

SENATE FINANCE COMMITTEE

April 26, 2018

9:11 a.m.

[9:11:32 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:11 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Peter Micciche
Senator Donny Olson
Senator Gary Stevens
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Juli Lucky, Staff, Senator Anna MacKinnon; Representative John Lincoln, Sponsor; Tim Mearig, Facilities Manager, Department of Education and Early Development; Dr. Annmarie O'Brien, Superintendent, Northwest Arctic Borough School District; Representative Chris Tuck, Sponsor; Kendra Kloster, Staff, Representative Chris Tuck; Ken Alper, Director, Tax Division, Department of Revenue; Mike Satre, Manager, Government Relations and Community Affairs, Hecla Greens Creek Mine.

PRESENT VIA TELECONFERENCE

Brian Duffy, Director, Administrative Services, Department of Military and Veterans Affairs, JBER; Bob Doehl, Deputy Commissioner, Department of Military and Veterans Affairs, JBER; Col. John James, Department of Military and Veterans Affairs, JBER; Susan Foley, President, University of Alaska Foundation, Anchorage; Doug Walrath, Director, Northwest

Career and Technical Center, Nome; Dr. Brad Harris, Self, Anchorage; Tommy Sheridan, Silver Bay Seafoods, Cordova.

SUMMARY

CSHB 135(EDC) am
SCHOOL CONSTRUCTION GRANT PROGRAM

CSHB 135(EDC) am was HEARD and HELD in committee for further consideration.

HB 150-PAY, ALLOWANCES, BENEFITS FOR MILITIA MEM

HB 150 was HEARD and HELD in committee for further consideration.

CSHB 233(FIN) am
EXTEND EDUCATION TAX CREDITS

CSHB 233(FIN) am was HEARD and HELD in committee for further consideration.

#hb135

CS FOR HOUSE BILL NO. 135(EDC) am

"An Act relating to school district participation in the school construction grant program."

[9:12:28 AM](#)

[9:12:44 AM](#)

AT EASE

[9:13:03 AM](#)

RECONVENED

Co-Chair MacKinnon informed that public testimony on the capital budget would be at 1:30pm.

[Vice-Chair Bishop made a motion to adopt a CS, but incorrectly listed the bill draft number. It was later corrected.]

JULI LUCKY, STAFF, SENATOR ANNA MACKINNON, informed that the draft number the Vice-Chair Bishop had dictated was incorrect due to a typographical error.

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for CSHB 135(FIN), Work Draft 30-LS0549\J (Laffen, 4/19/18).

Co-Chair MacKinnon OBJECTED for discussion.

Ms. Lucky spoke to the bill. She related that the bill version before the committee included changes to Sections 2 and 3 that applied a different approach but honored the initial concept of the bill. She said that the three-year timeframe had been kept in place and an extension had been added for good cause. She noted a technical change had been made to the applicability language, a citation that would span statute AS 14.11.008 through AS 14.11.020.

[9:16:27 AM](#)

Senator Olson spoke to Section 2. He asked whether there was a specific time applied to the extension period.

Ms. Lucky answered in the affirmative. She reported that there had been a concern conveyed that putting a limit on the extension could result in the need to change statute. She said that allowing the department the authority to determine the appropriate course of action had been deemed the appropriate approach to the issue.

Senator Olson asked what the sponsor thought of the changes.

Ms. Lucky believed that the sponsor was supportive of the changes. She reiterated that the 3-year timeframe had been in the original bill.

Senator Stevens thought the CS made sense. He questioned the definition of 'good cause' and wondered if there were parameters from the department.

Ms. Lucky stated that the issue would be discussed further.

[9:18:04 AM](#)

REPRESENTATIVE JOHN LINCOLN, SPONSOR, stated that he was in support of the CS.

[9:18:50 AM](#)

Senator Stevens restated his question about the definition of 'good cause' and parameters as developed by the department.

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, shared that the need for the funds would be matched up with the project's timeline. He said that the timeline may need to be adjusted to match the environment; the definition of 'good cause' would reflect when the money was needed to accomplish the project.

[9:20:05 AM](#)

Senator Stevens voiced concern that an expression of 'good cause' could lead to an indefinite extension.

Mr. Mearig informed that participatory share amounts that were required to accomplish the work on a project, as a project moved forward, and contract agreements were entered into, obligations were made that those funds would be available for the payment of contracts. He said that there had never been an instance where the participating share had not been provided.

[9:21:02 AM](#)

Senator Olson understood that "good cause" would be at the subjective discretion of the commissioner.

Mr. Mearig thought there would need to be an evaluation of the project, and whether it satisfied the participating share. He admitted that it would be at the commissioner's discretion whether and extension was needed to properly support a project.

Senator Olson asked whether there had been a time where the issue of 'good cause' had not allowed an extension within the department.

Mr. Mearig explained that under current statute the department had been unable to offer any extensions.

