

SB

511

Original sponsors: ~~Rules/House Members of the Joint Committee on Economic Recovery~~ *LABOR & COMMERCE COMMITTEE BY REQUEST*

DRAFT

1 IN THE HOUSE

2

Senate
CS FOR ~~HOUSE~~ BILL NO. *511* ~~557~~ (C&RA)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6

For an Act entitled: "An Act relating to an exemption or deferral from
7 municipal taxation for economic development property;
8 and providing for an effective date."

9

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10

* Section 1. AS 29.45.050 is amended by adding a new subsection to
11 read:

12

(1) A municipality may by ordinance exempt or defer from taxa-
13 tion, in whole or in part, economic development property. An ordi-
14 nance adopted under this subsection may not provide for an exemption
15 or deferral that exceeds five years in duration, must establish spe-
16 cific eligibility requirements for the exemption or deferral, must
17 require a written application for each exemption or deferral demon-
18 strating eligibility, and must subject each exemption or deferral to
19 approval by the governing body after a public hearing. The governing
20 body may deny an exemption or deferral under this subsection if it
21 finds that the exemption or deferral would result in an unreasonable
22 competitive disadvantage to other businesses in the municipality. In
23 this subsection "economic development property" means real or personal
24 property that may be depreciated for federal income tax purposes and
25 is used in a trade or business in a way tha:

26

(1) creates new employment in the municipality by generat-
27 ing sales outside of the municipality of goods or services produced in
28 the municipality; or

29

(2) materially reduces the importation of goods or services

1 from suppliers outside the municipality.

2 * Sec. 2. This Act takes effect January 1, 1989.

Alaska State Legislature

ARLISS STURGULEWSKI, Chairman
TIM KELLY, Vice Chairman
RICK HALFORD
MIKE SZYMANSKI
FRED ZHAROFF



P. O. BOX V
JUNEAU, ALASKA 99811
(907) 485-4989

Senate Community and Regional Affairs Committee

May 3, 1988

TO: Members,
Senate Community and Regional Affairs Committee

FROM: Staff
Senate Community and Regional Affairs Committee

RE: CSHB 511 (C&RA) - "An Act relating to an exemption or deferral from municipal taxation for economic development property; efd."

SB 511 is a companion bill to HB 557. HB 557 is currently in House Finance. The proposed draft CS for SB 511 mirrors the current version of HB 557 which has had extensive hearings in the House.

In this packet is a one page explanation of the bill, a position paper from DC&RA supporting the bill, a zero fiscal note, a memo from the Alaska Municipal League supporting the bill and the changes in the CS, a policy statement from the Anchorage Chamber of Commerce supporting temporary abatements and a letter from the State Assessor listing municipal tax exemptions currently on the books and the number of municipalities that have adopted them.

From
REP. GRUENBERG'S
OFFICE.

1. Local Governments may, by ordinance, exempt or defer from taxes.
2. Such an exemption may not exceed five years.
3. The governing body must establish specific eligibility requirements.
4. Written application demonstrating eligibility must be submitted by each project requesting the exemption. (thus it is on a case by case basis)
5. Must be a public hearing prior to governing body approval.
6. Such a request shall be denied if it creates an unreasonable competitive advantage within the local government's jurisdiction.

Economic development under the C&RA CS focuses on the stated desire of the original proposers that the exemption or deferral apply either to economic development that

- 1) creates new employment through the generating of goods and services produced inside the government's jurisdiction for sale outside the jurisdiction, (does not prohibit sales within a jurisdiction);
- 2) reduces the importation of goods and services.

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

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949 E. 36TH AVENUE, SUITE 400
ANCHORAGE, ALASKA 99508-4302
PHONE: (907) 563-1073

May 2, 1988

POSITION PAPER

RE: Senate Bill 511: "An Act relating to an exemption or deferral from municipal taxation for economic development property; and providing for an effective date."


SPONSOR: Labor and Commerce Committee

Program Summary

This bill relates to property taxes and adds a section to the optional exemptions that municipalities may adopt under AS 29.45.050. An ordinance adopted under this section would allow municipalities to exempt or partially exempt or defer or partially defer from taxation property that is classified as economic development property. In order to qualify for any tax exemption or deferral the property must fulfill certain local eligibility requirements and must create new employment and provide goods or services that are used in, or, exported from the municipality.

Comments

The language in SB 511 is consistent with existing statutes, serves a positive public purpose and provides direction and guidance to municipalities. The primary focus of this bill is to assist municipalities currently seeking ways to encourage economic development. Those activities are fully promoted by this Department, and we support passage of this bill.


Marty Rutherford
Acting Deputy Commissioner

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An act..exemption municipal tax..
economic development property..."
Sponsor: Labor & Commerce Committee
Requestor: _____

Agency Affected: Community & Regional Affairs
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Jim Plasman, Deputy Director Phone: 465-4750
Division: Municipal & Regional Assistance Date: 5/2/88
Approved by Commissioner: [Signature] Date: 5/02/88
Agency: Community & Regional Affairs

Distribution (by preparer):


- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

Alaska MUNICIPAL League

TELEPHONE
(907) 586-1325

105 MUNICIPAL WAY, SUITE 301
JUNEAU, ALASKA 99801

TO: Senator Arliss Sturgulewski, Chair
Members of the Senate Community and Regional Affairs Committee

FROM: Scott A. Burgess, Executive Director 

DATE: May 3, 1988

SUBJECT: SB 511 - Optional exemption from municipal taxes for
economic development property

On behalf of its municipal members, the Alaska Municipal League supports SB 511, allowing municipalities to exempt municipal taxes on economic development property. In addition, the AML requests that SB 511 be amended to include "exemptions and deferrals", similar to CSHB 557 (C&RA).

