state became eligible for funding with passage of the Alaska Boating Safety Act. When the program was established the 21st Legislature cautiously added two sunset dates. The first repealed the act in the event that the state did not receive the anticipated federal funds; and the second sunsetted the program by date. Since then, the legislature has voted three times to extend the

program thereby recognizing its merits. The program has been in effect for 12 years, during which time recreational boaters have become better educated and safer and recreational fatalities are in a downward trend.

MS. LIEVANO explained that fatalities have dropped by 22.1 percent and at least 22 Alaskan children have survived water emergency thanks, in part, to a Kids Don't Float program, which dispenses life jacket loaners. The U.S. Coast Guard life jacket wear rate studies also show increases in life jacket use. The Alaska Boating Safety Program is funded entirely by fees on users, with a portion of funding derived from the Sportfish Restoration and Boating Trust Fund, and the balance is derived from State of Alaska boat registration receipts.

[3:25:00 PM](#)

MS. LIEVANO reported the federal funding grant for FY 2012 was \$913,385 and the state funding through the Division of Motor Vehicles (DMV) has consistently been \$200,000. She offered her belief that Alaska's investment for boating safety is small when compared to the lives saved in Alaska.

[3:25:32 PM](#)

REPRESENTATIVE MIA COSTELLO, Alaska State Legislature, asked whether this is the program that provides life jackets at Sand Lake.

MS. LIEVANO answered yes.

CHAIR OLSON reported life jackets are also used on the Kenai River and he has heard they have a positive impact.

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REPRESENTATIVE JOHNSON said he supports this bill 100 percent and noted the program is very worthwhile.

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REPRESENTATIVE CHENAULT indicated the costs in 2005 were \$478,000, but in 2006 the costs increased to \$787,000, and now the program costs are \$1,400,000. He questioned the increase in program costs.

MS. LIEVANO asked for clarification on whether he was referring to the overall costs or why the federal funds have increased.

REPRESENTATIVE CHENAULT related that it appears the costs have stayed constant through the DMV, but the federal funding has nearly doubled since 2005.

MS. LIEVANO agreed the U.S. Coast Guard's funding for boating safety funding has increased.

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REPRESENTATIVE SADDLER said he hoped Jeff Johnson would be staying on as the DNR officer for the program. He stated he has had an opportunity to work with him and Mr. Johnson brings a wealth of institutional knowledge and energy to the program. He commented that he hopes the boating safety program will continue and Mr. Johnson also continues as staff for this program. He asked for clarification on any new functions or areas would be performed with the expansion of the program.

REPRESENTATIVE AUSTERMAN acknowledged that the program has expanded and he was unsure what is planned; however the Department of Natural Resources could respond.

[3:30:08 PM](#)

JEFF JOHNSON, Boating Law Administrator, Office of Boating Safety, Division of Parks & Outdoor Recreation, Department of Natural Resources (DNR), in response to a question, stated that this program's emphasis is on changing behavior and providing education in the schools.

REPRESENTATIVE SADDLER asked whether this agency cooperates with other agencies.

MR. JOHNSON answered that many other programs were in effect at the time their program was developed, including U.S. Coast Guard, and the Kids Don't Float Program. The Office of Boating Safety's focus has been on changing behavior, in particular, adult male behavior. Their other focus has been to educate future boaters through the school programs. He pointed out one challenge for injury prevention is to reach rural Alaskans. He said that the division saw opportunities to help and the goal is to maximize funds through cooperation and take the term "partnership" seriously.

REPRESENTATIVE SADDLER asked if this program is unique to Alaska.

MR. JOHNSON answered no, that 56 states and territories have state boating programs in effect. In 1987, Alaska was the only state without a program, even though its fatality rate has been more than 20 times the national average. He pointed out one benefit of coming into the scene late that Alaska has been able to benefit from other programs. He said is proud of the effectiveness of the small number of programs in Alaska and that Alaska is making progress.

[3:33:49 PM](#)

REPRESENTATIVE CHENAULT wondered whether the program will continue to receive federal funding or if the funding will be reduced.

