

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**  
Anchorage, Alaska  
September 10, 2021  
10:04 a.m.

**MEMBERS PRESENT**

Representative Ivy Spohnholz, Chair  
Representative Andy Josephson  
Representative Calvin Schrage  
Representative Mike Prax

**MEMBERS ABSENT**

Representative Adam Wool  
Representative Andi Story  
Representative David Eastman

**COMMITTEE CALENDAR**

OVERVIEW: BUDGET EFFICIENCIES AND REDUCTIONS

- HEARD

**PREVIOUS COMMITTEE ACTION**

No previous action to record

**WITNESS REGISTER**

CONOR BELL, Fiscal Analyst  
Legislative Finance Division  
Juneau, Alaska

**POSITION STATEMENT:** During the overview on Budget Efficiencies and Reductions, gave a PowerPoint presentation, titled "Indirect Expenditure Report Overview," dated 9/10/21.

ALEXEI PAINTER  
Director, Legislative Finance Division  
Juneau, Alaska

**POSITION STATEMENT:** Answered questions during the overview on Budget Efficiencies and Reductions.

**ACTION NARRATIVE**

[10:04:45 AM](#)

**CHAIR IVY SPOHNHOLZ** called the House Special Committee on Ways and Means meeting to order at 10:04 a.m. Representatives Josephson, Schrage, Prax, and Spohnholz were present at the call to order.

**OVERVIEW: Budget Efficiencies and Reductions**

[10:05:29 AM](#)

CHAIR SPOHNHOLZ announced that the only order of business would be an overview on Budget Efficiencies and Reductions.

[10:06:32 AM](#)

CONOR BELL, Fiscal Analyst, Legislative Finance Division, gave a PowerPoint presentation, titled "Indirect Expenditure Report Overview," dated 9/10/21 [hard copy available in the committee packet]. He defined "indirect expenditure" [slide 2], related requirements of an expenditure report [slide 3], and reviewed disclaimers [slide 4]. He noted the agencies covered in the 2021 report [slide 5]: the Department of Commerce, Community and Economic Development (DCCED); the Alaska Department of Fish and Game (ADF&G); the Department of Health and Social Services (DHSS); the Department of Labor and Workforce Development (DLWD), and the Department of Revenue (DOR).

MR. BELL pointed out the summary of recommendations required from the Division of Legislative Finance [pie chart, slide 6] and discussed termination requirements [slide 7]. In response to Chair Spohnholz, he offered his understanding that the estimate of foregone revenue was based on net revenue.

[10:15:07 AM](#)

MR. BELL covered the topic of corporate income tax and major provisions recommended for termination [slide 8]; oil and gas production tax [slides 9-10].

[10:19:06 AM](#)

MR. BELL, in response to Representative Josephson, confirmed that the division does accounting based on worldwide accounting versus a separate accounting system.

[10:21:31 AM](#)

ALEXEI PAINTER, Director, Legislative Finance Division, in further response to the question, confirmed that in the 1980s, under separate accounting, corporate income tax was higher. He said this is dependent on oil prices and both systems of accounting are volatile. He said he could come back with further information on the topic.

[10:23:27 AM](#)

MR. PAINTER, in response to a question from Representative Prax, explained that the division's recommendation to terminate the exclusion for S corporations [slide 8] was in response to the differential treatment between various types of corporations and the lack of legislative intent behind that. Where the line is drawn is a policy call for the legislature, he said.

[10:26:59 AM](#)

MR. BELL highlighted the most significant oil and gas production tax provisions [slide 9]. He covered per taxable barrel credits for gross value reduction value, for which the division recommends reconsideration, and carried-forward lease expenditures, for which there is no recommendation based on recent legislative action. In response to Representative Josephson, he discussed carried-forward lease expenditures in terms of net profits.

[10:34:27 AM](#)

MR. PAINTER added that these were a replacement from the prior system in which the state could purchase the credit. To further questions, he talked about tax credits being more of an "offset" and suggested this issue is a policy call for the legislature. In response to Representative Prax, he confirmed under ACES there had been a lower tax rate with progressivity increases.

[10:39:07 AM](#)

MR. BELL, in response to Representative Schrage, clarified that lease expenditures can only be carried into the future; they cannot be used against past years' production tax liabilities.

MR. PAINTER, in response to a follow-up question, explained that indirect expenditures are often intentional credits, but are foregone revenue. The definition in statute refers to any tax credit like this that is an indirect expenditure.

MR. BELL added that DOR did not include carried forward leases as indirect expenditure, but the Division of Legislative Finance included them in the report as an item of impact worthy of focus.

[10:46:25 AM](#)

MR. PAINTER, in response to Chair Spohnholz, offered his understanding that corporate income tax was positive under the spring forecast, which has higher oil prices than the fall forecast, which is when the corporate income tax was a negative number. Per individual company, the state may have to pay out more credits than money received from that company, he noted.

[10:47:34 AM](#)

MR. PAINTER, in response to Representative Prax, indicated that the state's paying out money to corporations to compensate for operating losses was a feature of the tax code prior to tax reform in 2017. He said under the code, losses could be carried forward or backward; the 2017 reform eliminated carrying backward, but that was reinstated under the CARES Act for calendar years 2020 and 2021. Alaska is effected because it adopts the federal definition, he explained.