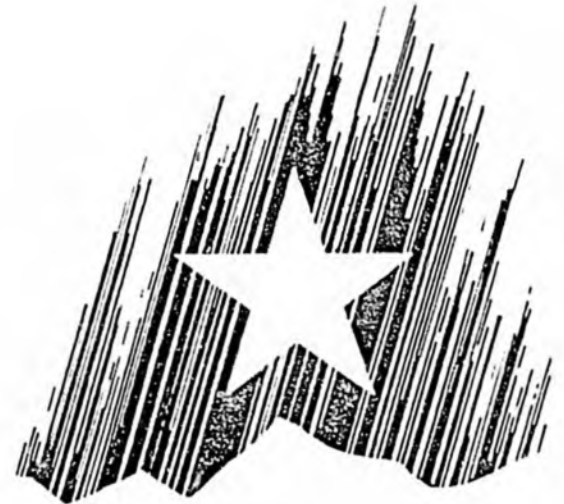
The AML's support is based on the 1988 AML Policy Statement language below:

PART X - ECONOMIC DEVELOPMENT, B. INCENTIVES:

1. Local Incentives: The League urges the Legislature to adopt legislation which would allow local municipalities greater flexibility through the use of local options in offering property tax incentives to new and expanding industry and business.

The bill would accomplish this policy in the area of optional exemptions on economic development property, in whole or part, for up to five years. The proposed legislation would allow a municipality to provide an incentive to a specific or type of industry or business it wishes to attract or support. Allowing optional tax exemptions for economic development property will provide municipalities with another option in carrying out community development strategies which fit their unique circumstances. Adequate safeguards exist by requiring an ordinance; a five year limitation; eligibility criteria; and, findings of no "unreasonable competitive disadvantage" and of benefit to the community.

The deferral language would expand the municipalities' options to defer with a payback where appropriate. While tax advantages may be only one, and in some cases a less significant, criteria for a business or industry locating in a community, it could also be the deciding factor. The AML supports SB 511. Thank you.



Anchorage • *Star of the North*
Chamber of Commerce

1988
LEGISLATIVE
PRIORITIES

Anchorage Chamber of Commerce
415 F Street
Anchorage, AK 99501-2254

Bulk Rate
U.S. Postage
PAID
Permit No. 39
Anchorage, AK

December 4, 1987

LEGISLATIVE PRIORITIES

ions in operating expenditures and capital expenditures based on d by enhanced oil revenues and/or expenditures and entitlements. En- onal amendment allocating perma- restricting expenditures. easures to protect and reinvigorate nition of continuing recessionary lowing recommendations: s. onomic incentive policy. hods of compensation for overtime. ublic lands to private sector. m. return transportation law. "Davis-Bacon Act." oposing limitations on public em- nd benefits. ers' compensation statutes. ish financially viable priorities: tewater projects. d projects. ces: Equitable distribution of funding very to the recipient rather than the gin. of Anchorage Crime Commission re- cy law related to drug trafficking. ion of marijuana. itimony in grand jury proceedings. access to state conviction records. e: Legislative incentives to hire Alas- Alaska goods and services. y Fund/Bradley Lake Hydro Project. coastal plain to environmentally re- ploration, development and produc- additional efforts to secure genuine laws. al Airport: Support legislation estab- Airport Authority.

I. Budget

The Legislature should continue to reduce the state operating budget in response to expected future declines in oil production and the inherent instability of market prices. Aggressive reductions in state spending should occur prior to consideration of appropriating monies from other distinct funds. Any surplus created as a result of rising oil prices or further reductions in the state operating budget should be expended on capital projects designed to improve infrastructure and stimulate the economy. The Chamber strongly opposes increases in taxes of any kind, including modification of the economic limit factor, imposition of an individual income tax, state sales tax, or increases in the motor fuel tax. Excess earning reserves are to be applied to a budget deficit only after aggressive measures have been undertaken to reduce state spending. The legislature should not use the corpus of the Permanent Fund to finance the activities of state government under any foreseeable circumstances. The Chamber endorses SJR 40 proposing a ballot measure to amend the Alaska State Constitution to authorize allocation of permanent fund earnings as follows: 40% to dividends, 30% to inflation proofing, and 30% to the budget reserve account. The Chamber also supports provisions in SJR 40 imposing constitutional spending limitations on future state legislatures.

II. Economy

The Chamber recommends that the legislature consider the following recommendations to protect and reinvigorate the Alaskan economy:

A. Taxes. The legislature should not, under any foreseeable circumstances, impose increased taxes or user fees on any segment of the Alaska economy during the impending recession. Nor should the legislature impose the equivalent of additional taxes on the oil industry by modifying the economic limit factor. Such action would disrupt long-term operating plans for major Alaskan oilfields and weaken the commitment of industry to expand additional exploration and development funds in the state. The Chamber is also opposed to any proposals in the Alaska state legislature to impose separate accounting methodology on oil and gas companies for the purpose of calculating corporate income taxes. Nor should the legislature consider imposing a personal income tax, state sales tax, or any increased motor fuel tax.

B. Economic Incentive Policy. Alaska is one of a dwindling number of U.S. states that does not have an "economic incentives policy" in place to help local development groups lure basic industry to Alaska. The Anchorage Chamber of Commerce supports the enactment of an economic incentives policy that would include:

- 1) Temporary tax abatement
2) Infrastructure investment
3) Land and resource availability
4) Financing assistance

These inducements should be made available only to qualifying private-sector projects that expand Alaska's economic base. They should provide a flexible array of incentives that encourage development without unduly subsidizing it. In addition, the Chamber supports amending Alaska Statutes, Title 29 to allow local governments to offer temporary property tax incentives to qualifying economic development projects.

C. Alternative methods of compensation for overtime. The state legislature should adopt legislation incorporating appropriate federal regulatory methodology for compensating employees engaged in operations involving irregular work weeks. Specifically, the legislature should eliminate impediments to alternative methods of compensating for overtime, including compensatory time off and flexible work week plans. Such action will assist natural resource development projects involving work schedules which are unpredictable with respect to time demands on employers and employees.

D. Expeditious Conveyance of Public Land to Private Sector. The legislature should expedite the conveyance of municipal, state and federal public lands to the private sector. The legislature should require the Department of Natural Resources to expedite the process of issuing permits, leases, and mining production licenses on state mineral lands to facilitate natural resource development.

E. Regulatory Reform. The State of Alaska's redundant, overly complicated, and counterproductive regulatory processes impede economic development and growth. The Chamber supports passage of House Bill 212 establishing the Department of Natural Resources as the lead agency for all natural resource projects in Alaska. The legislature should consolidate coastal zone management authority within DNR and curtail CZM jurisdiction over all upland areas which are more than three miles removed from the Alaska coastline. Many of the existing regulations of DF&G and DEC are redundant with federal regulations promulgated by the EPA and Federal Fish and Wildlife Service. The state legislature should review and consider eliminating any unnecessary regulatory programs in an effort to conserve public funds and encourage development of Alaska's natural resources through private investment. Federal programs which are appropriate for the state to assume exclusive control and jurisdiction in an effort to benefit local industry should be excluded from this process.