MR. JOHNSON answered that the funding for the program comes from the Sport Fish Restoration and Boating Trust Fund, which is part of the Highway Trust Fund, but it is a user-pay user-benefit system. Thus much of the revenue is derived from fuel taxes attributable to recreational power boats and excise taxes on sport fishing equipment. It was designed as a user-pay user-benefit system, which is widely supported by boating organizations around the country. He acknowledged that he could not predict what the Congress will do in terms of any budget cuts; however, he did offer his belief that this program has a lot of support. He said it is a direct benefit to users paying into it and is perceived that way nationally. Additionally, the program is a very small program as compared to many other programs. He related his understanding that the program has a proven track record. He offered his belief the way to survive budget cuts is to prove the job being done is a good job. He also said he thinks staff is doing a good job.

[3:35:33 PM](#)

BEN ELLIS, Director, Division of Parks and Outdoor Recreation, Department of Natural Resources (DNR), agreed that funding is a concern; however, he anticipates the federal transportation funding bill will go through and the program will be safe for the present time.

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REPRESENTATIVE CHENAULT agreed the program is a good program. He pointed out that although the military also does a good job, it has undergone funding issues. Additionally, even the educational system is subject to budget cuts. He offered his support the Boating Safety Program, but he cautioned that the federal government is making cuts.

[3:37:47 PM](#)

CHRIS OSOWSKI, Member, Alaska Boating Safety Advisory Council, stated that the council meets twice a year with DNR to evaluate the success of the programs. He said he is familiar with Alaska's waterways since he has lived in Alaska since 1970 and his family has a homestead that can only be accessed by the river system. He viewed this program as one designed to help develop safe habits to ensure people survive. He has participated as a volunteer and has observed how this program works. He characterized this program as a good program and it would be worthwhile to focus on meeting the program's goals and not have to worry about funding.

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CHAIR OLSON asked whether any funding is being used to drown-proof infants. He recalled that very young infants can be taught to develop a reflex action, such that they can roll over in the water and keep their head out so they can breathe. He related that he has had personal experience with a family member who fell off a sailboat and survived due to the specific drown-proof training.

MR. OSOWSKI related his understanding that discussions have focused on floatation devices, but have not proceeded with this type of training. The program's training has been limited to instilling the value of wearing floatation devices and dangers of cold water. He offered to bring this idea back to the group.

REPRESENTATIVE JOHNSON welcomed his constituent. He characterized him as a "good guy."

[3:41:28 PM](#)

REPRESENTATIVE SADDLER raised the issue of funding the program in the event federal funding was diminished. He asked if the Alaska's boating registration fees are the same or higher than in other states.

MR. OSOWSKI offered his belief that they were in line with other state's fees.

REPRESENTATIVE SADDLER questioned the amount of fees raised from boat registration fees.

MR. JOHNSON answered \$570,000 is derived from boat registration receipts. He said the fee for boat registrations is one developed by the U.S. Coast Guard. He explained that the Congressional budget office requires federal agencies must charge no more than the cost of the boat registration. The figure represents the cost to register boats in 1998 and so the same fee is still in place. He was unsure, but thought that Alaska's boating registration fees are likely among the lowest in the nation.

MR. ELLIS stated that this bill relates to the sunset of the state requirement; however, he agreed that the state must consider developing a safety net in the event that the federal funding is cut so this important program can continue. He mentioned that swimming doesn't always help people survive due to the cold water in Alaska.

[3:44:13 PM](#)

REPRESENTATIVE SADDLER recalled the figure of \$578,000 and asked whether this is what Alaska receives or generates in fees.

MR. JOHNSON answered that the DMV collects \$578,000 annually from boating registration fees. He related that the program receives a portion of the fees collected and the DMV uses a portion to cover its administrative costs.

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 301.

[3:45:08 PM](#)

REPRESENTATIVE JOHNSON moved to report HB 301 out of committee with individual recommendations and the accompanying fiscal note. There being no objection, HB 301 was reported from the House Labor and Commerce Standing Committee.

[3:45:44 PM](#)

The committee took an at-ease from 3:45 p.m. to 3:48 p.m.

HB 252-INCOME TAX EXEMPTION

3:48:41 PM

CHAIR OLSON announced that the next order of business would be HOUSE BILL NO. 252, "An Act exempting certain small businesses from the corporate income tax; and providing for an effective date."

