

HOUSE FINANCE COMMITTEE
March 6, 2014
1:35 p.m.

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CALL TO ORDER

Co-Chair Stoltze called the House Finance Committee meeting to order at 1:35 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Les Gara
Representative David Guttenberg
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Tammie Wilson

MEMBERS ABSENT

Representative Alan Austerman, Co-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Steve Thompson

ALSO PRESENT

Daniel George, Staff, Representative Bill Stoltze;
Representative Lance Pruitt, Sponsor; Brodie Anderson,
Staff, Representative Steve Thompson; Mike Satre, Hecla
Greens Creek Mine, Juneau; Deantha Crockett, Executive
Director, Alaska Miners Association.

PRESENT VIA TELECONFERENCE

Stacy Schubert, Alaska Housing Finance Corporation,
Anchorage; Nannette Pierson, Self, Fairbanks.

SUMMARY

HB 297 HOME ENERGY RATING SYSTEM

CSHB 297(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the Department of Revenue.

HB 306 EVAL. INDIRECT EXPENDITURES; TAX CREDITS

HB 306 was HEARD and HELD in committee for further consideration.

#hb297

HOUSE BILL NO. 297

"An Act recognizing the Alaska Housing Finance Corporation as the authorizing agency to approve home energy rating systems for the state; and providing for an effective date."

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Vice-Chair Neuman MOVED to ADOPT the proposed committee substitute for HB 297, Work Draft 28-LS1307\N (Nauman, 3/5/14).

Co-Chair Stoltze OBJECTED for discussion.

DANIEL GEORGE, STAFF, REPRESENTATIVE BILL STOLTZE, explained the changes in the CS. The CS removed the findings section in the original bill. He read the findings that had appeared in the original bill:

"The legislature finds that recognizing the corporation as the state's home energy rating system authorizing energy services, a public purpose in benefitting the people of the state. The corporations shall act as the authorizing agency for purposes of approving home energy rating systems used in the state."

Mr. George shared that the second sentence was the only one that carried over into the latest version of the bill; additionally the CS placed the sentence under a new section, Article 6 of AS 18.56, entitled Home Energy Rating Systems.

REPRESENTATIVE LANCE PRUITT, SPONSOR, understood that Alaska Housing Finance Corporation (AHFC) was agreeable to the changes in the CS.

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

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Representative Pruitt explained that the bill would make AHFC the authorizing agency for approving home energy rating systems. He addressed a prior question related to authorizing raters. He said that the system that the state had invested in would be available for individuals to use.

STACY SCHUBERT, ALASKA HOUSING FINANCE CORPORATION, ANCHORAGE (via teleconference), thought that the changes brought greater clarity to the bill.

Co-Chair Stoltze pointed to the new zero fiscal note from the Department of Revenue (DOR).

Representative Gara MOVED to REPORT CSHB 297(FIN) out of committee with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, CSHB 297(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new zero fiscal note from the Department of Revenue.

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AT EASE

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RECONVENED

#hb306

HOUSE BILL NO. 306

"An Act relating to tax credits and administration of tax credit programs; requiring the Department of Revenue to report indirect expenditures; relating to the duties of state agencies; requiring the legislative finance division to analyze certain indirect expenditures; relating to lapse dates for appropriations for capital projects; repealing certain statutes authorizing indirect expenditures; and providing for an effective date."

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Co-Chair Stoltze relayed his decision to close public testimony with the intention of reopening it at a later date.

BRODIE ANDERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, introduced the bill.

Co-Chair Stoltze commented that tax credits were really general fund expenditures. He believed that they were a large part of the annual budget and that any amount was relevant to committee discussion.

Mr. Anderson addressed the definition of an indirect expenditure. He shared that the expenditures had no review after being created; the credit could run in perpetuity without requiring future legislative review. He relayed that the Indirect Expenditures Report (copy on file) had discovered over \$400 million in indirect expenditures. The bill addressed how to set up a mechanism to require that indirect expenditures come back before the legislature for review. The bill would implement sunset dates for the majority of tax credits found in Title 43.