Senator Olson queried how disagreements would be resolved between school districts and the department about the definition of 'good cause.'

Mr. Mearig did not anticipate a lot of disagreement on the matter. He said that if a determination were made that limited the funding due to a district there were appeal processes under regulation for the district to pursue.

[9:23:33 AM](#)

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, it was so ordered.

[9:23:59 AM](#)

Representative Lincoln stated that the bill would amend AS 14.11.008 to provide the Department of Education the discretion to extend the deadline for school districts to secure the match requirement for school construction projects, only if the district could show good cause for the extension. He said that the Northwest Arctic Borough School District was close to meeting, but would not meet, a June 29, 2018 deadline to secure the local share for a replacement of the K-12 school in Kivalina. He stated that state funds for the school were appropriated in 2015, and the statute currently required the school district to come up with the local match within 3 years. He relayed that the Northwest Arctic Borough had shown great leadership in recent years as they worked through negotiations with the borough's primary funding source, the Red Dog Mine. He stated that the new funding agreement had been signed in May 2017, the borough would use revenue from that agreement to secure and re-pay bonding to provide the local match for Kivalina School. He shared that in March of 2018 the Alaska Municipal Bond Bank Authority approved the issuance of \$12.7 million in bonds on behalf of the borough to fully cover the local match for the school, but the bonds were contingent of funding being secured for the road to the school. He said that the construction site was 8 miles from Kivalina, on solid ground that was safe from the erosion that threatened the town; the road was essential to bring in construction materials and labor to the site, as well as to provide an emergency evacuation route for the residents. He related that the Department of Transportation and Public Facilities had issued a final environmental impact statement on the road in January 2018, which found that the road posed no significant environmental impacts. He added that officials from the United States Military Innovation Readiness Training Program had expressed interest in the bridge portion of the project. He lamented that sometimes

the calendar could work against projects, particularly ones that were complicated by logistical and environmental circumstance.

[9:27:03 AM](#)

Senator Stevens wondered whether the sponsor had any concerns that the definition of 'good cause' was not defined in the bill.

Representative Lincoln replied that he had a slight concern but believed that the overall intent of the legislation outweighed any concern. He believed that the projects encompassed by the bill were good projects.

Senator Micciche supported the legislation as written.

Vice-Chair Bishop understood that the Environmental Impact Statement (EIS) for the Kivalina school build had been completed by DOT&PF.

Representative Lincoln informed the committee that the EIS for the road was issued in January 2018.

Vice-Chair Bishop supported the CS. He offered comments on the road. He noted that to build a road in the state meant working with numerous regulatory entities. He said that permitting could take up to 6 years. He believed that common sense would prevail in extension decisions for 'good cause' projects.

[9:30:59 AM](#)

Co-Chair MacKinnon offered a financial concern about how many times money would be held, not turning over, on projects that could be putting people to work in the state. She spoke to the issue of Kivalina. She worried about the timely deployment of assets. She wondered how many years was long enough for \$70 million to be sitting in an account and not benefitting students.

[9:34:00 AM](#)

Mr. Mearig thought Co-Chair MacKinnon raised a great point about executing school projects in a timely manner. He noted that delays resulted in project cost increases. He thought the issues needed to be examined by those in charge

of the projects. He asserted that districts were keen to have projects put in place. He thought the ability to work with districts to keep projects in motion was important. He did not have an answer as to how many extensions would be undertaken for an individual project. He thought that the description of need, set forth by the district for consideration of a project by the commissioner, would set the parameters.

[9:35:46 AM](#)

Co-Chair MacKinnon asked Mr. Mearig to provide in writing a definition of 'good cause.' She said that the legislature needed to have some knowledge of how much money would be sitting in wait for stalled projects that could be used elsewhere in education.

[9:36:43 AM](#)

Co-Chair MacKinnon spoke to the possible delay in construction due to the need for a road to the building site. She stressed that the legislature had made it clear that the state was not going to pay for the road to be built.

Representative Lincoln understood that the road would be primarily funded by the federal government. He cited a specific reason for the delay as the establishment of a funding agreement between Red Dog Mine and the borough; a village infrastructure program that would fund construction projects and bring additional funds to the state.

[9:37:56 AM](#)

Co-Chair MacKinnon asked whether there was a timeline for the building of the road. She expressed concern for the students in Kivalina who had been waiting for their school to be built. She asserted that her primary focus in trying to help the project along was the students.

Representative Lincoln shared Co-Chair MacKinnon's feelings for the people and students of Kivalina. He stated the changing climate and increasing severity of storms made investing in the current location would not be a wise decision. He said that the students were excited for the prospect of a new school, rather than renovating the old school at the current site. He felt that the delay would

result in a better outcome for the community. He offered to provide a timeline at a later date.

[9:40:26 AM](#)

Co-Chair MacKinnon asked for a total cost of construction and design of the road.

