

SENATE FINANCE COMMITTEE

May 7, 2018

9:33 a.m.

[9:33:13 AM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:33 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

Representative Neal Foster, Sponsor; Paul LaBolle, Staff, Representative Neal Foster; Juli Lucky, Staff, Senator Anna MacKinnon; Representative Chris Tuck, Sponsor; Ken Alper, Director, Tax Division, Department of Revenue.

SUMMARY

HB 47 MUNICIPAL PERS CONTRIBUTIONS/INTEREST

HB 47 was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN 4(ADM).

CSHB 233(FIN) am
EXTEND EDUCATION TAX CREDITS

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

#hb47

HOUSE BILL NO. 47

"An Act requiring certain municipalities with a population that decreased by more than 25 percent between 2000 and 2010 that participate in the defined benefit retirement plan of the Public Employees' Retirement System of Alaska to contribute to the system an amount calculated by applying a rate of 22 percent of the total of all base salaries paid by the municipality to employees of the municipality who are active members of the system during a payroll period; authorizing the administrator of the defined benefit retirement plan of the Public Employees' Retirement System of Alaska to reduce the rate of interest payable by certain municipalities that are delinquent in transmitting employee and employer contributions to the retirement plan; and providing for an effective date."

9:34:02 AM

Co-Chair MacKinnon read the title of the bill. She noted that the bill had been heard in committee on April 25, 2018; and the committee had opened and closed public testimony. Her office had received no proposed amendments.

Vice-Chair Bishop discussed FN 4 from State Retirement Payments. He read passages from the Analysis on page 2 of the fiscal note:

Conduent Human Resource Services (Conduent), the PERS actuarial consultant, has calculated the financial effects if this bill should pass. The basic result will be a shortfall in actuarially projected PERS employer contributions in the following amounts (\$ are in thousands):

| FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|---------|---------|---------|---------|---------|--------|
| \$141.0 | \$133.0 | \$124.0 | \$116.0 | \$107.0 | \$98.0 |

EXPLANATION - SUPPLEMENTAL APPROPRIATION

Since the bill is effective immediately, this bill would also assume an FY2018 supplemental contribution for the impacted PERS municipalities for salary contributions that would not be collected as a result of the reduction of the salary floor for the four (4)

municipalities. Conduent estimates that amount to be \$148.0, and the fund source is state general funds.

This bill is effective immediately and is prospective, principal amounts owed by the impacted PERS municipalities (the difference between the salary floor and the actual payroll amounts times 22% for each fiscal year) are still due for fiscal years 2009 to 2017. The interest rate to charge on these outstanding payments would be determined by the Plan Administrator. Currently, principal amounts owed by impacted PERS municipalities are as follows:

Co-Chair MacKinnon added that there would be an associated estimated FY 18 supplemental budget request of \$148,000.

9:37:03 AM

REPRESENTATIVE NEAL FOSTER, SPONSOR, explained that the City of Galena had lost over 25 percent of its population due to the closure of the United States Air Force facility. As a result, the city lost a number of city employees; and was paying for employees it didn't have. The bill was a remedy to the situation.

PAUL LABOLLE, STAFF, REPRESENTATIVE NEAL FOSTER, stated that the bill would reset the FY 08 floor for those communities that lost more than 25 percent of population between the 2000 and 2010 census. The reset date was FY 12. The bill also allowed the Public Employees' Retirement System (PERS) administrator to negotiate the interest rate on delinquent payments.

Co-Chair MacKinnon summarized the purpose of the bill.

Representative Foster affirmed the co-chair's summary.

Co-Chair MacKinnon mused that the legislature was taking on the issues one community at a time. She thought the bill could be perceived by others as unfair. She mentioned the community of St. George, which had lost all its city employees.

Representative Foster concurred with the co-chair's remarks.

Vice-Chair Bishop MOVED to report HB 47 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 47 was REPORTED out of committee with a "do pass" recommendation and with one previously published fiscal impact note: FN 4(ADM).

[9:40:36 AM](#)

AT EASE

[9:42:12 AM](#)

RECONVENED

#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."

[9:42:12 AM](#)

Co-Chair MacKinnon relayed that the committee had heard the bill on April 26, 2018; and had heard the Senate companion version on March 26, 2018. The committee had considered a Sectional Analysis, opened and closed the public hearing, and reviewed the fiscal notes.

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for CSHB 233(FIN), Work Draft 30-LS0152\T (Nauman, 5/3/18).

Co-Chair MacKinnon OBJECTED for discussion.

JULI LUCKY, STAFF, SENATOR ANNA MACKINNON, discussed the changes to the bill. She addressed an Explanation of Changes document (copy on file):

SCS CS HB 233 (FIN) work draft version T:
Provides a step down for the tiered system or "sweet spot" of the education credits. For two years (2019 - 2020), the credit for contributions between \$100,000 and \$300,000 would be 75%. See sections: 2, 7, 12, 17, 22, 27, and 33. These sections are effective January 1, 2019.

Starting in 2021, sets the amount of the credit would be 50% of all contributions. See sections: 3, 8, 13, 18, 23, 28, and 34. These sections are effective January 1, 2021.

Allows in-kind donations of equipment. The amount of the contribution will be determined by an appraisal consistent with regulations adopted by the department. See sections: 5, 6, 10, 11,15,16, 20, 21, 25, 26, 30, 31 and 36. These sections are effective January 1, 2019.

Ms. Lucky stated that there was not a new fiscal note relevant to the CS, however the director of the Tax Division was present to explain the fiscal changes. She referenced a document entitled "Education Tax Credit Information - Detail of Credits Claimed & Potential Contribution Cases, CY 2015 - CY 2017," (copy on file); that had been provided by the Tax Division. She explained that the fiscal note would reflect the first two years impact of \$6,347,520; and starting in FY 21 the amount would step down to \$5,424,282.