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Mr. Anderson continued to discuss indirect expenditures in various departments. He relayed that the bill set up a definition for the term "indirect expenditure". He presented the sectional analysis:

Section 1 makes an amendment conforming to the repeal of AS 21.96.075 (insurance tax credit for gifts to the Alaska Fire Standards Council).

Section 2 requires the Legislative Finance Division to prepare and deliver to the legislature an indirect expenditure report.

Section 3 sets out a schedule of the departments to be reviewed and the contents of the indirect expenditure report prepared by the Legislative Finance Division.

Section 4 lapses an appropriation or allocation to a named recipient for a project it five years after appropriation or allocation, the project has not begun.

Section 5 lapses an appropriation or allocation to an unincorporated community for a project if five years after appropriation or allocation, the project has not begun.

Section 6 amends AS 37.25.020 to state that an appropriation made for a capital project is valid for the life of the project unless work on the project has not begun within five years after the effective date of the appropriation.

Section 7 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 8 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 9 requires the Department of Revenue to prepare and deliver to the legislature a report of indirect expenditures. The section sets out the contents of the report and directs all departments, agencies, and public corporations to provide the commissioner of the Department of Revenue with any information necessary to complete the indirect expenditures report. The section also defines "indirect expenditures."

Section 10 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 11 makes an amendment conforming to the repeal of AS 43.77.040 (credit for the fishery resource harvested under the community development quota).

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Mr. Anderson spoke to Section 9, which required the Department of Revenue (DOR) to prepare and deliver a report that would:

- Name the indirect expenditure,
- Give a brief description
- Provide statutory authority
- Provide a sunset date

- Have the legislative intent
- Have the public purpose stated
- List the estimate annual effect for the past 5 years
- List the cost to administer the indirect expenditure
- List the number of beneficiaries
- Be prepared by November 1st before the 1st regular session of each new legislature

Mr. Anderson said that there was also enabling language for DOR to be able to work with agencies, departments, and public corporations in an effort to prepare the report. He related that the section officially gave the department the power to create the report. He explained that under Sections 2 and 3 the Legislative Finance Division (LFD) would use the report to estimate the loss of revenue from the indirect expenditure, estimate the monetary benefit of the indirect expenditure to the recipients, make a determination as to whether the legislative intent was met, offer a recommendation whether the expenditure should continue, and give an explanation of the methodology and assumptions used in creating the report. He relayed that a schedule cycle had been created for LFD to follow; in 2015 LFD would evaluate the indirect expenditures for the Departments of Fish and Game (DF&G), Health and Social Services (DHSS), Labor (DOL), and Revenue (DOR). In 2017 LFD would evaluate the Court System, Department of Administration (DOA), Department of Education and Early Childhood Development (DEED), Department of Environmental Conservation (DEC), Department of Natural Resources (DNR), Department of Transportation and Public Works (DOT&PW); in 2019 all other remaining agencies would be reviewed. He explained that after the initial evaluation the cycle would occur every 6 years. He stated that the report would be due on the first day of the first regular session because if it took the legislature up to 2 years to pass a bill, and extension bills were being considered, it would be helpful to provide the legislature with the materials that they would need before the first day of session.

Mr. Anderson spoke to Sections 4, 5 and 6, which pertained to unspent capital appropriations and lapsing grants. He said that currently in statue the only entity required to "use or lose" in 5 years a capital appropriation before it was taken back were municipalities and boroughs. He furthered that unincorporated communities, named recipients, and departments did not have statutory use or

lose requirements. The sections created the same language for municipalities and boroughs as for the unincorporated communities, named recipients and departments.

Mr. Anderson spoke to Section 7, which was conforming language for removing the Mineral Exploration Tax Credit from the coal section of the Alaska Land Act. Section 8 was conforming language for the Mineral Exploration Tax Credit from the production royalty section.