Co-Chair MacKinnon commented that the committee was looking at the Regional Educational Attendance Area (REAA) school list. She asked about a study regarding standardized school construction. She emphasized that it was her intent to require standardization of building design. She wondered what the department was going to do to reduce the costs of building schools in the state.

Mr. Mearig responded that the department had supported standardized school design for instances where multiple schools of the same size and type were being build. He pointed out to the committee that the first three schools currently on the priority construction list were of varying size and construction needs. He said that the department supported standardized components and was working with districts to actively pursue criteria for school design and cost affective school construction.

[9:43:45 AM](#)

Co-Chair Hoffman knew that the Northwest Arctic had led the way in trying to compress the construction timeline, which ultimately reduced construction costs. He thought the concept of 'design-build' had been proved to the shorten construction timeline and save money. He thought that if the concept was working in one region it should be used in other regions.

Mr. Mearig stated that the department supported alternative project delivery methods. He relayed that there were guidelines for helping districts to determine when those guidelines should be used. He said that on other occasions, the timeline would allow for a design to be fully developed and then competitively bid in the traditional sense. He stated that the department did not mandate design build or other alternative project delivery methods but supported those methods and worked with each district to examine a project environment that would result in the best and most cost-effective project outcome.

Co-Chair Hoffman thought that the department should encourage the design-build concept. He believed that this would save the state money.

[9:46:38 AM](#)

Co-Chair MacKinnon lamented that there was \$100 million dollars in one district. She praised the work of Mr. Mearig. She stated that the legislature had encouraged the department to start taking a proactive role in leading, rather than following, the districts in construction alternatives.

[9:48:13 AM](#)

Representative Lincoln appreciated the conversation about standardization and project cost control and stated that it had been a prominent part of the Kivalina project.

Co-Chair MacKinnon asked about a Sectional Analysis.

[9:49:11 AM](#)

AT EASE

[9:50:06 AM](#)

RECONVENED

Co-Chair MacKinnon OPENED public testimony.

DR. ANNMARIE O'BRIEN, SUPERINTENDENT, NORTHWEST ARCTIC BOROUGH SCHOOL DISTRICT, spoke in support of the bill. She discussed her work history. She discussed current statute, and the lack of a provision for the consideration of exceptional circumstances that might warrant additional time to secure a financial match. She thought that without the legislation, it was possible that critically needed school projects would be forced to forfeit state appropriations. She said that the Kivalina project was a perfect example of why the provision was needed.

[9:53:29 AM](#)

Vice-Chair Bishop discussed a new zero fiscal note from Department of Commerce, Community and Economic Development, OMB component 2737.

Co-Chair MacKinnon discussed housekeeping.

CSHB 135(EDC) am was HEARD and HELD in committee for further consideration.

[9:55:07 AM](#)

#hb150

HOUSE BILL NO. 150

"An Act relating to pay, allowances, and benefits for members of the organized militia."

[9:55:33 AM](#)

REPRESENTATIVE CHRIS TUCK, SPONSOR, offered a Sponsor Statement:

House Bill 150 is part of the ongoing efforts by the Alaska State Legislature and the Department of Military and Veterans' Affairs to modernize the 1955 Alaska Military Code by providing statutory changes that will better serve our Alaska organized militia.

House Bill 150 would authorize the same pay, allowance and benefits for the organized militia whether they are called into state active duty by the Governor or Adjutant General or called to service under federal active duty by the President.

The current pay system for the organized militia is based on compensation for the specific duty when called into active state service. Under the federal active duty, service members are paid based on their grade and rank, not by the specific duty they are assigned to.

The current pay system is not stable or reliable for our organized militia and creates a difficult accounting system that requires many hours to determine each member's pay. House Bill 150 will create a streamlined approach to the accounting system by aligning the pay, allowances and benefits for the Alaska organized militia whether if called to state or federal active duty.

Our service members deserve a reliable pay structure, regardless of where they are called to duty.

[9:57:44 AM](#)

KENDRA KLOSTER, STAFF, REPRESENTATIVE CHRIS TUCK, reviewed the sections of the bill. She said that Section 1 would clarify when members of the organized militia were in active state duty their wages would mirror the wages of the federal active service. Section 2 would treat all the organized militia as one entity for a compensation system and would retain eligibility for travel allowances under the state system. Section 3 was the base rate for worker's compensation calculations. Section 4 specified members of the Alaska Naval Militia, Air Guard, and Army Guard would continue to accrue benefits, paid into the Alaska National Guard and Naval Militia retirement system. Section 5 would repeal the definition of member because the language was redundant.

[9:58:57 AM](#)

Co-Chair MacKinnon OPENED public testimony.

BRIAN DUFFY, DIRECTOR, ADMINISTRATIVE SERVICES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, JBER (via teleconference), announced that he was available to provide additional comments.