STATE OF ALASKA

STEVE COWPER, GOVERNOR

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

MUNICIPAL & REGIONAL ASSISTANCE DIVISION

- | | | | |
|---|---|---|---|
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BETHEL, ALASKA 99559-0348
PHONE: (907) 543-3475 | <input type="checkbox"/> P.O. BOX 10041
DILLINGHAM, ALASKA 99576-1041
PHONE: (907) 842-5135 | <input type="checkbox"/> 1514 CUSHMAN STREET, ROOM 210
FAIRBANKS, ALASKA 99701-6288
PHONE: (907) 452-7128 |
| <input type="checkbox"/> P.O. BOX BH
JUNEAU, ALASKA 99811-2110
PHONE: (907) 465-4750 | <input type="checkbox"/> 710 MILL BAY RD.
KODIAK, ALASKA 99615-6340
PHONE: (907) 486-5736 | <input type="checkbox"/> P.O. BOX 350
KOTZEBUE, ALASKA 99752-0350
PHONE: (907) 442-3696 | <input type="checkbox"/> P.O. BOX 41
NOME, ALASKA 99762-0041
PHONE: (907) 443-5457 |

April 21, 1988

The Honorable Henry Springer
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

Dear Representative Springer:

In the hearing on CSHB557 yesterday, you mentioned the number of property tax exemption bills you had seen before the Legislature this session and took a sympathetic position for those who do not enjoy such exemptions, and, in fact, wind up making up the difference in taxes for each exemption granted. As I am sure you can imagine, the Office of the State Assessor shares that sympathy, and our general position on most exemption proposals is one of opposition.

Your comment, however, along with some recent discussion before the Senate Community and Regional Affairs Committee, prompted us to do some research in the area of local option exemptions to see how many of the exemptions available under AS 29.45.050 have actually been adopted by municipalities in recent years. We believe you will find the results interesting.

The Honorable Henry Springer
April 21, 1988
Page Two

Enclosed is a chart on that subject showing the amount of activity which has occurred since September, 1972, when the original Title 29 rewrite took place. You will note there are question marks beside two of our estimates. In those two cases we were not certain about the actual number, but we believe those listed to be correct. There are a total of 25 municipalities in the State which currently levy a property tax. The reason certain of the numbers in the first column do not equal 25 is because some communities had already adopted various types of exemptions prior to the 1972 rewrite, and "grandfathered" in under the rewrite language.

We hope you find this chart interesting and beneficial. If you have questions regarding this information, please do not hesitate to contact me.

Sincerely,



Mike Worley
State Assessor

Enclosure

cc: Arliss Sturgulewski, Chair
Senate Community and Regional
Affairs Committee

The following statistics apply to the adoption of municipal property tax exemptions since September, 1972. Column one shows the number of municipalities which had the option to exempt certain properties. Column two shows the number of municipalities which actually did adopt the exemptions.

	1	2
Optional exemptions under <u>AS.29.45.050</u>	<u>Available to this number of municipalities</u>	<u>Number of municipalities actually adopting the exemption</u>
(a) \$10,000 residential	25	5
(b)(1) boats @ \$5 and \$15	10	1
<u>(b)(2)(A) community purposes property</u>	<u>25</u>	<u>2</u>
(b)(2)(B) historic sites	25	0(?)
(b)(2)(C) nonprofit agricultural	25	0
<u>(b)(3) all personal property</u>	<u>20</u>	<u>2</u>
(b)(4) business inventories	13	3
(b)(5) motor vehicles	13	2
<u>(e) land and wetlands</u>	<u>25</u>	<u>0</u>
(f) new maintenance (residential)	25	1
(g) addition to home	25	0
<u>(h) fire protection</u>	<u>25</u>	<u>0</u>
(i) Senior/Disabled Vets over \$150,000	25	2
(j) timber processing	25	1
<u>(k) EPA facilities</u>	<u>25</u>	<u>1(?)</u>



ANCHORAGE
ECONOMIC
DEVELOPMENT
CORPORATION

March 31, 1988

Honorable Arliss Sturgulewski
Senate
Alaska State Legislature
P.O. Box V
Juneau, Alaska 99811

Dear Senator Sturgulewski:

Recently you received from my office two pieces of draft legislation regarding economic development incentives. Specifically, one would give local governments the authority to offer property tax abatements and the other would allow utilities to offer economic development incentive rates. Both bills contain strong provisions for local control and oversight and strong safeguards that ensure public process.

This letter is to reconvey those bills to you with some slight improvements. Those passages that are underlined have been added or redrafted. However, none of the changes are substantive, just some fine tuning.

The support for this legislation is broad and growing. Groups as diverse as the Alaska Municipal League, the Anchorage Chamber of Commerce and the Anchorage Board of Realtors have endorsed it specifically or in concept. These groups understand the real need for some tools with which to conduct economic development.

Again, we would welcome any comments on these bills and appreciate your time and support.

Respectfully submitted,

Scott E. Hawkins
President and CEO

Attachments:

- 1) Revised Bills
- 2) Position Statements from Various Organizations
- 3) Survey of U.S. Cities' Use of Economic Development Tools

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Anchorage, AK 99501
Telephone (907) 258-3700

STATE OF ALASKA

DEPT. OF COMMUNITY & REGIONAL AFFAIRS

OFFICE OF THE COMMISSIONER

(1.3) HB 557
STEVE COWPER, GOVERNOR

- P.O. BOX B
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- 949 E. 36TH AVENUE, SUITE 400
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PHONE: (907) 563-1073

April 15, 1988

POSITION PAPER

RE: House Bill 557 "An Act relating to an exemption or deferral from municipal taxation for economic development property; and providing for an effective date."

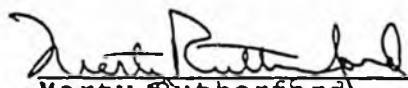
SPONSOR: House Joint Committee on Economic Recovery

Program Summary

This bill relates to property taxes and adds a section to the optional exemptions that municipalities may adopt under AS 29.45.050. An ordinance adopted under this section would allow municipalities to exempt or partially exempt or defer or partially defer from taxation property that is classified as economic development property. In order to qualify for any tax exemption or deferment the property must fulfill certain local eligibility requirements and must create new employment and provide goods or services that are used in, or, exported from the municipality.