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Mr. Anderson noted that the definition of "indirect expenditure" could be found in Section 9; an indirect expenditure is a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowances designed to encourage an activity or a benefit to the public or at tax payer. He revealed that the definition was developed after reviewing the brief and finding out what was offered by the state in indirect expenditures, as well as looking at other states that were attempting to rein in similar types of lost revenues.

Co-Chair Stoltze hoped that the repealers in Section 12 could be enumerated to enhance public awareness and understanding. He felt that repealers were often the most important part of a bill and requested that they be posted to BASIS as soon as possible. Mr. Anderson agreed to provide the information.

Co-Chair Stoltze handed the gavel to Vice-Chair Neuman.

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AT EASE

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RECONVENED

Mr. Anderson continued with the sectional analysis. He stated that Sections 10 and 11 were conforming languages; one applied to the Mineral Exploration Tax Credit, the other for the CDQ Credit in the Fisheries Resource Landing Tax. He continued to Section 12:

Section 12 repeals, on the day after the last day of the second regular session of the twenty-ninth

legislature, the following credits and statutes related to the administration of credits:

- AS 21.66.110(b) (related to the administration of the insurance tax education credit;
- AS 21.96.070 (insurance tax education credit);
- AS 21.96.075(c)(2) (administration of the education tax credits and the cap on the insurance tax credit for gifts to the Alaska Fire Standards Council);
- AS 24.20.271(12) (administration of the film production tax credit);
- AS 27.30.0 10 - 27.30.099 (administration of the exploration incentive credit);
- AS 43.20.0 14 (income tax education credit);
- AS 43.20.044 (exploration incentive credit);
- AS 43.20.048 (veteran employment tax credit);
- AS 43.55.0 19 (oil or gas producer education credit);
- AS 43.56.018 (property tax education credit);
- AS 43.65.018 (mining business education credit);
- AS 43.75.0 18 (fisheries business education credit);
- AS 43.75.032 (fisheries business tax credit for scholarship contributions);
- AS 43.75.03 5 (fisheries business salmon product development tax credit);
- AS 43.75.036 (fisheries business salmon utilization tax credit);
- AS 43.75.130(b) (administration of the fisheries business tax credit for scholarship contributions);
- AS 43.75.130(t) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit);
- AS 43.75.130(g) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit);
- AS 43.77.035 (fisheries resource landing tax credit for scholarship contributions);
- AS 43.77.040 (fisheries resource landing tax credit for the fishery resource harvested under the community development quota);
- AS 43.77.045 (fisheries resource landing tax education credit);

- AS 43.77.060(e) (administration of the fisheries resource landing tax credit for scholarship contributions, fisheries resource landing tax education credit, and the film production tax credit)
- AS 43.98.030 (film production tax credit);
- AS 44.25.100 - 44.25.190 (administration of the film production tax credit).

Mr. Anderson stated that Section 13 stated that if credits had already been issued and for some reason the sunsets came and there was no extension, the credits that had been issued to that point would still be viable. Finally, Section 14 was the actual date of when the repealer went into effect; the day after the last day of the regular session of the 29th Legislature 2016.

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Representative Wilson asked for verification that all tax credits on the books were listed in the bill. Mr. Anderson replied that the credits included everything listed in DOR, non-oil and gas.

Representative Wilson wondered why oil and gas credits were not included. Mr. Anderson replied that many of the oil and gas credits had sunset dates. He elaborated that over the past few years there had been extensive debate on the subject of oil and gas credits; the credits in the bill were credits that had not garnered much debate but could run into perpetuity.

Representative Wilson requested a list of oil and gas credits without a sunset date. Mr. Anderson agreed to follow up with the list. He noted that the credits without sunset dates were exploration credits. Sunsets were not put on exploration credits because decisions to invest were made years in advance and the long-term impact of a sunseting exploration credit could have an impact on investments made far into the future.

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Representative Holmes asked about the interplay between Sections 3, 12, and 14. She asked whether all of the credits listed in Section 12 were under the departments that would be in the first 2015 round of analysis. She wondered whether a repealer would need to be added to the

bill for the credits that would be reviewed in 2017 and 2019.

