

SENATE FINANCE COMMITTEE

March 21, 2011

9:04 a.m.

9:04:57 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Johnny Ellis
Senator Dennis Egan
Senator Donny Olson
Senator Joe Thomas

MEMBERS ABSENT

Senator Lesil McGuire, Vice-Chair

ALSO PRESENT

Tim Lamkin, Staff, Senator Stevens; Tim Grussendorf, Staff, Senator Hoffman; Bruce Johnson, Executive Director, Alaska Council of School Administration; John Alcantra, National Education Association of Alaska; Kathy Wasserman, Alaska Municipal League; Jay Livy, Staff, Senator Hoffman; Wanetta Ayers, Department of Commerce, Community, and Economic Development; John Rense, Senior Operations Manager, NANA Development Corporation; Brice Haberberger, Tradesman, Juneau.

PRESENT VIA TELECONFERENCE

Luke Hopkins, Mayor, Fairbanks; John Bolling, City of Craig; Bryan Zack, Homer; Elaine Price, Southeast Island School District; Bear Ketzler, City of Tanana; Maya Salganek, University of Alaska, Fairbanks; David Greathouse, Producer, WARP Films; Cindy Draper, ABC Motorhomes; Matt Moser, Staff, Senator Ellis.

SUMMARY

SB 18 - DURATION OF REGULAR LEGISLATIVE SESSIONS

CSSB 18 (STA) as amended was REPORTED out of committee with a "do pass" recommendation and with two previously published fiscal impact notes from the Legislative Affairs Agency.

SB 97 - COMMUNITY REVENUE SHARING/EDUC FUNDING

SB 97 was HEARD and HELD in committee for further consideration.

SB 102 - AK AFFORDABLE HEATING PAYMENT PROGRAM

SB 102 was HEARD and HELD in committee for further consideration.

SB 23 - FILM PRODUCTION TAX CREDIT

SB 23 was HEARD and HELD in committee for further consideration.

#sb18

SENATE BILL NO. 18

"An Act relating to the duration of regular sessions of the legislature; and providing for an effective date."

[9:06:23 AM](#)

TIM LAMKIN, STAFF, SENATOR STEVENS, apologized for Senator Stevens' absence, and offered to answer any questions.

Co-Chair Hoffman MOVED to ADOPT Amendment 1, Gardner 27-LS0122\1.5. He stressed that there was a technical amendment on line 3, and stated that "2014" should be added because it would be the second session of the Legislature.

Co-Chair Stedman OBJECTED for purpose of discussion.

Co-Chair Hoffman felt it was too early to extend the duration of the legislature. He requested that it be enacted in three years. He stressed that it would work better in 2014.

Co-Chair Stedman WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered.

Co-Chair Stedman referred to the two previously published fiscal notes (LAA).

Senator Olson wondered if the bill only dealt with the length of the duration, rather than the date which session begins. Mr. Lamkin stated that there was an accommodation made, so that session would begin on the third Tuesday of January in the second session of the Legislature.

Senator Olson stressed that there were some legislators that had school children, so the students would be required to switch schools at unusual times. He wondered if there was a consideration to move the session start-date later in the year. Mr. Lamkin replied that Senator Stevens would be open to discussion. He pointed out that there was an option to begin each session on the exact same day, and only the end date would fluctuate. He felt that there was some consideration of the potential disruption to Juneau's tourism economy, if the session were moved closer to the summer months.

Senator McGuire MOVED to report CSSB 18 (STA) as AMENDED out of committee with individual recommendations and the accompanying previously published fiscal note(s). Seeing NO OBJECTION it was so ordered.

#sb97

SENATE BILL NO. 97

"An Act authorizing additional appropriations for public education and for community revenue sharing based on the price of Alaska North Slope crude oil, and adjusting the formula for payments to communities."

9:12:21 AM

Co-Chair Hoffman stated that high oil prices added operating burdens to local governments and schools.

TIM GRUSSENDORF, STAFF, SENATOR HOFFMAN, highlighted some changes to SB 97. He began with Section 1, which presented the formula and the money that would be appropriated to the Department of Education. Section 2 addressed a technical change, which would assure that the fund would always reach \$180 million. Section 3 would add a new sub-section D,

which was a calculation that would add the new formula to the revenue sharing.