Comments

The language in HB 557 is consistent with existing statutes, serves a positive public purpose and provides direction and guidance to municipalities. The primary focus of this bill is to assist municipalities currently seeking ways to encourage economic development. Those activities are fully promoted by this Department, and we support passage of this bill.


Marty Rutherford
Acting Deputy Commissioner

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act..exemption..municipal tax-
ation..economic development property.."
Sponsor: Rules Committee
Requestor: House Members of the Joint
Committee on Economic Recovery

Agency Affected: Community & Regional Affairs
BRU: _____
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE						
---------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Jim Plasman, Deputy Director Phone: 465-4750
Division: Municipal & Regional Assistance Date: 4/14/88

Approved by Commissioner: M.K. Rutherford Date: 4/14/88
Agency: Community & Regional Affairs

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

ALASKA STATE SENATE

JOE P. JOSEPHSON
DISTRICT H ANCHORAGE
3111 C STREET, SUITE 550
ANCHORAGE, ALASKA 99503
(907) 561-7611



WHILE IN JUNEAU
P.O. BOX V
JUNEAU, ALASKA 99811
(907) 465-4025

*Hoffman
4/4/88*

April 8, 1988

*HB 557
559
Statement
Econ Development
mly/wentz
muni Int Est
lowell...*

Mr. Scott Hawkins
President and CEO
Anchorage Economic
Development Corporation
550 West Seventh Avenue
Suite 850
Anchorage, Alaska 99501

Dear Scott:

Thanks for your letters of March 23 and 31 and the enclosed draft legislation regarding tax incentives and utility charges.

I will recommend to the Co-Chairs of the Committee on Economic Recovery that these concepts be considered in the Committee, of which I am a member, with a view to possible introduction in the Legislature. As you know, the opportunity for passing bills is getting shorter and shorter because of the 120-day deadline, but I think your letters make a strong case for consideration of these measures.

With best wishes, I am

Sincerely,

Joe Josephson
Joe P. Josephson
State Senator

JPJ:rak

cc: Senator Arliss Sturgulewski
Senator Lloyd Jones



REALTOR[®]

ANCHORAGE BOARD OF REALTORS[®], INC.
510 WEST TUDOR, SUITE 8
ANCHORAGE, ALASKA 99503
(907) 561-2338



March 25, 1988

Mr. Scott Hawkins, President
Anchorage Economic Development Corporation
550 West 7th Avenue, Suite 850
Anchorage, Alaska 99501

Dear Mr. Hawkins:

On behalf of the Anchorage Board of Realtors I would like to take this opportunity to thank you for attending our forum discussion Thursday evening and presenting AEDC's proposed incentive legislation to our membership for discussion.

Although the turnout was not as good as I had hoped, I am happy to report that the support was very strong with only one person dissenting in the straw poll. The Anchorage Board of Realtors will take an official position in support of the legislation and recommend statewide support at the Alaska Association of Realtors Legislative meeting on March 31st.

In addition we would be willing to give public testimony in support of the legislation when you present it to the Anchorage Assembly on April 5, if you deem it helpful and appropriate. Please let me know if we can be of assistance.

Sincerely,

Anita Bates

Anita Bates
President

TABLE II-1 PERCENTAGE OF CITIES USING ECONOMIC DEVELOPMENT TOOLS

TOOLS	USED IN THE PAST	AMOUNT OF USAGE IN 1986		LIKELY TO USE IN THE FUTURE
		EXTENSIVE	OCCASIONAL	
<u>COST REDUCTION</u>				
→ Deferred Tax Payments	11.2	2.2	8.1	13.7
Direct Cash Contribution to Project	39.4	7.5	30.7	36.6
Direct Loans to Private Business	47.2	16.5	28.3	48.4
Donation of Land to Developers	14.9	0.9	11.2	19.6
Donations of Unused Real Property	28.9	4.3	19.6	29.8
Foreign Trade Zones	19.9	5.0	15.2	37.6
Historic Preservation Designation	59.9	20.8	33.9	63.7
In-Kind Payment	27.3	4.7	18.6	27.3
Issuance of Tax-Exempt Bonds For Private Development	78.3	34.2	36.3	57.8
Land Write-Downs	45.3	10.2	23.0	44.7
Loan Guarantees	30.5	5.6	22.4	32.6
Loan Subsidies	39.8	12.1	22.4	38.5
Revolving Loan Funds	49.1	26.4	21.4	62.1
Sale-Lease Back	16.5	1.9	9.6	24.2
Shared Equity	18.9	2.5	11.8	27.6
Syndication	12.4	4.0	4.7	13.7
→ Tax Abatement	39.4	12.7	27.0	44.4
Taxable Bonds	13.0	3.4	9.6	37.9
Venture Capital	7.8	1.2	8.7	26.4
<u>CAPACITY IMPROVEMENT</u>				
Assignment of Air Rights	21.4	1.6	14.9	28.0
Building Construction/Renovation	38.8	15.8	20.2	42.9
Daycare Assistance	8.7	3.7	5.9	16.8
Development Fees (linkage)	17.4	5.0	13.4	27.0
Employee Training/Retraining	53.4	26.4	25.5	55.6
Entrepreneurial Assistance	37.3	16.5	26.4	51.9
Infrastructure Improvements	85.4	47.5	32.3	83.5
Land Acquisition	68.6	23.0	36.3	69.3
Land Clearance	60.6	20.5	30.4	57.8
Land Condemnation	56.5	14.0	30.1	56.2
Leasing of Land to Developers	31.7	6.8	21.7	46.3
Local Survey of Business Needs	56.2	19.3	30.4	66.1
Lot Consolidation	42.2	13.0	23.3	43.2
One Stop Business Center (permitting)	33.2	23.9	9.9	55.3
Procurement Assistance	20.2	6.5	17.7	30.7
Relaxation of Building or Zoning Regs.	22.7	2.5	18.3	24.2
Relaxation of Environmental Regs.	2.5	0.3	3.1	4.3
Relocation of Residents & Business from Redev. Areas	60.6	17.1	28.9	55.3
Sale of Land to Developers	69.3	22.4	36.0	72.0
Special Purpose Zoning	37.6	6.5	26.1	45.3
Strategic Planning	45.7	27.0	23.3	62.8
<u>MARKET EXPANSION</u>				
Advertising	54.0	21.7	36.0	62.4
Export Assistance	14.0	4.3	10.2	26.1
Marketing Strategy	53.7	29.5	28.6	68.9
Promotional Missions (domestic)	42.5	13.4	28.6	50.3
Trade Missions Abroad	25.5	4.0	20.2	32.0