Mr. Anderson responded that all of the sunseting tax credits were a part of the FY 15 review under DOR. He said that the crafters of the bill had attempted to set the mechanism in place without binding the hands of future legislatures. He explained that by setting up the review cycle, in 2015 legislators would need to come forth to offer an extension bill for the sunseting credits, future legislators could also look through the report for things they may want to repeal.

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Representative Holmes asserted that the cycle created confusion by setting up a three-step review process with the people in the first batch having a repealer.

Mr. Anderson shared that the credits in DOR had been chosen specifically because of the exhaustive amount of information that was there currently without a report. He felt it was premature to identify and sunset credits without all of the available information; the idea was to set up the mechanism first and then let the next set of bills reflect the repealers, extensions, and sunsets.

Representative Holmes surmised that the repealers in Section 12 were a subset of other items. She believed there would be further discussion later.

Representative Munoz asked whether the bill included any credits that had statutory sunset dates. Mr. Anderson replied that he would get a list. He offered that the Salmon Production Credit had a sunset in 2015, and the Film Production Credit would sunset in 2023.

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NANNETTE PIERSON, SELF, FAIRBANKS (via teleconference), spoke in support of the Film Tax Incentive Credit. She did not believe people would come to Alaska to make movies without the incentive. She asserted that without the incentive the same movies could be made in Canada for half the cost. She did not believe her family would remain in Alaska if the credits were repealed. She stated that the credits produced a substantial amount of money. She

discussed that it was difficult to keep hotel rooms and restaurants full in the winter in Fairbanks. She said that there had been a film made in Fairbanks that had generated a half million dollars, in January.

Representative Wilson clarified that there were two bills on the issue. Ms. Pierson understood.

Representative Gara revealed that when he initially read the bill he understood that it was a mechanism for reviewing many tax credits; however, he now understood that the bill could remove many credits.

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MIKE SATRE, HECLA GREENS CREEK MINE, JUNEAU, agreed with the intent of the bill; however, he expressed concern related to Section 12. He shared that the mine had used the Education Tax Credit to establish the Pathway to Mining Careers Program at the University of Alaska Southeast. He shared that the program had been extremely successful in taking high school students and teaching them about mining opportunities. He recommended that the repealer section be removed and that the report be utilized to examine indirect expenditures in the future. He believed many of the tax credits were very useful to many industries.

Representative Guttenberg spoke to one of the mineral exploration repealers. He felt that the credit was doing what it had been intended to do.

Mr. Satre replied that this was a classic example of a credit that was working. He provided some background on the credit.

Representative Gara directed the committee's attention to Page 5, section 10, which he interpreted would do away with AS 27.30 Exploration Incentive Credits. He wondered what effect ending that credit would have on the mining industry.

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Mr. Satre replied that the industry took into account whether it would be able to take advantage of credits. He believed that removal of the credit would be damaging to investment in the state.

Representative Gara believed it was important to look closely at all of the credits prior to making a decision.

Representative Munoz appreciated the discussion on the education credit.

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DEANTHA CROCKETT, EXECUTIVE DIRECTOR, ALASKA MINERS ASSOCIATION, spoke in opposition to Section 12 of the bill. She testified that the association used the minerals and mining credits. She relayed that the association hoped the credits would remain untouched.

Vice-Chair Neuman CLOSED public testimony with the intent to reopen it at a later time.

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Representative Gara revealed his expanding understanding of the legislation. He expressed concern with the number of tax credits that could be repealed under the bill. He thought that further review and analysis should be done before any of the credits were repealed.

Mr. Anderson replied that he would discuss the recommendation with the bill sponsor. He acknowledged that the state was experiencing difficult financial times. He thought that sunseting could be an option for cutting expenses.

Representative Wilson wondered about sunseting all the credits at once rather than staggering the repeals over the years.

Mr. Anderson replied that a considerable amount of research had gone into crafting the bill. He said the question as to what specific legislatures could demand of future legislatures had been considered while drafting the legislation. He explained that the credits in the bill had been chosen because of the sponsor's familiarity with them and the research available.