Senator von Imhof looked at an example of a pay grid for the 2015 Sockeye fire that was prepared by the Department of Military and Veterans Affairs (copy on file). She wondered whether the biggest savings, as a result of the legislation, would be the administrative expense because the new system would be more streamlined. She understood that the pay would vary on whether the federal alignment pay was more or less than the state hazard pay, depending on the position.

Mr. Duffy agreed.

Co-Chair MacKinnon asked whether the change would affect state or federal pensions.

Mr. Duffy answered in the negative.

[10:02:05 AM](#)

Senator Stevens asked for an explanation of pay by specific duty; specific duty as compare to rank and grade.

Mr. Duffy used the example of an active duty member performing administrative duties in the morning and manning a traffic control point in the evening. He said that the variety of duties that could be performed from day to day, even hour to hour, had its own pay scale. He said that the equation would include the time, multiplied by the amount of pay for that specific job on that specific day. The new method would pay a daily rate, by rank, and based on current pay scales.

Senator Stevens thought that the old system sounded difficult.

[10:03:45 AM](#)

BOB DOEHL, DEPUTY COMMISSIONER, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, JBER (via teleconference), testified in support of the bill. He offered several examples of ways that the bill would benefit the department and military personnel.

Senator Olson asked what the bill would do for recruitment.

Mr. Doehl believed that the bill would increase recruitment.

[10:05:44 AM](#)

COL. JOHN JAMES, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS, JBER (via teleconference), testified in support of the bill. He believed that the proposal would provide equal pay for equal services.

[10:06:57 AM](#)

Co-Chair MacKinnon CLOSED public testimony.

Vice-Chair Bishop discussed FN 2 from the Department of Military and Veterans Affairs. The fiscal impact was indeterminate. He read from the analysis:

The fiscal impact of this legislation cannot be accurately determined at this time. The nature, severity, and duration of any state disaster will determine the number of members called to active duty and the extent of their service. Due to multiple

unknown factors, such as when disasters will happen, the number of militia members called into active status, their ranks, and other factors, the Department is unable to calculate the estimated fiscal impact to the state and therefore submits an indeterminate fiscal note.

While the Department cannot predict future calls to active duty, it can look back to recent examples to provide real-life perspectives on the potential financial impact of HB 150 on future events.

Co-Chair MacKinnon asked for a cost example that could provide further detail.

Representative Tuck referenced the Sockeye Fire as a look back that would be studied to find ways to save the state money.

[10:09:00 AM](#)

Senator von Imhof looked at the Sockeye Fire example, and considered the administrative hours used to calculate the payroll at the time. She wondered about how the new system would compare.

Co-Chair MacKinnon thought knowing administrative costs would be helpful. She wanted to know state and federal dollar breakdown of pay.

Vice-Chair Bishop summarized that the bill was supported by common sense. He thought Mr. Duffy had explained it well. He thought the bill would create greater efficiency.

Senator Stevens assumed that National Guard members deployed to the Middle East were paid on a federal scale.

Representative Tuck answered in the affirmative.

Senator Stevens thought that the change in pay could be confusing to troops.

Representative Tuck stated that the bill would simplify the matter.

[10:12:26 AM](#)

Representative Tuck thanked the committee and expressed that the bill was a way to make things easier for members of the National Guard. He agreed to provide the committee with a further example of how the bill would save the state money.

HB 150 was HEARD and HELD in committee for further consideration.

Co-Chair MacKinnon discussed housekeeping.

#hb233

CS FOR HOUSE BILL NO. 233(FIN) am

"An Act relating to the insurance tax education credit, the income tax education credit, the oil or gas producer education credit, the property tax education credit, the mining business education credit, the fisheries business education credit, and the fisheries resource landing tax education credit; providing for an effective date by repealing the effective dates of secs. 3, 5, 7, 10, 14, 16, 18, 21, 23, 25, 28, 30, 32, 35, 37, 39, 42, 44, 46, 49, 51, 53, and 55, ch. 92, SLA 2010, sec. 14, ch. 7, FSSLA 2011, secs. 15, 17, 19, 21, 23, and 25, ch. 74, SLA 2012, sec. 49, ch. 14, SLA 2014, secs. 37, 40, 43, and 46, ch. 15, SLA 2014, and secs. 26 and 31, ch. 61, SLA 2014; providing for an effective date by amending the effective date of secs. 1, 2, and 21, ch. 61, SLA 2014; and providing for an effective date."

[10:13:46 AM](#)

Co-Chair MacKinnon read the title of the bill.

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for CSHB 233(), Work Draft 30-LS0152\N (Nauman, 4/23/18).

Co-Chair MacKinnon OBJECTED for discussion.

Ms. Lucky discussed the CS. She noted that the committee had heard a similar bill in concept, but not content, with SB 16. She stated she would present the differences between the bill as it came to the Senate Finance Committee and the new version currently before the committee. She referenced the explanation of changes (copy on file):

Deletes Legislative Findings and Intent.