Source:
League of Cities



REALTOR®

ANCHORAGE BOARD OF REALTORS®, INC.
510 WEST TUDOR, SUITE 8
ANCHORAGE, ALASKA 99503
(907) 561-2338



March 25, 1988

Mr. Scott Hawkins, President
Anchorage Economic Development Corporation
550 West 7th Avenue, Suite 850
Anchorage, Alaska 99501

Dear Mr. Hawkins:

On behalf of the Anchorage Board of Realtors I would like to take this opportunity to thank you for attending our forum discussion Thursday evening and presenting AEDC's proposed incentive legislation to our membership for discussion.

Although the turnout was not as good as I had hoped, I am happy to report that the support was very strong with only one person dissenting in the straw poll. The Anchorage Board of Realtors will take an official position in support of the legislation and recommend statewide support at the Alaska Association of Realtors Legislative meeting on March 31st.

In addition we would be willing to give public testimony in support of the legislation when you present it to the Anchorage Assembly on April 5, if you deem it helpful and appropriate. Please let me know if we can be of assistance.

Sincerely,

Anita Bates
President

Opinion

Friday, April 15, 1988

Special-interest bills to bail out businesses

This year's legislative session has been flooded with bills to create state-funded welfare programs for businesses, but the latest group is by far the worse.

Last Monday the Senate Finance Committee introduced SB502, the bankers' bail-out of 1988. Moving with uncommon speed, the first committee hearing is scheduled next Monday.

This bill would authorize the state to buy low-interest subordinate debentures from Alaska banks. There's no requirement that the bank be in any financial difficulty to deserve this largess, just that it have less than \$150 million in capital.

Most people are unfamiliar with the subordinate debenture, for the same reason that most people are unfamiliar with climbing the south face of Denali in the winter. A debenture is a form of unsecured long-term debt. A subordinate debenture is one where the lender agrees that all other claims against the borrower's assets will have priority over his own claim in the event that the company borrowing his money goes into liquidation, bankruptcy or reorganization.

Subordinate debentures are good for the borrower because they make it easier for him to borrow even more money from more pru-



**Fred
Pratt**

Views expressed here do not necessarily represent those of the Daily News-Miner

dent lenders. The subordinate position taken by the debenture owners means newer lenders have a more secure position, they can effectively get into line ahead of the subordinate debenture holder.

In the normal business world, the subordinate debenture carries higher interest rates to reflect the greater risk involved. That's not the case in SB502. It would require only a minimum interest rate of one-half of 1 percent more than the prevailing rate on municipal bonds of the same maturity, among the lowest rates in the lending market.

The money would be available to "a bank, savings bank or bank holding company" chartered in Alaska and with its principal office here.

The bank wouldn't have to start paying back the state's bail-out for 20 years. The only limit on the amount of new debt the state is will-

ing to buy is the amount of the bank's capital, surplus and undivided profits on Dec. 31, 1985, which reflects the high-point of most Alaska bank's recent balance sheets.

The bill would also give the state a special exemption from its laws limiting the amount of money it can loan to a single borrower. Subordinate debentures bought under this new program "may be issued without regard to the principal amount of the notes and debentures of the institution that are outstanding on the date of issuance."

For the banks that have done the poorest in the past two years, the bill allows the state to loan substantially more than the bank's net worth.

There's only one restriction on how the bank can spend all this money. The bank has to agree to invest at least 15 percent of the purchase price in areas of the state outside of metropolitan areas within three years after receipt of the purchase price.

The exact definition of "metropolitan area" is left up to the Alaska Industrial Development and Export Authority, which is to manage the program. The money is supposed to come from the same source that is supposed to supply the rest of AIDEA's business loans.

Interestingly the bill contains a

legislative finding that the state's banks have, "... during the last two years, lost a major portion of their capital due to circumstances not of their making." One might well argue with that, as one might also argue with other statements in the bill that it is intended to invest money "at minimum risk" with the aim of "increasing banking competition."

This brazen and shameless piece of special interest legislation bears the title, "An Act relating to the economic stabilization program." One commentator at a related legislative hearing Saturday noted that "economic stabilization" is something of a contradiction, since a healthy economy is by nature unstable.

He's right. "Economic stability" is in fact an economic coma, and SB502 would do little more than reinforce the status quo among our financial institutions.

Another welfare bill for industrialists is HB557, introduced Tuesday. It would allow municipalities to exempt or defer real or personal property taxes on "economic development property" in its jurisdiction.

An economic development property is any real or personal proper-

ty that may be depreciated for federal income tax purposes and is used in a trade or business in such a way that it creates employment, generates sales outside the municipality of goods and services produced in the municipality, or reduces the importation of outside goods or services.

A legislative staffer told me Wednesday this bill, which comes up for its first committee hearing April 20, will probably be amended to replace the "or" with an "and," making it less general and more aimed at export industries.

The third bill is so bad even its sponsors are afraid to make it public. It would let electric utilities grant similar preferential rates to business customers.

It took me four days of requests and one day of vile threats to get a draft of this bill, along with an explanation that it will be completely rewritten before it's introduced in the Legislature.

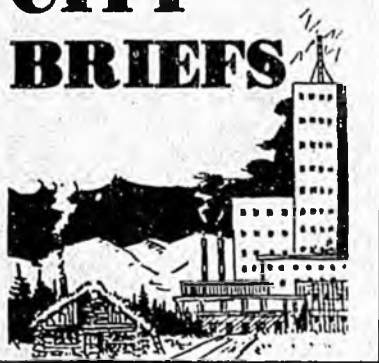
It and its companion bill on taxes were written by Scott Hawkins, a former bank economist who now heads an Anchorage economic development office.