3:48:51 PM

REPRESENTATIVE MIA COSTELLO, Alaska State Legislature, explained that HB 252 would exempt certain "qualified small businesses" with aggregate assets of \$50 million or less from the state's corporate income tax. The industries that would qualify dovetail with the federal C Corporations identified in section 1202 of the Internal Revenue Code (IRC). These corporations are defined as ones using 80 percent or more of their assets in the active conduct of their businesses. The types of companies the bill is designed to encourage include intellectual property, software industry, and innovation. The reason the state is trying to attract the C Corporations is because they have the ability to attract unlimited investors. The federal legislation allows for investors to be exempt from capital gains tax if they keep the funds in the company for at least five years. Alaska has found that many companies avoid filing as a C Corporation to avoid the fifth highest corporate tax in the country, or 9.4 percent rate on \$90,000 in earnings. Instead, these corporations have been filing as S Corporations, which has limited investors. This bill aims to attract industries to Alaska that are not currently here and to attract the investment that comes with those startups.

3:51:25 PM

REPRESENTATIVE JOHNSON made a motion to adopt Amendment 1 labeled 27-LS1085\M.2, Nauman, 2/17/12, which read, as follows:

Page 1, lines 10 - 11:

Delete "that is actively engaged in a qualified trade or business"

Insert "and that meets the active business requirement in 26 U.S.C. 1202(e) as that subsection read on January 1, 2012"

Page 1, line 14:

Delete "AS 46.20.012"

Insert "AS 43.20.012"

Page 2, lines 5 - 15:
Delete all material.

Renumber the following paragraph accordingly.

Page 2, following line 18:
Insert a new paragraph to read:
"(1) "Alaska corporation" means a corporation that has been incorporated in the state or is authorized to do business in the state;"

Page 2, lines 19 - 20:
Delete "(1) "aggregate gross assets," "parent-subsidiary controlled group," "qualified small business," and "qualified trade or business"
Insert "(2) "parent-subsidiary controlled group" and "qualified small business"

Page 2, line 21:
Delete ";"
Insert "."

Page 2, lines 22 - 27:
Delete all material and insert:
"*** Sec. 3.** AS 43.20.012 is repealed and reenacted to read:
Sec. 43.20.012. Limitation on application of chapter; credits. The tax imposed by this chapter does not apply to individuals or to fiduciaries. However, an individual may file a return under this chapter to receive a tax credit under AS 43.20.013.
*** Sec. 4.** Sections 1 and 2 of this Act take effect July 1, 2012.
*** Sec. 5.** Section 3 of this Act takes effect July 1, 2023."

CHAIR OLSON objected for the purpose of discussion.

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REPRESENTATIVE COSTELLO explained that page 1 lines 1-4 of the Amendment 1 would incorporate subsection (e) of Internal Revenue Code (IRC) section 1202 that requires at least 80 percent of a qualifying business' assets must be used in the active conduct of the business. The next change on page 1, lines 6-8 corrects a typographical error. She then referred to page 1, lines 10-

11, which would remove the requirement that qualifying businesses file a report documenting their eligibility for the exemption.

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REPRESENTATIVE HOLMES related her understanding that this change is being made since the corporation has previously filed the information with the federal government and this would be duplicative.

REPRESENTATIVE COSTELLO agreed.

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REPRESENTATIVE COSTELLO referred to page 1, lines 15-18, which removes the requirement that a qualifying business be headquartered in Alaska to avoid potential violations of the Equal Protection and Interstate Commerce Clause of the U.S. Constitution. The bill originally required the business to be headquartered in Alaska, but that provision was changed to require the work be conducted in Alaska. The next changes would delete definitions no longer used in the statute and corrects the punctuation. Finally, a sunset provision was added to the bill so the program would sunset July 1, 2023.

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CHAIR OLSON removed his objection. There being no father objection, Amendment 1 was adopted.

[3:53:55 PM](#)

JOSH WALTON, Staff, Representative Mia Costello, Alaska State Legislature, stated that HB 252 would provide state corporate tax exemptions for qualifying small businesses as the term is defined in IRC code section 1202. That section is meant to encourage investment, in particular, venture capital investment targeted at startup companies involved in research and development, innovation, intellectual property, and software development. These are the sorts of companies that represent a very fast growing sector. He offered that if the state wishes to diversify its economy, one way is to branch out into sectors that will grow quickly. Thus this bill would help to diversify Alaska's economy. Although this bill offers an exemption it is an exemption that will not last forever. In order to qualify for an exemption under IRC Section 1202 a company must have less

than \$50 million in aggregate gross assets. Additionally, 80 percent or more of its assets must be used in the active conduct of the business, which he related as a significant hurdle to overcome. However, special provisions in the tax code allow research costs, startup costs, and experimentation costs to be counted toward the 80 percent, which helps these companies engaged in those activities crest that bar a little easier. He suggested that in practice Section 1202 has been used most effectively to encourage investment in companies that tend to be more innovative or research-based ones.