Sets the amount of the credit at 50% of all contributions. Currently, a tiered system provides a credit of 100% of contributions between \$100,000 and \$300,000, and 50% of contributions that do not fall in that range. See sections: 2, 5, 8, 11, 14, 17, and 21.

Reduces the total amount of credits that can be claimed in any tax year to \$1,000,000 - current law allows \$5,000,000. Sections: 3, 6, 9, 12, 15, 18, and 22.

[10:17:23 AM](#)

Ms. Lucky continued to address the Explanation of changes:

Adds section 24 at the request of the Revisor of Statutes to reconcile the effects of the passage of both House Bill 233 and House Bill 97, which passed the House on 4/9/2018 and the Senate on 4/20/2018.

Adds conforming amendments to the effective date sections to accommodate these changes.

Ms. Lucky noted that the effective date of the changes to the program was not changed. The date was January 1, 2019, to correspond with the beginning of the new tax year.

Senator Stevens understood that the program had been successful in opening opportunities for Alaska students. He expressed concern that businesses might not contribute as much in the future as they have in the past.

Co-Chair MacKinnon stated that currently business was paying either corporate, income, or fisheries taxes, which maintained a constant tax base unless services were hindered. She said that whether the businesses donated or not, the reduction in the availability of the tax credit would provide savings to the state, like an indirect tax expense. She said that the money would remain with the state in the form of money that the corporations or businesses were already paying in taxes.

[10:19:54 AM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, addressed Senator Stevens question. He asserted that the department could not conjecture on how company behavior would change. The analysis had been done based on the known set of donations over the last three years and projecting forward the same or a similar amount. He thought that much good will was attached to the donations.

Senator Stevens summarized that in the future was unknown. He assumed that there would be fewer donations, which would result in fewer opportunities for students.

Mr. Alper stated that there were many different eligible recipients for the potential donations. He said that educators looked to the donations to back fill the reductions of state funding that they had experienced in recent years.

[10:22:00 AM](#)

Senator Micciche commented that there were only 2 substantive changes in the bill. He thought that the 50 percent reduction between \$100 thousand and \$300 thousand could alter business's donation behavior. The reduction from \$5 million to \$1 million of the annual total would have neutered the legislative appropriation authority and would have increased state operating costs. He expressed support for the bill.

Senator von Imhof wanted to understand the flow of funds. She understood that under the bill if a business wrote a check for \$200 thousand to the University of Alaska, the money would be split between the state and the University.

Mr. Alper explained that a company would make a donation and then sometime in the next year would file their tax return. The tax return would include a line for eligible donations for the education tax credit and the tax reduction would be based on the statutory percentage. The first \$100 thousand in donation, under current law, received a 50 percent credit, the next \$200 thousand would reach the 100 percent credit. He said that the way the CS was written the tax reduction would be smaller.

Senator von Imhof asked whether there was a 35 percent taxable rate of on the extra \$50,000, or would the business pay \$50,000 less in state taxes.

10:25:55 AM

Mr. Alper stated that it would be a straight reduction from the tax liability, not the taxable income. He said that the credit could not be received for multiple taxes but that companies that, for example, a mining company that also pay corporate income tax could zero out one tax and then use the rest of the benefit to offset the other tax.

Co-Chair MacKinnon asked whether it was fair to say that, currently, private sector donations above \$100,000 were deployed wherever the business chose.

Mr. Alper answered in the affirmative. He assessed that the state had essentially outsourced to companies the ability to set state education priorities.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. SCS CSHB 233() was ADOPTED.

Co-Chair MacKinnon informed that she had met with the sponsor and a compromise had been made.

10:28:02 AM

Representative Chris Tuck, Sponsor, discussed the bill. He read from the Sponsor Statement:

House Bill 233 will extend the education tax credit program from December 31, 2018 to January 1, 2025 and ensure that the credits that exist in statute today will continue to support our education programs and institutions.

Education tax credits encourage private businesses to make charitable contributions to educational institutions and programs in Alaska. Eligible recipients include: non-profit, public, or private accredited Alaska two-year or four-year colleges; non-profit elementary or secondary schools and school districts; state operated vocational education and training schools; non-profit regional vocational training centers; apprenticeship programs; Alaska Native cultural programs; the Alaska Higher Education Investment Fund; and postsecondary institutions providing dual-credit courses.

The credits are non-transferable and non-refundable and can be used against the following taxes: corporate income tax; fisheries business tax/fisheries resource landing tax; insurance premium tax/title insurance premium tax; mining license tax; oil and gas production tax; and the oil and gas property tax.

Currently, the credit provision allows for 50% of the annual contributions up to \$100,000, 100% of the next \$200,000, and 50% of annual contributions beyond \$300,000. The total credit per taxpayer, across all tax types, may not exceed \$5 million.

Historically, well over two dozen companies have used this benefit. The contributions are good for the companies and good for the recipient institutions. House Bill 233 will continue to ensure that our education institutions and programs are supported.

Senator Stevens asked the sponsor to reflect on the reduction in contributions and whether there would be impact on assistance to students.