Fred Pratt, a freelance writer living in Fairbanks, is a reporter and long-time observer of Alaska politics.

Fairbanks

Fairbanks Daily News-Miner, Fairbanks, Alaska

CITY BRIEFS



TODAY

6 p.m.—Fairbanks Libertarian Party TGIF supper club, 1604 Madison Drive. Bring your own cocktails. Dinner at 7 p.m. RSVP: 479-4250.

6:30 p.m.—Veterans of Foreign Wars Post and Auxiliary No. 3629 dinner, 3535 Holt Road. Information: 451-8810 or 452-4273.

6:30 p.m.—Catholic Ladies dinner and auction, Westmark Fairbanks, \$16. Please bring an item for the auction. Contest: Design your own hat. Information and reservations: 452-6029 or 452-3477.

7 p.m.—Al-Anon Alator meeting, St. Matthew's Episcopal Church. Information: 456-6458.

7:30 p.m.—Interior Farming Association meeting, Agriculture Museum, Tanana Valley Fairgrounds. Dan Nelson will speak on markets for agricultural products.

Disabled vet to lose Medicaid payments

Disabled veteran Jim Kincaid will lose his Medicaid payments in two weeks, but volunteers say they will help care for him at his Northward Building apartment.

Garth Patterson, public hearing officer for the state Division of Medical Assistance, determined Thursday that Kincaid, who has multiple sclerosis, is ineligible for Medicaid payments.

Kincaid receives \$812 in social security disability payments, and to be eligible for Medicaid he cannot make more than \$659 a month.

Earlier this year, a doctor had determined that Kincaid needed \$1,600 in monthly medical payments for an in-home care program.

Karel Parsons, a registered nurse who has helped Kincaid since he moved into the apartment three months ago, said she and Billie Keaster, a personal care attendant, will continue to help Kincaid even though he cannot afford to pay them.

City crews begin

Short Takes

Specials as a result of a lawsuit filed by the Sierra Club in 1986.

Dixon interim head of UA Museum

The University of Alaska named James Dixon acting director of the UA Museum. Dixon, the curator of the archeology collection, will replace Basil Hedrick, who leaves in June.

Hedrick is leaving to become director of the Michigan State University museum system.

Dixon joined the UA Museum in 1974, and was named an associate professor of archeology at the University of Alaska Fairbanks in 1982.

Cowper to fight cuts in aid to state

WASHINGTON—Gov. Steve Cowper Wednesday pledged to fight the proposed Reagan

Walley warns sta

A standoff Thursday over further purchases of property on the Savoy Bar block led Mayor Bill Walley to threaten to abolish the Fairbanks Development Authority.

"You're all my friends, I appointed all of you," Walley told the five of seven members present. But he said if the board didn't move to buy those properties, he had no alternative but to ask the Fairbanks City Council to disband the FDA.

"I think I've got the votes to do that. At that time, the city will take the money and will continue the negotiations," he said.

Four votes are needed by the board to adopt a motion. At one point the five members present couldn't muster votes to adjourn. Chairman Ray Kohler stood and tersely said he was leaving. Discus-

sion did resume, but without resolution.

Votes snagged 3-2 on various motions. Pat O'Rourke and Elizabeth Keating held firm that the prices negotiated for the two properties are too high. Kohler, Jim Messer and Gerald Victor were voting yes. Absent were Dave Rasley and Bob Bett'sworth.

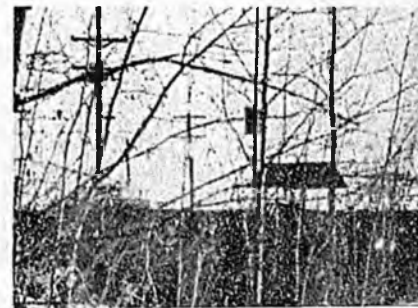
Discussion went round and round on the current real estate market, the comparable value of downtown property, the business income that will be lost by the sellers and what it might cost the city if condemnation is pursued.

The goal is to acquire all properties in the block between Second and Third avenues and Lacey and Noble streets, and ultimately level the buildings and construct a parking garage. The grant money is insufficient to achieve that at pre-

Baby may owe life to carseat

By NED ROZELL
Staff Writer

A child restraint seat may have prevented a tragedy Thursday night as a car containing two adults and an infant flew off an embank-



Mississippi Has An Objective Method

By Edward L. Thomas
and Anne Ashworth

It can spell economic chaos for a state.

A medical group claims that all personnel using its system at a local hospital are employees of the system and are highly trained. They want a tax abatement. A lift company submits a number of separate proposals all of which make a case for abatements. And another industry, knowing there are no objective criteria for deciding who qualifies for income tax or sales tax abatements on purchases, wants additional tax cuts.

Political and community pressure is brought to bear on selection boards to grant abatements for area businesses, and, ultimately, almost any type of industry, whether "high tech" or "low tech," is assured of reduced taxes.

Industries in every state are lining up at any available "tax trough." Without a program to evaluate who merits a tax abatement and who doesn't, states can make costly investments of tax dollars that don't always show a healthy return.

In Mississippi, where the current tax incentives can amount to \$1,000 per employee in state income tax abatements and exemptions on sales tax for supplies and materials used in expansion or construction of new facilities, we've developed a model for determining who qualifies for tax abatements. It is custom fitted to existing computer software so it can be easily used by

officials trying to coax companies into their areas.

Developed by a university research team working with the state Department of Economic Development, Mississippi's selection model helps determine which new or expanding industries are high tech by Mississippi standards, but other states can use it as an example for developing their own models.

What is needed are the following components:

- **A Data Bank.** In Mississippi, some 20 high-tech industries that had been declared eligible for tax abatements in the last two years were randomly selected to provide statistics for the data bank. They ranged from being marginal high tech to being state-of-the-art in technology. Since the term "high tech" is not readily definable, 10 indicators that are common to high-tech industries were used as benchmarks in the selection model. Five deal with average annual salaries of employees and five deal with capital investment. This information is provided by each industry when applications for tax abatements are filed with the state.

- **Data on Average Annual Salaries.** High-tech industries are perceived in Mississippi as those companies employing a large percentage of engineers, scientists, certified and skilled technicians and other skilled workers and a small percentage of semi-skilled and unskilled workers. Highly skilled workers are expected to be paid annual salaries competitive with their peers in other states. Weights are applied to salary data to reward those industries

that have a large percentage of highly skilled labor. Thus, with the application of the selection formula, companies with a majority of unskilled workers at low salaries will have little if any chance of obtaining state tax abatements unless they build and maintain operations in an area designated as economically depressed.