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MR. WALTON pointed out that a number of industries are excluded. The sponsor has received anecdotal information, such that venture capitalists seek vehicles in which to invest. Very few opportunities exist since the high-growth company must be a C Corporation, which is the only corporate class structure that is not a pass-through corporation, but one that maintains its own corporate income tax liability. As the sponsor previously mentioned, the state has the fifth highest corporate tax rate in the U.S. He stated that entrepreneurs in Alaska desiring to start an innovative driven company will look to states such as Montana since its corporate taxes are much lower. He explained that the companies tend to be highly mobile, with few geographical constraints. Thus the state has an opportunity to attract these businesses to Alaska, except for the high tax rates.

[3:59:09 PM](#)

REPRESENTATIVE SADDLER asked for the types of industries that are exempt under the IRC Section 1202.

MR. WALTON related that currently there are not many examples of companies in Alaska, but nationwide the companies tend to be technology based companies such as bio-tech, information services, computer networking, software, and a wide variety of companies seeking to develop new products.

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REPRESENTATIVE SADDLER asked whether the types of companies the state is trying to attract would be companies such as Hewlett Packard or Apple were startup companies thirty years ago.

MR. WALTON answered yes.

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MR. WALTON said that it may seem unusual that this issue is a problem in Alaska since other types of corporate structures such as the limited liability corporations (LLC) or S corporations, which are pass-through entities exist. He offered that start up activity occurs in businesses using those structures; however, the problem is that severe limitations exist on who can invest. He explained that the amount of capital that can be raised is limited. Therefore, if a company seeks to be the next Google or Apple, they must have the ability to raise a lot of capital very quickly and to do so require lots of shareholders. He pointed out that S Corporations are limited to 100 shareholders with one class of stock and other companies cannot invest in the corporation. He concluded that a corporation must be a C Corporation in order for a venture capital firm to invest in the company. He hesitated to suggest that Alaska is less than a welcoming place for entrepreneurs, because it is welcoming; however, Alaska's tax structure is not particularly friendly to those companies that want to grow quickly and become publically-traded companies. He characterized this bill as one that would create a nursery for companies that will eventually outgrow their exemptions and become taxpayers.

4:02:37 PM

REPRESENTATIVE MILLER asked whether a small company which has not incorporated could qualify under the bill.

MR. WALTON answered that this exemption relates only to C Corporations.

REPRESENTATIVE MILLER asked whether a preponderance of work would be performed in Alaska under the bill.

MR. WALTON answered that a C Corporation's corporate tax liability depends on the business activities performed in Alaska. If a corporation carries out all of their activities and meets the overall criteria for the exemption, then all of their activities would be exempted. He explained that originally the bill required companies to be headquartered in Alaska, but the Department of Law advised that doing so violated the Interstate Commerce Clause and Equal Protection Clauses of the U.S. Constitution so those provisions were removed. Thus a 1202 C Corporation headquartered anywhere would be eligible for activities in Alaska.

4:04:33 PM

CHAIR OLSON recalled that in the past six years the committee has had bills similar to this with the commonality that Alaska has been working to be competitive with other states that currently have advantages over Alaska. He inquired as to whether he was aware of any other states beyond Montana that Alaska has competing with who would be affected by this bill.

MR. WALTON did not recall who is on bottom of the list in terms of income tax. He recalled that this would be the only program in the country of this type. In response to Chair Olson, he agreed that Alaska would be considered innovative. Alaska would move from being the fifth least encouraging environment to being tied for first place if not outright becoming first place in the nation.