Senator Olson wondered about the support from institutions regarding the changes that had been made to the bill.

Co-Chair MacKinnon relayed that email correspondence from institutions indicated a willingness to accept more funding.

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

[9:47:27 AM](#)

REPRESENTATIVE CHRIS TUCK, SPONSOR, discussed the purpose of the bill. He explained that education tax credits allowed educational institutions to receive donations from industry and private interests, which in turn received a tax credit for donations. He considered the tax credits as a way to connect industry with educational institutions to help and direct students to industry. He stated that the bill was originally intended to extend the education tax credits and would allow for extension to January 1, 2025. He added that the bill would allow for national accreditation; which would include professional and career-oriented schools, and apprenticeship programs.

Representative Tuck agreed with the changes to the CS.

Co-Chair MacKinnon thought the CS was a compromise. She thought the sponsor would have preferred 100 percent tax credit.

Representative Tuck answered in the affirmative. He furthered that the multiple sections in statute had made working with the bill complicated.

[9:50:11 AM](#)

Senator Stevens thought the CS was a good compromise, and though thought that the two-year time frame was an opportunity to study the program and make changes to the amount of tax credit if necessary. He asked the sponsor if he agreed with the change.

Representative Tuck was not aware of the genesis of the "sweet spot" as described by Ms. Lucky. He thought the CS would provide an opportunity to see the outcome.

Co-Chair MacKinnon asked Vice-Chair Bishop to discuss the in-kind equipment donation.

Vice-Chair Bishop stated that the provision for equipment donation had been in the bill for four years. He considered the way the bill was originally written.

Co-Chair MacKinnon clarified that to qualify for a credit under the section, equipment had to be appraised consistent with regulations adopted by the Department of Revenue to determine the value of the contribution.

[9:53:41 AM](#)

Co-Chair MacKinnon stated that the committee intended to move the bill pending an updated fiscal note.

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, stated that there was a fiscal note being drafted that should be available before the bill was heard on the Senate floor. He explained that the CS was a step-down, while the previous version of the fiscal note had a split fiscal year in FY 19, because the credit-rate changes were on a calendar year basis, whereas the fiscal note was on a fiscal year basis. There was a similar split in FY 21, where the second step from 75 percent to 50 percent happened. The baseline was as if the tax credit went away on January 1, 2019. The extension of the credit in any form was officially a reduction in revenue but was really an increase in revenue versus what would be a clean extension that continued the existing rates. He discussed the fiscal impact of the CS.

Mr. Alper thought there was about a \$1.2 million benefit in the near term, and a \$2.1 billion benefit in the longer term as the step-down was continued. The department had not ascribed a value to the change that pertained to in-kind donated equipment. He relayed that the department was pleased with the language regarding appraisals and regulations. He thought it was important that any equipment had an ascribed fair market value. He thought there would be a form change and a regulation-drafting process; and he had put in a small one-time dollar amount of \$50,000 for the associated administrative costs.

Mr. Alper summarized that the department was comfortable with the changes to the bill.

[9:56:53 AM](#)

Vice-Chair Bishop encouraged Mr. Alper to communicate with the Department of Administration's Division of Motor Vehicles to learn about its process for appraisal of vehicles that did not have a title. He thought using existing language might preclude the need for the entire \$50,000 in administrative costs as requested in the forthcoming fiscal note.

Senator Olson considered the changes to the bill and asked which version of the bill Mr. Alper was most comfortable with.

Mr. Alper indicated he was not authorized to speak to the bill on behalf of the administration. He agreed with the co-chair that a 100 percent tax credit was inappropriate; and thought that given the choice the industry would want as much as possible. He understood why donors had an issue with an immediate drop to a 50 percent tax credit and thought the step-down in the current version of the bill was a fair compromise. He observed that the bill was a tax credit rather than a personal tax deduction. He thought have the amount set at 50 percent in the long run was reasonable and balanced the incentive to donate to a good cause. He thought it represented a partnership by which the state shared the cost with the donor.

[9:59:46 AM](#)

Senator Stevens assumed that the step-down would give the state time to reflect on if the process was working. He asked if Mr. Alper thought two years was an adequate time to reflect on the program.

Mr. Alper thought it would not be possible to look back in two years because the first year of the step down was 2019. It would not be possible to see the tax implications by 2019 due to late filing deadlines. He thought that reflection might be an effort of the 2021 session. He commented on the number of times the statute had been amended and expected the issue would surface again. He considered the advantage of writing the statute in one area rather than spread out. He thought the donations reflected fiscal health of companies.

[10:02:12 AM](#)

Co-Chair MacKinnon remarked that all the various tax credits or benefits given to individual Alaskans were supported by others that were paying taxes. She found that as the state considered taxing individual Alaskans, it was difficult to contemplate some indirect tax expenditures to the state. She intended to set the bill aside and communicate with the sponsor. She stated that the bill would not leave committee with the \$50,000 administrative

cost on the fiscal note as explained by the Tax Division Director.

Co-Chair MacKinnon stated she would look for committee support in finding a compromise with the department.

Mr. Alper asserted that the department was happy to pull the language out of the bill. He reminded that the tax credit language appeared seven times in statute. He thought there should be language around the appraisal provision to include terms such as "fair market value" and there would be forms changes. He did not want to burden the bill.

Co-Chair MacKinnon stated she would take out the \$50,000 as proposed in the forthcoming fiscal note.

Mr. Alper noted that there was other indirect expenditure legislation that he looked forward to the committee considering.

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

Co-Chair MacKinnon discussed the agenda for the afternoon.

ADJOURNMENT
10:05:56 AM

The meeting was adjourned at 10:05 a.m.