[10:52:01 AM](#)

MR. BELL noted points pertaining to oil and gas production tax [slide 10] and regarding credits currently applicable only to Middle Earth: the transferable 10 percent credit for qualified capital expenditure (QCE); the 20 percent well lease expenditure, which can be combined with the QCE credit; and a transferable credit up to 40 percent, an alternative credit for exploration that the division recommends allowing to expire at the end of the year because of redundancy.

[10:56:01 AM](#)

MR. BELL moved on to fisheries business tax [slide 11] and a salmon and herring product development credit of: 50 percent of qualified investments up to 50 percent of tax liability incurred for processing salmon and herring. He explained the legislative intent behind this tax credit was to encourage development of value-added seafood products in Alaska. The sunset was 12/31/20. He said the division estimated this credit reduced tax revenue by approximately \$3 million and recommends reconsideration.

[10:57:29 AM](#)

MR. PAINTER explained that because of confidentiality, DOR could not break down the activity for salmon versus herring; the Division of Legislative Finance recommends changing that confidentiality in order to better evaluate the effectiveness of credit for different species, as well as ensuring the credit reflects current needs of the industry. In response to Representative Prax, he talked about product diversity to counteract gluts in fish caught. He spoke of the difficulty in determining the impact of the credit with so many variables in play.

[11:02:31 AM](#)

MR. BELL next discussed fisheries resource landing tax [slide 12] and the community development quota (CDQ) credit for contributions to certain fisheries-related non-profit corporations. He said it is a 100 percent credit up to a maximum of 45 percent of tax liability, and the credit was taken against the municipal share of tax, so there was no impact to state revenue. The sunset was 12/31/[20].

MR. BELL moved on to corporations [slide 13]. He said the division recommends reviewing the entire corporate fee structure for effectiveness and to determine whether Alaska's fee structure is comparable to and competitive with fees in other states, and the total revenue impact of indirect expenditures is \$2.3 million [annually].

MR. PAINTER offered a distinction between registration fees versus corporate taxes.

[11:04:51 AM](#)

MR. BELL, in response to Representative Schrage, explained that the \$2.3 million is separate from reviewing the entirety of the corporate fee structure, which could be much larger.

MR. PAINTER offered to follow up with the information to shed further light on the issue of corporate fees.

[11:06:43 AM](#)

MR. PAINTER, in response to Representative Prax, explained that whether fees were primarily used to run a program was highly

dependent on the program, and he offered examples. To follow-up questions from Representative Prax, he said the distinction between fees and taxes in Alaska is more a philosophical one; he is not familiar with challenges to fees; and there is list of all credits.

[11:14:03 AM](#)

MR. BELL, in response to a question from Representative Prax, said he could find out and report back whether municipal tax being deductible against the state tax rate is included in the report of state expenditures.

CHAIR SPOHNHOLZ offered her understanding it is included.

[11:15:06 AM](#)

MR. PAINTER, in response to a question from Representative Josephson about "fair economic motivation," declined specific comment but noted that there are a wide variety of taxes against which credit can be taken.

[11:16:52 AM](#)

MR. BELL resumed the presentation, directing attention to mining license tax [slide 14], for which the division recommends reconsideration of the tax structure in its entirety because it was established pre-statehood and its effectiveness may be obsolete. He discussed depletion deductions and a 3.5-year exemption for newer mining operations.

[11:18:23 AM](#)

MR. BELL, in response to Representative Josephson, remarked on the expected differences of tax revenue in high or low oil revenue years.

[11:20:17 AM](#)

MR. PAINTER, in response to a follow-up question, offered to return with information regarding the derivation of proper tax rates.

[11:25:19 AM](#)

MR. BELL moved on to sport fishing and hunting licensing [slide 15]. He said the division recommends an overall review of the

program. He said the state increased fees in 2017, but the agency struggles with low balance in the Fish and Game fund and requires undesignated general funds (UGF) to maintain agency functions. He noted the cost to the state resulting from reduced license rates is approximately \$1.2 million for nonresident military, about \$300,000 for Yukon residents, and an indeterminate amount for disabled veterans, seniors, and low-income individuals.

MR. BELL next discussed the alcoholic beverages tax [slide 16], specifically the small brewery reduced rate, which reduces the tax rate from \$1.07 to \$0.35 for qualified brewers producing [less] than 2 million [gallons] per year. He explained it is unclear whether it was the intent of the legislature in aiding Alaska-based breweries and brewpubs to also include out-of-state breweries. The division recommends revisiting the overall program, which reduces tax revenue by an estimated \$3 million annually.

[11:28:13 AM](#)

MR. PAINTER, in response to Representative Josephson, acknowledged outlying costs and the consideration for the legislature of the conflict between statute and current practice. He mentioned boards subsidizing each other and an improvement toward boards paying for themselves. He said there are areas where the state may still be spending UGF when perhaps the costs should be covered by a board. In response to Representative Josephson, he confirmed that the legislature has chosen not to follow statute in order to subsidize boards, for example during the pandemic. In response to Chair Spohnholz, he recalled a policy direction years ago to encourage economic growth by reducing fees and offering a subsidy from the UGF.

[11:34:00 AM](#)

MR. PAINTER, in response to Representative Prax, confirmed that the Division of Legislative Audit ensures that boards and commissions are performing adequately and are "paying their way."

CHAIR SPOHNHOLZ thanked the presenters.

[11:39:07 AM](#)

**ADJOURNMENT**

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at [11:39] a.m.