4:06:29 PM

TYLER ARNOLD, Founder, Tyler Systems; Chief Executive Officer, SimplySocial, Inc., stated that SimplySocial, Inc. provides social media services. He explained that he is a 19-year old entrepreneur born and raised in Anchorage, Alaska. He stated that he was 16 years old when he started his first information technology company, Tyler Systems, which won the SBA young entrepreneur of the year award in 2011. His current startup, SimplySocial, Inc. brings together a global team all a part of a 1202 C Corporation founded in Alaska. The C Corporation status allows his company to be more attractive to investors and is geared towards international business. It allows the company to be a high growth company. They may be global, but act local. He suggested that Alaska has one of the highest corporate income tax rates in the country. This bill, HB 252, would remove the burden but would strengthen the global competitiveness. He said he is currently in Romania working with the team until we all come to Alaska in April to launch our project publically the end of April. He hoped to show the global co-founders that Alaska plays to our advantage and is an easy place for startups to call home. He thanked the committee. In response to a question about the good reception, he answered that he is using Skype.

4:08:38 PM

REPRESENTATIVE SADDLER asked if he had considered going to anyplace else in the nation for either of his businesses.

MR. ARNOLD answered no. When they founded their company last October, the founders understood Alaska could be one of the first to consider the IRC Section 1202 exemption. He related that the legislators and venture capitalists in Silicon Valley were not considering the exemption. He explained that they did not look at any other states due to the exciting prospects of this bill. In response to a question, Mr. Arnold advised that Romania is 11 hours ahead of Alaska's time zone.

[4:09:56 PM](#)

JOHNATHAN BITTNER, Director, Business and Economic Development; Anchorage Economic Development Corporation (AEDC) expressed support for HB 252. The company does a lot of local and national outreach to generate support for Anchorage and Alaska as a place to do business and to incorporate a business. The competition is very fierce among other states who are working to provide incentives to attempt to attract businesses. Anchorage is a good place to do business, but tools like HB 252 are crucial in terms of placing Alaska at the forefront. He reiterated AEDC's support for the bill.

ALLAN R. JOHNSTON, Chief Encouragement Officer, Team Network, Inc. stated that he has been with Wedbush Securities Inc. for 35 years and regional manager for most of that time. He said that he is now transitioning into his encore career. He has raised three children in Alaska. He offered that his focus has been to assist youth in creating and focusing on jobs in Alaska. He has been involved in the Alaska Business Plan, which is a competitive and cooperative effort between the University of Alaska (UAA), Alaska Pacific University (APU), and University of Alaska Fairbanks (UAF). The focus has been to break barriers and work collectively, to help students think globally, and to heighten their aspirations of what they can accomplish. He helps them identify problems and be part of the solution in Alaska instead of using a business model developed outside Alaska. He has observed the opportunities and quality of living in Alaska. He has also viewed HB 252 as a vehicle and means to attract people who love outdoors an opportunity to move their small companies, children, and families to Alaska - a state that has a quality of life second to none. This bill has specifically been geared to use a C Corporation instead of an LLC or S Corporation.

MR. JOHNSTON offered his belief that HB 252 is also geared for those seeking national and international markets whose competitor is not just across the street. This gets back to the

whole idea of raising aspirations of what can happen in Alaska. He recalled Irv Long, who designed the thermal tubes on the Trans-Alaska Pipeline System (TAPS). He mentioned that two-thirds of the wellspring drills in Vermont siphoning and heat tubes and many of the initial patents were filed by people including Joe Balash. He also pointed out Ed Clinton, Dowland-Bach, Inc., with respect to his work on control valves. He emphasized that Alaska should have been exporting intellectual property for years. He offered his belief that HB 252 could help bring national and international interest due to its quality of life and as a state that is also focused on national and international opportunities. He shared that he is very passionate about this and recognizes HB 252 as a tool, noting several tools are being developed. He hoped Alaska could train people to use these tools. He said he is so impressed with Jonathan Bittner's startup for software companies, noting that 32 people representing six startup software companies characterized the startup process as the most exciting process. He expressed excitement over what has been happening in Alaska in the past year. He offered his belief that HB 252 could help create a phenomenal opportunity for Alaska at little to no cost or perhaps even a negative cost.

[4:16:15 PM](#)

CHAIR OLSON, after first determining no one else wished to testify, closed public testimony on HB 252.

REPRESENTATIVE JOHNSON moved to report HB 252, as amended out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 252(L&C) was reported from the House Labor & Commerce Standing Committee.

HB 300-GEOGRAPHIC COLA FOR JUSTICES AND JUDGES

[4:20:13 PM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 300, "An Act relating to geographic cost-of-living salary adjustments for justices of the supreme court and judges of the superior and district courts; and providing for an effective date."