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Representative Wilson restated her question. She stated that she was trying to understand the difference between repealing and sunseting the credits.

Mr. Anderson responded that the bill would sunset credits with the expectation that sunset dates could be extended into the future. He relayed that as long as future legislators took action to extend the sunset dates for credits they would not be repealed. He likened the process to boards and commissions sunset bills. He stated that the expectation was that the credits that legislators wanted to extend sunset dated for would do so in the future

Representative Wilson discussed the scenario hypothetically. She asked what happened when a credit made it through the first round.

Mr. Anderson answered that the future legislation that would reflect the extension date would have a date written into it and it would be up to the purview of the legislator that introduces the legislation. He noted that the 6 year rotation was only for the review cycle.

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Vice-Chair Neuman looked at page 2, line 9 related to LFD duties under the bill. He asked what would happen if the governor did not give permission to LFD to serve ex officio on the governor's budget review committee.

Mr. Anderson replied that the provision was currently in statute. He detailed that the only changes Page 2 were the deletion of word "and" on Line 10, the addition of the word "and" on Line 13, and the addition of Subsection 8.

Vice-Chair Neuman looked at the new subsection. He noted that LFD made many determinations and recommendations. He spoke to Line 17, section 5 and inquired whether the sponsor had contemplated the methodologies that would be used and the assumptions that would be made to give direction to LFD when they examined the credits.

Mr. Anderson responded that that the language and been added because when reviewing the reports created by LFD most of the reports included and explanation of how the recommendations were determined.

Vice-Chair Neuman surmised that a new methodology had not been created. Mr. Anderson replied no.

Vice-Chair Neuman turned to Sections 4 and 5. He asked if funds were granted toward a capital project and the project had fund sequestered for design and engineering would that qualify as money being encumbered for the project.

Mr. Anderson replied that the Department of Commerce, Community and Economic Development had a system set up to review lapsing grants. He deferred the question to the department. He said he would follow up on the question with the department.

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Representative Gara stated that the tax credits included in the bill had been subject to extensive debate in the past. He hypothesized if a legislator wanted to reintroduce a sunsetted Mineral Exploration Credit they would need to go before 2 or 3 committees on each side, hire experts and bring in testifiers. He asserted that the credits in the bill would be substantially more difficult to reauthorize than a board or a commission.

Mr. Anderson replied in the affirmative. He agreed that the boards and commissions sunset analogy may have been an inadequate example.

Representative Guttenberg discussed some of the credits that had been left out of the bill. He requested further discussion on how the credits in the bill were selected.

Mr. Anderson replied that the brief provided contained all of the oil and gas, and marine highway credits, the only department that was not listed was the University of Alaska. He said that the sponsor had requested all departments and agencies under DOR, but had difficulty receiving information from the University. He stated that the expenditure report contained all of the credits identified by the Division of Legislative Research; the bill excluded oil and gas. He stressed that the credits in the bill were the majorly, statutorily assigned tax credits found in Title 43.

Representative Guttenberg he clarified that he was speaking to whatever it took for industry to plan ahead in respect

to future spending; all of those things were in the DOR report except for oil and gas. Mr. Anderson specified for DOR only.

Representative Guttenberg asked whether there had been discussion about leaving the Mineral Tax Credit out of the bill.

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Mr. Anderson replied that there had been significant discussion on how to set up the mechanism for the sunset date in Section 12. He there had been discussion about assigning it to title 38, which was Alaska Public Lands, and excluding credits that could impact that. He believed that the sponsor would be willing to further discuss how a mechanism could be set up.

Representative Guttenberg expressed concern that credits would sunset before the legislature had a chance to examine them. He thought that companies would stop relying on a mineral exploration tax credit because at a certain point it would not be available.

HB 306 was HEARD and HELD in committee for further consideration.

Vice-Chair Neuman discussed housekeeping.

ADJOURNMENT

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The meeting was adjourned at 2:38 p.m.