- **Capital Investment Data.** High tech in Mississippi also applies to companies that invest a large percentage of capital in research and testing, analytical labs, robotics, computers and computer-aided drafting and engineering equipment and other automated equipment. Weights are applied to capital expenditures for research, robotics and computers. Those industries with capital investments below average, when compared to the industries in the data bank, will also encounter problems receiving tax abatements.

- **Computer Application.** Mississippi uses a Lotus 1-2-3 computer software program to record information on average annual salaries and capital investment. Once the data bank was established, weights were applied and a numerical ranking of industries was developed using simple descriptive statistics. Industries with high positive rankings or scores are classified as high tech while those with low rankings and negative scores are classified as low tech. In processing a new application for tax abatements, the computer operator simply calls up the program and the data base, enters the salaries and capital investment data from the application and the computer does the rest. If the industry gets a positive score, a decision will be made to grant the tax abatements.

Professor Edward L. Thomas is a coordinator for the Research and Curriculum Unit of Mississippi State University. He and Anne Ashworth, a vice president of Butler Services of Mississippi Inc., helped design and implement the selection model that determines who receives tax abatements in Mississippi.



Representative Paul Schauer of Colorado, who served on the Lincoln Institute-NCSL committee, confers with Colorado Representative Betty Neale, a member of the Legislative Audit Committee.

rather than give away the state treasury to entice new industries and jobs."

Another important aspect of a good revenue system, the group believes, is substantial diversification over reasonably broad bases. This makes it possible to keep tax rates relatively low, which is important because "every tax has some undesirable effects, and they are magnified when rates are high." But, as Connecticut Representative Linda Emmons points out, "No two states are alike because of the differences in their history, natural resources and political values," so strict numerical standards for the proper balance among taxes cannot be determined.

Many parts of the statement owe something to earlier efforts. In addition to the

article by Kleine and Shannon, the 1984 report of the Minnesota Tax Study Commission inspired certain ideas. Robert Ebel, who served as the executive director of that commission, says members had extensive discussions before reaching a consensus about guiding principles and that he was sent back to his word processor three or four times to rewrite that part of the report. One of the Minnesota conclusions is that the use of taxes to achieve social and economic goals should be minimized.

The Lincoln Institute-NCSL group gave that notion a twist by saying that the revenue system "should not be used as an instrument of social policy to encourage particular activities, although it is appropriate to discourage some actions through tax policy." It

condemned state tax incentives "because a large proportion of the tax savings go to people and businesses for doing what they would have done in any case." On the other hand, it said, taxes are sometimes a good mechanism for discouraging socially undesirable activity, such as air and water pollution, smoking and excessive consumption of alcoholic beverages.

Among the other precepts endorsed by the report are these:

- A stable tax structure is important, so states should establish well-endowed Rainy Day Funds. Gary Olson, deputy director of the Michigan Senate Fiscal Agency, considers this one of the key recommendations.
- Complexity should be minimized, in part by avoiding special taxes on specific industries. Another consideration that should be taken more seriously in framing tax policy is how difficult that tax may be to administer.
- States should ensure that all local governments have sufficient resources to provide an adequate level of services, especially in view of federal cutbacks in aid to cities and counties.

Gilmore Dutton, who directs the Kentucky legislature's tax staff, summed up the spirit of the statement this way: "Principles of good tax policy by themselves sound like platitudes, but this statement can be used to develop a checklist to see how well a state's tax system measures up to what it ought to be. This is really a good working document if someone takes it to heart."

Dutton added that legislators are more likely to pay attention to this kind of statement because it comes from their counterparts rather than from some other source. This view was echoed by Senator Larry Levitan, chair of Maryland's budget and taxation committee, who said that "guidance to states is crucial, and this was a very fruitful effort that will be helpful to me and other chairmen of tax committees."



The Coming Boom in Biotechnology

The art is as old as civilization—as old as the use of yeast to leaven bread or to make wine, or to crossbreed animals to make better livestock. And thanks to advances in biology, the practice is about to undergo an explosive growth the likes of which none of us has ever seen. It has been hailed “a new industrial revolution” by Vice President George Bush. It has even earned its own name: biotechnology.

Biotechnology, by definition, is any technique that uses living organisms to make or modify products, or to improve plants and animals. This ability to take a beneficial characteristic of one living thing and introduce it into another living thing to add to its value will affect our lives in ways that stretch our imaginations almost beyond limit.

This newfound technology is already revolutionizing the field of human health care. Genetic engineering has produced, among other things, human insulin and tPA, the new product used to relieve heart attacks. It will without doubt revolutionize agriculture, with plants

By the year 2000, the biotechnology industry will be generating as much as \$100 billion of income worldwide.

protected from insects, disease and other stresses and pigs that produce leaner meat. And it will reach deeply into industries from mining to manufacturing, delivering new processes and new products. Biotechnology will be as basic to the 21st century as physics and chemistry were to the 20th.

But there's an interesting twist to the biotechnology story. While the United States recognizes its social contributions, only state governments have recognized its economic potential. By the year 2000, the biotechnology industry will be generating as much as \$100 billion of income worldwide.

More than 20 states have established biotechnology centers to conduct or facilitate collaborative research; to exchange information about research and potential products among universities, companies and the government; and to focus on biotechnology as an economic development tool.

The federal government, on the other hand, perceives biotechnology only as a regulatory issue. It coordinates and watches—as it should—all new biotechnology processes and products. But the fervor and excitement

among states about the economic potential of biotechnology are unmatched at the national level.

This is alarming because of our worldwide competition. The governments of Japan, Britain, France and other European countries have formally recognized biotechnology as important to the economic futures of their nations. They have decided where they want to put their focus, organized for progress, and in some cases, taken a major role in directing research, development and commercialization.

So while our government is doing a good job of making sure that nothing goes wrong in this technology, no one is expending much effort to see that things go right. Winston Churchill once said, “When the eagles are silent, the parrots begin to jabber.” We in this industry hear a lot from the parrots—the critics, the worriers, the doubters. We don't hear much from the eagles—from government, from opinion leaders, from all the stakeholders in biotechnology.