[4:20:37 PM](#)

DOUG WOOLIVER, Deputy Administrative Director, Administrative Staff, Office of the Administrative Director, Alaska Court

System, stated that this bill was introduced by the House Rules Committee at the request of the Alaska Supreme Court. This bill would update the geographic pay differentials that apply to judges' salaries to bring them in line with the same formulas that apply to other state employees. Under current law employees in the executive branch and those in the judicial branch who are not judges receive a geographic differential which is applied to their salary based on a formula that calculates a cost-of-living in various communities where they live. A geographic differential can vary from 6.3 percent in Sitka to 36.92 percent in Kotzebue, Barrow, and Nome. He pointed out two caps on the geographic differential that judges receive limits any increase to less than five percent of a geographic differential for a limit on the total of \$7,000 on a Superior Court judge's salary. This does not offset actual costs of living in most rural communities. He compared the \$7,000 to approximately \$30,000 to \$35,000 in geographic differential other state employees may receive. The legislature has recognized geographic differential as a means to compensate individuals living in rural Alaska who face staggering costs. He emphasized the point of a geographic differential is to adjust salaries statewide on an equal basis. He referred to a McDowell study that showed the cost of living was 60 percent higher in Kotzebue than in Anchorage.

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MR. WOOLIVER pointed out that judges in Anchorage receive substantially more in salaries than judges receive in Kotzebue. The first geographic differential bill passed the legislature in 1966 and geographic differentials have existed since then. He characterized this bill as the right thing to do for employees and for judges. Rural judges should be treated adequately. He illustrated one problem in rural Alaska has been to attract sufficient applicants to serve, in particular, in communities such as Bethel. Currently, a Superior Court judge position is vacant. The Alaska Judicial Council did not receive enough names the first time it solicited applicants so it is starting over to find sufficient, qualified applicants. However, this issue is not just an issue for Bethel. In 2013, Ben Esch, who has served as Superior Court judge in Nome for 17 years will retire. He is the longest serving judge in Nome's history. In 2014, Mike Jeffrey will retire. He has been the longest serving Superior Court judge in our state's history. He stressed the importance of finding qualified committed applicants. He pointed out numerous hurdles exist to attract people to live in rural Alaska, and one barrier has been a lack of any realistic

geographic differential since rural judges lose out compared to urban areas. The geographic differential does not apply to judicial retirement since a judge's retirement is based only on base salary. This bill is limited to geographic differential.

[4:25:53 PM](#)

REPRESENTATIVE SADDLER asked whether it is problem to recruit or retain judges in rural Alaska.

MR. WOOLIVER explained that it hasn't been a problem to retain judges but it has been difficult to attract them. He further explained that the most recent vacancy in Bethel, the Judicial Council did not receive enough applicants to send two names of qualified candidates to the governor. He was unsure if this bill has had an effect in attracting candidates, but the Judicial Council has received substantially more applicants during the second solicitation.

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REPRESENTATIVE SADDLER understood the chronological cap, but he asked for the length of time a judge must serve to qualify for a state retirement.

MR. WOOLIVER offered his belief that it takes five years to obtain vesting, but judges are fully vested at 15 years, and Alaska's Constitution does require retirement at age 70.

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REPRESENTATIVE SADDLER referred to the committee members' bill packet with the geographic differential. He questioned why Anchorage is not listed and asked if it is zero.

MR. WOOLIVER answered yes.

REPRESENTATIVE SADDLER offered his belief that Fairbanks is not treated well in terms of cost-of-living. He inquired as to whether the rates are indexed to the inflation rate.

MR. WOOLIVER answered no. He explained that the chart in members' packets is somewhat complicated. The section shows Fairbanks at 15.2 percent, which is the non-covered geographic differential. He offered that is the statutory rate that applies to members of the executive branch who are not covered by collective bargaining agreements. That rate hasn't changed

in years, he said. He pointed out that the three percent amount listed two columns over on the chart represents the most recent union negotiated contracts that adopted per the 2008 McDowell study figures.

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REPRESENTATIVE MILLER inquired as to how many judges would be affected by the bill.

MR. WOOLIVER answered that 23 Superior Court judges and 11 District Court judges would be affected for a total of 34 positions.

CHAIR OLSON anticipated a potential amendment to the bill would be forthcoming.

[HB 300 was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 4:31 p.m.