[9:15:07 AM](#)

Mr. Grussendorf presented "Goal: Increase Community Revenue Sharing when there is a GF Surplus" (copy on file). He stated that \$89/per barrel was the trigger-point, but there was still an effort to make a more accurate trigger-point. He stated that the decision to use \$89 per barrel, because it was the amount needed to balance the state's budget. He looked at line G, and stated that revenue-sharing would eliminate the \$60 million, that it was formulated to do. He looked at line H, and stated that the full revenue sharing would be \$82 million. He looked at line J, and stated that the revenue would be due to the progressive taxation of oil. He explained that the excessive revenue would not go directly into the formula, but would be calculated out as the same proportion as the first \$60 million. He stressed that as long as the formula was above \$60 per barrel, the formula should produce at least \$60 million.

[9:18:26 AM](#)

Co-Chair Stedman queried the payout date. Mr. Grussendorf replied that the payout date was not yet solidified. He stated that the revenue sharing would go out at the beginning of the fiscal date. He noted that the payout date would probably be sometime in August.

[9:19:04 AM](#)

Co-Chair Stedman commented that a determination of the price trigger needed to be solidified. He stated that cost stress on small communities would be alleviated.

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Senator Thomas wondered if the date was referring to the 90 day period. Mr. Grussendorf replied that that was one option, and they were looking at the yearly average.

Senator Thomas wondered if there was consideration for tax credit return based on progressivity, and wondered if there was a comparison. Co-Chair Stedman requested a rough concept of the revenue. Mr. Grussendorf replied by referring to line J of the spreadsheet.

Co-Chair Stedman would like to call it credits, rather than progressivity. Mr. Grussendorf agreed.

[9:23:01 AM](#)

Co-Chair Stedman wondered if \$3.5 billion referred to spending. Mr. Grussendorf replied with 3.2 percent or \$22 million would be collected in credits.

Co-Chair Stedman stated that \$2.5 billion would be collected, and reiterated that it was a small fraction of the progressivity. He stressed that all of the terms would be open for discussion.

[9:24:08 AM](#)

Senator Olson wondered if there would be possible retroactive mandates for tax payments. Mr. Grussendorf requested further explanation.

Senator Olson referred to discussion related to retroactive tax collecting. He wondered if there was a retroactive date for the tax. Mr. Grussendorf replied that there were no discussions regarding retroactive tax collections.

[9:25:22 AM](#)

Senator Olson wondered if there would be an increase in the rural school districts. Mr. Grussendorf replied education would be separate, after the formula was established.

[9:26:19 AM](#)

Senator Olson looked at column D, and wondered what impact the potential rise 28 percent might have on the state. Mr. Grussendorf was unsure.

Senator Olson noticed that they would not only get 3.2 percent, but an additional 8 percent. He wondered how much that would increase the revenue. Mr. Grussendorf replied that the spreadsheet did not include that amount.

[9:27:11 AM](#)

Co-Chair Stedman stated that the progressivity tax was included to ensure that the percentage does not decline the state's share of the oil profits.

[9:28:51 AM](#)

Co-Chair Stedman reiterated that the concept was on the table for discussion.

Co-Chair Stedman looked at one fiscal note from the Department of Education and Early Development, which showed an increase of \$22 million in K-12 funding; and another fiscal note from the Department of Commerce, Community, and Economic Development that showed an increase of \$22 million in community revenue sharing.

LUKE HOPKINS, MAYOR, FAIRBANKS (via teleconference), spoke in favor of SB 97. He stated that there was a backlog of school maintenance. He remarked that revenue sharing had been used in years prior, to avoid tax payer contributions. He remarked that when oil prices grew, they had to apply an appropriation in order to cover increased costs.

[9:31:56 AM](#)

JOHN BOLLING, CITY OF CRAIG (via teleconference), spoke in favor of SB 97. He stated that the municipality appreciated the Legislature's appropriation of money.

[9:32:41 AM](#)

BRYAN ZACK, HOMER (via teleconference), spoke in favor of SB 97. He requested a change from \$84 per barrel to be used as a trigger point.