Practically all of us are stakeholders in biotechnology. Farmers, medical practitioners, environmentalists, naturalists, industrialists, economists, politicians—their lives, their interests, their goals can be affected by this technology in a profoundly positive way. But mostly, they are silent, and all I hear are parrots.

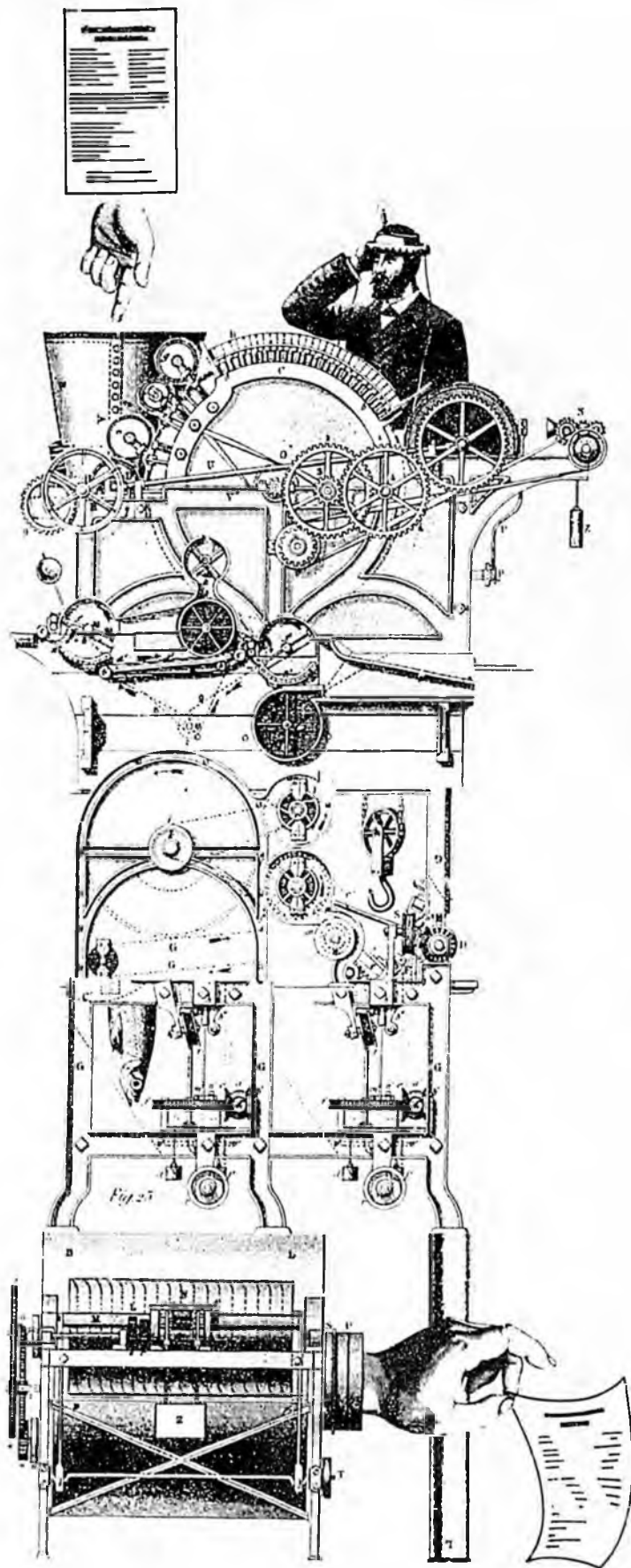
We need our eagles to speak up and I suggest that our nation's state legislators are some of our best eagles. We need a clear message from those of you who recognize that your states and your constituents—and the nation as a whole—stand to gain from biotechnology, that this is an important industry which should be encouraged to proceed as rapidly as good science permits.

Such a signal will tell entrepreneurs that their risks are worth taking, because positive social and political forces will see to it that the playing field is level. It will tell our nation's regulators that they can base their decisions on science, and not worry about the political wind shifts. In other words, it will create a more stable political, economic and social environment for this industry to mature at a pace that will keep us ahead of the very stiff competition we face.

If I said we could recreate the steel industry of 1949, with all its economic strength, its exports, its jobs, its contribution to the GNP, every state would be beating down my door. The biotechnology industry will dwarf steel in its heyday and rival anything we have seen in this century. The benefits of biotechnology will cascade through the economic systems of the nations that stay in its front ranks.

I urge state legislators to make sure the United States stays in the front ranks so that this country can reap the benefits from the technology it pioneered.

Earl H. Harbison Jr. is president of Monsanto, whose worldwide operations include agricultural products and chemicals.



- **Determining Eligibility.** Tax abatement eligibility may be determined at either the state level (governor's office, economic development office) or at the local level, simply by providing the locals with the computers, pertinent software and necessary training. Putting the control at the local level cuts out much of the red tape and time constraints for companies trying to decide where to locate.

- **Model Updating.** The data base should be upgraded every two years using statistics from the industries that have been granted tax relief. This will ensure that a state's requirements for high-tech tax abatements increase as technology improves.

- **Other Recommendations.** It is also necessary to have a process for checking the accuracy of information submitted by companies seeking tax abatements. Applications should be limited to one per year. States should also require that data provided by a company include the firm's entire work force and that material submitted for expansion programs average all expansion data with current data.

Partial applications should not be accepted for any reason. If automatic tax abatements are established for economically depressed areas in a state, these applications should be handled separately.

Setting up a system of graduated tax benefits is also worth exploring—breaking down your positive scores so that low positive scores mean smaller tax benefits and high scores mean larger tax benefits. A range in income tax exemptions from \$100 to \$1,000 per employee could be established in place of the automatic \$1,000 per employee for all applicants with positive scores, as in the case of Mississippi. Such a graduated procedure can save as much as 50 percent in a state's tax abatement program. Mississippi hopes to implement a graduated income tax range in 1989.

If states continue offering tax abatements they must take control over the problems such policies generate. A state with an objective, logical system for deciding who gets tax relief calls the shots when dealing with new and expanding industries. And that's the way it should be. Mississippi's model can be adapted to meet the needs and philosophies of any state seeking an equitable solution to what has turned into an economic Pandora's box. 