Representative Tuck responded that he was not sure how the bill would affect contribution behavior. He hoped the connect local business with education institutions to partner better and help educational institutions to teach towards the jobs that were necessary for the needs of the state.

[10:30:52 AM](#)

Senator von Imhof noted that the state had utilized tax credits in various ways. She asked whether other states had used education tax credits in creative ways to help offset corporate taxes owed to their particular state.

Representative Tuck had not compared Alaska to other states. He had investigated how to make the tax credit system better in Alaska. He made note of the many statutes referenced in the bill title. He thought that it would be cleanest to begin by extending the tax credits and then working on ways to improve the system.

[10:32:32 AM](#)

Ms. Kloster spoke to the Sectional Analysis for the bill (copy on file):

Section 1 - Amends the Insurance tax (AS 21.96.070(a)) education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program. It also removed an annual intercollegiate sports tournament from being eligible for an education tax credit.

Section 2 - Amends the Insurance tax, AS 21.96.070(b) to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 3 - Amends the insurance tax AS 21.96.070(d) to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 4 - Amends the Net Income tax (AS 43.20.014(a)) education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program.

Section 5 - Amends 43.20.014(b) the net income tax, to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 6 - Amends 43.20.014(d) the net income tax, to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 7 - Amends the oil or gas producer (AS 43.55.019(a)) education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program. It also removed an annual intercollegiate sports tournament from being eligible for an education tax credit.

Section 8 - Amends the oil and gas producer tax, AS 43.55.019(b), to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 9 - Amends the oil and gas producer tax, AS 43.55.019(d), to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 10 - Amends oil and gas property tax (AS 43.56.018(a)) education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program. It also removed an annual intercollegiate sports tournament from being eligible for an education tax credit.

Section 11 - Amends the mining business (AS 43.65.018(b)) to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 12 - Amends the mining business (AS 43.65.018(d)) to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 13 - Amends mining business (AS 43.65.018(a)) education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program.

Section 14 - Amends mining business (AS 43.65.018(b)) to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 15 - Amends mining business (AS 43.65.018(d)) to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 16 - Amends AS 43.75.018(a) fisheries business education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program.

Section 17 - Amends AS 43.75.018(b) fisheries business tax to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 18 - Amends AS 43.75.018(d) fisheries business tax to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 19 - Amends AS 43.77.045(a) fisheries resource landing tax education credit to add an Alaska two-year or four-year college accredited by a national association to be eligible for the education tax credit program.

Section 20 - Amends AS 43.77.045(a), the education tax credit against the fisheries resource landing tax, contains a cross reference to AS 43.77.040. AS 43.77.040 is a different credit, separate and apart from the education tax credits, that provides a credit for various donations related to fisheries and the seafood industry. Under Secs. 23 and 36, Ch. 61, SLA 2014, AS 43.77.040 will be released December 31, 2020. Because the repeal of AS 43.77.045. the education tax credit, has been extended from 2018 to 2025, the cross reference to AS 43.77.040 must be removed from AS 43.77.045 on December 31, 2020.

Section 21 - Amends AS 43.77.045(b), the fisheries resource landing tax to remove the 100 percent contribution from the \$100,000-\$300,000, therefore, all contributions will be a 50 percent credit.

Section 22 - Amends AS 43.77.045(b), the fisheries resource landing tax to decrease the cap for the total amount of the credit to be not more than \$1,000,000.

Section 23 - repeals the contraction dates set at 2021 for the education tax credit expansions - which includes the number of programs that are eligible for the education tax credits and the cap amount. By repealing the contractual language, it leaves the program AS IT IS TODAY in place.

Ms. Kloster noted that because the education tax credits had expanded over the years, with multiple different iterations, there were multiple repeal dates. The Section was meant to lineup all the repeal dates.

[10:37:36 AM](#)

Ms. Kloster continued to address the Sectional Analysis:

Section 24 - Adds reviser's instructions to reconcile the effects of the passage of both House Bill 233 and House Bill 97, which passed the House on 4/9/2018 and the Senate on 4/20/2018.

Section 25 - repeals the effective dates that are in accordance with section 23. Per legislative drafting the repeal of effective dates need to be in separate section.

Section 26 - extends the sunset date from December 31, 2018 to January 1, 2025.

Section 27 - Sections 1-19, 21, and 22 take effect on January 1, 2019 which relate to the national accreditation, removal of intercollegiate sports tournament, make all tax credits contribution amounts at 50 percent, and decreasing the total cap from \$5,000,000 to \$1,000,000.

Section 28 - Relates back to section 20 of the bill which is removing a cross reference to an unrelated fisheries tax credit.

Section 29 - With the exception of sections 27 and 28, everything else in the bill has an immediate effective date.