[9:35:57 AM](#)

ELAINE PRICE, SOUTHEAST ISLAND SCHOOL DISTRICT (via teleconference), spoke in favor of SB 97.

[9:36:33 AM](#)

BEAR KETZLER, CITY OF TANANA (via teleconference), spoke in favor of SB 97.

[9:38:19 AM](#)

BRUCE JOHNSON, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATION, spoke in favor of the concept of SB 97. He explained that there was an extraordinary cost related to heating and oil costs. He offered his assistance in the continued refinement of the bill.

[9:39:17 AM](#)

Co-Chair Stedman suggested consideration for the amount that was proposed for the revenue sharing and the schools. Mr. Johnson agreed to help.

[9:39:53 AM](#)

JOHN ALCANTRA, NATIONAL EDUCATION ASSOCIATION OF ALASKA, spoke in favor of SB 97. He stressed that 89 seemed too high a trigger.

[9:42:13 AM](#)

KATHY WASSERMAN, ALASKA MUNICIPAL LEAGUE, spoke in favor of SB 97. She stressed that the municipalities agreed to share in the funds when oil prices go up. She reiterated that many communities face high oil prices, and find it difficult to provide basic services. She stated that basing one day as a target was unfair, but getting an average on holidays might be better. She offered to work with the Legislature in determining the best approach.

[9:44:23 AM](#)

Co-Chair Stedman closed public testimony.

Co-Chair Hoffman stated that the struggling municipalities and school districts had asked for assistance. He stated that there may have been an initial concern of relying on the funds. He stressed that the funds would only be available in times of high oil prices.

SB 97 was HEARD and HELD in committee for further consideration.

#sb102

SENATE BILL NO. 102

"An Act relating to certain payments made under the Alaska affordable heating program."

[9:45:56 AM](#)

Co-Chair Hoffman stressed that there was a high cost of heating in many areas of the state, because of the dependence on diesel fuel.

[9:47:02 AM](#)

JAY LIVY, STAFF, SENATOR HOFFMAN, presented SB 102 proposed changes to the Alaska Affordable Heating Program, to clarify that the Department of Health and Social Services may prorate benefits, should insufficient funds be available.

Mr. Livy pointed out two changes. He pointed to line 11, which included the addition of "and see." He explained that that change would include the benefit calculations in the prorated areas. He also looked at line 12, which added the words "on a prorata basis."

Mr. Livy stressed that there were no policy changes, and the language was strictly technical.

Co-Chair Stedman referred to one zero fiscal note from the Department of Health and Social Services.

[9:50:15 AM](#)

Senator Olson referred to a 50 percent cut by the Obama Administration in the Federal Low Income Heating Program. He wondered if that cut had been taken into consideration. Mr. Livy replied that the state received about \$18 million in federal funds, but there was a 50 percent cut. He stressed that Alaska could receive up to \$10 million less to spend in the next year. He explained that the bill was drafted based on requirements to fill the benefit need: either from the general fund or federal funds.

[9:52:06 AM](#)

Senator Olson pointed out that the bill did not make up for the lost federal funds. Mr. Livy agreed.

[9:52:35 AM](#)

SB 102 was HEARD and HELD in committee for further consideration.

#sb23

SENATE BILL NO. 23

"An Act relating to transferable film production tax credits; and providing for an effective date by amending the effective dates of secs. 3 and 4, ch. 63, SLA 2008."

9:53:22 AM

Senator Ellis welcomed MATT MOSER, STAFF, SENATOR ELLIS.

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Senator Ellis presented the PowerPoint Presentation, "Senate Bill 23: Extending the Film and Television Production Tax Incentives." He stated that welcoming the multi-billion dollar film and television production industry to Alaska was a rare opportunity to grow and develop a new industry in the state. It would create jobs for Alaskans and diversify the economy. He stated that the legislation would continue the growth and success of Alaska's developing film and television production. He stressed that the private sector was needed to ensure the incremental capital investments. He felt that this legislation would offer the private sector the certainty that Alaska is open for business.