[10:38:36 AM](#)

Vice-Chair Bishop discussed a new fiscal note from the Department of Revenue, OMB Component 2476. He read from the analysis:

Assuming an unchanged donation profile in future years, the reduction to the credit rate would reduce the total credits claimed under this version of the bill to \$5.42 million. Although the fiscal note shows "negative" revenue of \$5.42 million, this is compared to the status quo which would be a full sunset on 1/1/19. Alternatively, this should be viewed as a reduction in revenue impact of \$2.15 million. In other words, this bill represents \$2.15 million in additional revenue versus a so-called clean extension.

For FY1019, the impact will be half this number due to the change occurring in the middle of the fiscal year.

Continuing this program will not add administrative costs to the Department of Revenue.

Co-Chair MacKinnon pondered why reducing the ability to apply a tax credit against taxes owed to the state was not reflected in the fiscal note as increased revenue.

Mr. Alper stated that the initial purpose of the bill had been to extend a program that had been scheduled to sunset. He said that if the bill were not to pass the \$7.5 million in education tax credits currently being claimed would be reflected as additional state revenue in future years. He said that the fiscal note showed a revenue reduction because the comparison was between the current bill version and what would happen if no legislation were to pass.

[10:42:22 AM](#)

Co-Chair MacKinnon directed committee attention to the analysis previously related by Vice-Chair Bishop, which outlined the \$2.15 million in additional revenue that the state would receive based on the changes in the CS and allowing the extension to go forward.

Mr. Alper agreed.

Co-Chair MacKinnon asked whether it was accurate to say that the bill was extending the program in its current form versus reducing the state's contribution and that the difference was reflected on the fiscal note.

Mr. Alper said that roughly speaking approximately \$200,000 of the \$2.15 million would be from the very large donations that would be above the \$2 million cap. A little less than \$2 million would be the lower credit rate between \$100 million and \$300 million donation.

Co-Chair MacKinnon understood that if the bill did not advance the state could save \$7 million.

Mr. Alper stated that if the program were to sunset completely the state would save \$7.5 million per year.

Co-Chair MacKinnon recognized that sunseting the program would negatively affect Alaskan students. She said that the bill would represent a compromise that the tax credit would

be extended at a cost to the state as long as donations remained the same at \$5.4 million.

Co-Chair MacKinnon discussed the challenging fiscal situation in the state. She lamented the possible loss of good programs, reduction of contributions, and the availability of the private sector to donate to good causes.

[10:46:00 AM](#)

Co-Chair MacKinnon OPENED public testimony.

SUSAN FOLEY, PRESIDENT, UNIVERSITY OF ALASKA FOUNDATION, ANCHORAGE (via teleconference), testified in support of the bill. She explained that the foundation was the biggest beneficiary of the donations that qualified for the education tax credit. She stated that one of the most serious threats to the state was "brain drain" from students leaving the state to pursue postsecondary education. She said that it was impossible to know the impact of the 50 percent credit remaining constant, rather than the increase under the bill, but relayed that gifts from businesses - more than \$100,000 in any one year - amounted to an average of 44 percent of the total donations received by the foundation since January 1, 2010. She added that for the same period, donations in excess of \$1 million averaged 9 percent of total donations. She related that a large portion of those donations went to scholarships and programs important to employers. She said that the extension of the tax credits was important to the foundation and the University.

[10:49:34 AM](#)

Senator Stevens understood that 44 percent of total donations to the UA Foundation were from businesses making donations in excess of \$100,000 per year, 9 percent were from donations that were over \$1 million.

Ms. Foley agreed.

Senator Micciche asked about the average of the 44 percent of the donations.

Ms. Foley stated that the time frame was from January 1, 2010, to the present.

Senator Micciche asked for the average amount over \$100,000 for the 44 percent.

Co-Chair MacKinnon asked Ms. Foley to respond in writing.

Ms. Foley agreed to provide the information.

Ms. Foley clarified that the 44 percent was for all donations over \$100,000.

[10:51:48 AM](#)

MIKE SATRE, MANAGER, GOVERNMENT RELATIONS AND COMMUNITY AFFAIRS, HECLA GREENS CREEK MINE, testified that the largest legislative priority for the mine in 2018 was to advocate for a clean extension of the tax credit. He spoke to his concerns with the current bill version. He said that the greatest challenge for the mining industry in the state was the recruitment and retention of quality employees. He said that the mine had utilized the credit almost exclusively for workforce development programs at all three University of Alaska campuses and various vocational/technical centers throughout the state. He related that the current format of the tax credit system allowed the industry to make large, programmatic type donations that institutions could count on to provide multi-year programs. He said a \$300,000 donation from the mine to the University allowed for a budget of \$100,000 for a three-year program, which the mine had done for many years, contributing nearly \$1 million to the Pathways to Mining Careers program. He believed that by taking away the incentive for making these large donations, companies would likely make smaller donations or no donation at all. He shared that the \$100,000 donation now cost the industry \$50,000 out-of-pocket; that same donation would cost \$150,000 out-of-pocket under the bill. He stressed that that out-of-pocket money was new money to the University, new money to the school system, in addition to the money that was redirected from the General Fund to local institutions. He hoped that the intent of the legislation would be to incentivize partnerships and new money into the University and school systems. He reiterated that the extension of the tax credit was the priority but thought that the current version would result in less donations.