9:55:11 AM

Senator Ellis stated, "The film tax credit passed by the legislature in 2008 is largely responsible for the recent growth in this industry. Since their inception in 2008, 15 productions have received tax credits. These 15 productions filmed in Alaska for a total of 910 days and had a total Alaska spend of nearly \$15 million dollars. As of January, 2011 there are an additional 28 productions that are pre-qualified for Alaska Film Incentives. If all these productions are completed they will have an estimated

additional projected Alaska spend of nearly \$85 million dollars. This brings the total projected potential boost to Alaska's economy since 2008 to nearly \$100 million dollars."

[9:56:31 AM](#)

Senator Ellis presented slide 4. He stated that the projected boost to the economy since 2008 was nearly \$100 million.

[9:57:02 AM](#)

Senator Ellis presented slide 5, and stated "This \$100 million dollars translates in to thousands of jobs, opportunities for businesses large and small. We have already seen the benefits of recent multi-million dollar productions. There were hundreds of Alaskans working as cast and crew, in jobs as varied as electricians, carpenters, truck drivers, caterers, security guards and plumbers. Mr. Chairmen, filming and production has taken place in 35 communities all over our state."

Senator Ellis presented slide 6, and stressed that many small business were positively affected by the legislation, including ocean cargo shipping, rental cars and RV's, to property rental, construction work, hotels, restaurants and engineering firms.

[9:57:55 AM](#)

Senator Ellis presented slide 7, and explained that there were many exciting projects in progress. He also stressed that there was potential for training and education in film and television production. He pointed out the infrastructure around the industry was so booked with shoots, that they did not have crew enough to meet the demands.

[9:58:51 AM](#)

Senator Ellis presented slide 8 and stated that the legislation would extend the film and television production tax for ten years, and offered an additional \$100 million dollars in tax incentives for each five-year period.

[9:59:38 AM](#)

Senator Ellis presented slide 9, and pointed out the legislation would continue to bring new money to Alaska's economy; keep our businesses busy and put Alaskans to work; and diversify our economy and grow and develop this new and multi-million dollar business in Alaska.

[10:01:25 AM](#)

Senator Ellis presented slide 10, and noted that the legislation would create diversification of the economy; new private sector jobs; new opportunities for large and small businesses; infusion of construction dollars; public relations; opportunities in rural Alaska; and tax credits for Alaska corporations.

[10:02:05 AM](#)

Co-Chair Stedman referred to two fiscal notes from the Department of Revenue and Department of Commerce, Community, and Economic Development.

[10:02:49 AM](#)

MAYA SALGANEK, UNIVERSITY OF ALASKA, FAIRBANKS (via teleconference), spoke in favor of SB 23. She felt that the passing of the legislation would encourage further study and training in film and television production.

[10:07:23 AM](#)

WANETTA AYERS, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, presented PowerPoint Presentation: "Alaska Film Office Program Overview" (copy on file). She stated that there was a desire to develop Alaska as a preferred film destination.

[10:08:17 AM](#)

Ms. Ayers discussed slide 2, and stated that the Alaska Film Office had five mandates: 1. cooperate with organizations in the private sector for the expansion and development of the film production industries in the state; 2. promote Alaska as an appropriate location for film production; 3. provide production assistance through connecting film directors and makers, and producers with Alaska location scouts and contractors, including

contractors providing assistance with permit applications; 4. certify Alaska film production internship training programs and promote the employment of program interns by eligible productions; and 5. in cooperation with Department of Revenue, administer the Alaska Film Production Incentive Program.

[10:08:54 AM](#)

Ms. Ayers discussed slide 3, and stated that the Alaska Film Office approached private sector collaboration in a variety of different ways. She explained that their website was a portal for a variety of information about the program and interacts with the Alaska Film Office. She stated that the Alaska Film Office was engaged with industry organizations, trade associations, and allied groups; and engaged in outreach through speaking engagements, targeted contacts, and fielding daily inquiries.

[10:09:51 AM](#)

Ms. Ayers discussed slide 4, and stated that there was a variety of print advertising in magazines, directories, brochures, and websites to promote Alaska.

Ms. Ayers displayed slide 7, and stated that it was an example of a customized program brochure that outlined the production incentive and the advantages of filming in Alaska.