[10:55:18 AM](#)

He referenced the newspaper in Juneau, in which was reported the cancellation of the automotive program at Juneau-Douglas High School. Under the current tax credit, it was possible for the school to solicit a qualifying tax payer to make a \$200,000 payment in support of the program. Under the CS, there would be no incentive for the tax payer to donate.

[10:57:16 AM](#)

Co-Chair MacKinnon thanked Mr. Satre for his company's participation in the tax credit program.

Vice-Chair Bishop asked Mr. Satre to convey the increased percentage of Alaska hire since the tax credit programs had been in place.

Mr. Satre agreed to provide the information.

Senator von Imhof thought Mr. Satre had made salient points and sound and reasonable arguments. She thought that the challenge for the committee was to keep the credit program alive but at a higher expense to industry. She believed that time would tell how the change would impact donation behavior.

[10:59:15 AM](#)

Co-Chair MacKinnon notified that the committee had posted the CS online and provided a copy to the sponsor before public testimony.

[11:00:08 AM](#)

DOUG WALRATH, DIRECTOR, NORTHWEST CAREER AND TECHNICAL CENTER, NOME (via teleconference), spoke in support of the education tax credit program. He said that the center had been aggressive in pursuing business partnerships with the education tax credit for nearly a decade; the education tax credit represented approximately 30 percent of the center's annual operating budget. He said that prior to the credit the graduation rate from the Bering Strait School District was 39 percent, since training programs had been built using the credit donations graduation rates had risen to 82 percent. He echoed the concerns of the previous testifier that the current bill version could negatively affect donations from industry. He thought that it was important

to acknowledge the total contribution of new money for credits claimed in 2017.

[11:04:44 AM](#)

Senator Micciche stated that the tax credit program still had bi-partisan support in the legislature. He asked about the total contributions to the Northwest Alaska Career and Technical Center in 2016 of \$320,500. He wondered what percentage of the donations were between \$100,000 and \$300,000.

Mr. Walrath considered the technical center's nine-year history. He said that 27 contributions had been received between FY10 and FY18, of those contributions only one was at the \$300,000 level. 96 percent of the contributions received had been below \$300,000 level. He said that 15 of the contributions were between \$10,000 and \$100,000, 11 contributions were between \$100,000 and \$300,000.

Vice-Chair Bishop asked about the graduation rates at the center.

Mr. Walrath stated that the grad rate of the district was at 32 percent in 2008, one year before the tax credit was available at the secondary level. He that the rate had grown since the programs inception to 89 percent in FY17. He said that the program had directly contributed to the reduction of the dropout rate by 76 percent.

[11:08:22 AM](#)

DR. BRAD HARRIS, SELF, ANCHORAGE (via teleconference), testified shared that he was a professor at the University of Alaska. He stated that the program in its current form was extremely effective. He encouraged the extension of the program in its current form. He disagreed with the removal of the "sweet spot" and the changes in the current bill version. He believed that the legislation would hurt the relationship between educational institutions and industry. He thought that the fiscal note that showed the cost of the program did not reflect the full benefits associated with the program. He requested the extension of the program in its current form.

[11:12:40 AM](#)

TOMMY SHERIDAN, SILVER BAY SEAFOODS, CORDOVA (via teleconference), testified in strong support of HB 233. He shared that he had benefited from the education tax credits as a student in the University of Alaska Southeast Fisheries Technology program. He summarized that the extension of the program would continue to promote private investment in Alaskan higher education and would ensure that the state could maintain its world-class fishery management system.

[11:14:58 AM](#)

Co-Chair MacKinnon CLOSED public testimony.

Representative Tuck gave an example of the tax credit program partnering with industry. He stated he was an electrician by trade. He shared a story relating the way that industry supported schools, and ultimately, society.

CSHB 233(FIN) am was HEARD and HELD in committee for further consideration.

Co-Chair MacKinnon informed the committee that amendments were due April 27, 2018, at noon.

Co-Chair MacKinnon discussed housekeeping. She announced that the committee would hear public testimony on the capital budget. She relayed the public testimony process.

Co-Chair MacKinnon offered words on the fiscal crisis faced by the state and the hard decision to discontinue funding meaningful programs. She explained that the committee was working to reduce the state's fiduciary responsibilities while balancing the consequences of those reductions. She discussed the history of the inception of the Permanent Fund Dividend. She stressed the difficult financial choices that the committee had been, and would be, forced to make in order to balance the state budget. She complimented the individual talents and strengths each committee member brought to the table.

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ADJOURNMENT

[11:24:33 AM](#)

The meeting was adjourned at 11:24 a.m.