Co-Chair Stedman asked about Alaska Hire provision, and how it was implemented. Ms. Ayers replied that there was an additional 10 percent credit for the wages that were expended in Alaska for Alaska residents.

[10:11:21 AM](#)

Ms. Ayers discussed slide 8, and stated that the Alaska Film Office provided assistance by responding to daily inquiries about filming in Alaska; conducting follow-up and outreach with contacts developed through advertising, trade show and other promotional activities; meeting with producers and providing introductions to states and local contacts; explaining the Incentive Program and assisting producers with the application process; providing alternatives and creative solutions to production challenges; and working with Alaskan businesses, community

representative and other stakeholders regarding prospective projects.

10:12:08 AM

Ms. Ayers looked at slide 9, and stated that the Alaska Film Office wanted to increase hiring of Alaskans. She stated that hundreds of Alaskans had been employed in Alaska. She stated that they were working with the Department of Labor with regard to some apprenticeship programs that could lead to technical careers in the film industry. She furthered that the University of Alaska would provide the academic programs that lead to certificates and degrees recognized by the film industry. She stated that private sector efforts would provide on-the-job training.

10:14:02 AM

Ms. Ayers detailed Slide 10 and explained the process for the review of the final applications. She stated that there was a pre-qualification process, which required the Alaska Film Office to work with producers. She stated that once the pre-qualification was approved, the production process ensued. Once the production expenses were incurred in Alaska, there was an audit, and final application and approval of the process. A review committee that looked at the final application and advances a notification to the Department of Revenue that the final application was approved, and the Department of Revenue would take over for issuing a tax credit certificate.

Co-Chair Stedman surmised that there was an audit before approval. Ms. Ayers responded that there was a requirement for the production company to hire and Alaskan Certified Public Accountant to audit the Alaska production costs.

Co-Chair Stedman asked if the audits were current. Ms. Ayers answered yes.

10:15:27 AM

Ms. Ayers discussed slide 11, and stated that the displayed chart summarized experience-to-date with regard to pre-qualifications that were approved by fiscal year since the implementation of the film production incentive program. She furthered that slide 12 displayed a summary based on pre-qualification.

[10:16:05 AM](#)

Ms. Ayers looked at slide 13, and stated that there were two staff positions in the Alaska Film Office with additional support provided by the state.

Ms. Ayers displayed slide 14, and explained that at the implementation of the program conceived \$275,000 per fiscal year. She stated that in the current year, there was \$283,000 added, but it did not include estimation of additional support costs. She stated that there was an unallocated overhead cost of \$27,800 for a total of \$310,800.

[10:16:49 AM](#)

Ms. Ayers showed slide 15, and stated that the film industry was rapidly evolving. She explained that there were a number of productions that were ready to produce in Alaska.

Co-Chair Stedman wondered if the Department of Commerce, Community, and Economic Development supported SB 23. Ms. Ayers replied yes.

[10:18:54 AM](#)

JOHN RENSE, SENIOR OPERATIONS MANAGER, NANA DEVELOPMENT CORPORATION, spoke in support of SB 23. He stated that the bill would encourage economic diversity.

[10:23:23 AM](#)

BRICE HABERGER, TRADESMAN, JUNEAU, spoke in favor in SB 23. He stated that he provided scouting services for the film industry.

[10:25:31 AM](#)

DAVID GREATHOUSE, PRODUCER, WARP FILMS (via teleconference), spoke in favor of SB 23.

[10:29:55 AM](#)

CINDY DRAPER, ABC MOTORHOMES (via teleconference), spoke in favor of SB 23. She stated that they provided business for the film, "Everybody Loves Whales."

[10:31:00 AM](#)

Senator Ellis expressed excitement for the discussion regarding SB 23. He looked forward to working towards a committee substitute

[10:31:19 AM](#)

Senator Olson wondered if it was a surprise how successful the original legislation had become. Senator Ellis remarked that it was surprising. He pointed out that there were some skeptics, but the legislation had been successful.

Co-Chair Stedman remarked that Alaska was in an economic upturn, while other states were experiencing economic trials.

SB 23 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:32:33 AM](#)

The meeting was adjourned at 10:32 AM.