

SCOMM

98:1

FISCAL NOTE

Revision Date: _____ Dept. Affected: Revenue
Title: Economic Development Tax Credit BRU: Audit Operations
Sponsor: Rep. Kott Component: Income and Excise Audit
Requestor: (H) EDC COMPONENT SERIAL NO. 113

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	18.3	18.3	18.3	18.3	18.3	18.3
TRAVEL	1.0	1.0	1.0	1.0	1.0	1.0
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	19.3	19.3	19.3	19.3	19.3	19.3

CAPITAL						
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REVENUE FUND SOURCE:	19.3	19.3	19.3	19.3	19.3	19.3
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	*****	*****	*****	*****	*****	*****

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320

Division: Income and Excise Audit Date: 3/15/95

Approved by Commissioner: *[Signature]* Date: 3/15/95

Agency: Department of Revenue

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ALASKA DEPARTMENT OF REVENUE

Fiscal Note Analysis
HB 232 - Economic Development Tax Credit
March 15, 1995
Page 2 of 2

FISCAL ANALYSIS

Maximum Credit

The EDB determines the amount and duration of the credit to be awarded. A credit is not allowed for jobs that the taxpayer relocates from one site in the state to another site in the state. The credit may not exceed the lesser of 5% of the amount of gross wages payable as compensation to new employees or 25% of the tax due by the taxpayer under AS 44.20 (see technical correction below). The credit is in addition to all other credits that may be allowed under the corporation income tax provisions. The credit may be claimed for up to 10 consecutive taxable years after approval.

If Revenue determines that a taxpayer is not complying with the requirements of the agreement, a notice and hearing must be provided after which an enforcement action under AS 43.10 may be brought.

Operating Costs

In order to effectively implement this new program, considerable time and resources of impacted agencies would be needed for board activities and staff time to fulfill new requirements. Department of Revenue estimates the increase in operating costs to be \$19,250 which includes personal service costs of \$18,250. This work cannot be absorbed by existing staff during a time of continued budget reductions.

State Revenue Impact

Department of Revenue is unable to determine revenue impacts of this bill because it is not feasible to estimate the magnitude of projects eligible for credits under this bill and volume of applications that the EDB would receive for the credit.

Potential Legal Concerns

The United States Supreme Court has recently reaffirmed the fundamental principle that broad based taxes coupled with narrowly focused credits or exemptions favoring local interests offends the negative Commerce Clause of the United States Constitution. Thus, a tax credit targeted to a specific in-state activity, i.e. investment in an economic development project in Alaska, may be very vulnerable to a constitutional challenge.

STATE OF ALASKA
1995 LEGISLATIVE SESSION

FISCAL NOTE

BILL NOTE: HB 232

Revision Date: 3/20/95

Dept. Affected: Revenue

Title: Economic Development Tax Credit

BRU: Audit Operations

Component: Income and Excise Audit

Sponsor: Rep. Kott

Requestor: (H) ECD

COMPONENT SERIAL NO.

113

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES	18.3	18.3	18.3	18.3	18.3	18.3
TRAVEL	1.0	1.0	1.0	1.0	1.0	1.0
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	19.3	19.3	19.3	19.3	19.3	19.3

CAPITAL						
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REVENUE FUND SOURCE: GF	*****	*****	*****	*****	*****	*****
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FUNDING:

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	19.3	19.3	19.3	19.3	19.3	19.3
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	19.3	19.3	19.3	19.3	19.3	19.3

POSITIONS:

FULL-TIME	0.25	0.25	0.25	0.25	0.25	0.25
PART-TIME						
TEMPORARY						

Estimate of current (FY95) Impact \$

0.0

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert N. Bartholomew, Deputy Director

Phone: 465-2320

Division: Income and Excise Audit

Date: 3/20/95

Approved by Commissioner:

Date: 3/20/95

Agency: Department of Revenue

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ALASKA DEPARTMENT OF REVENUE

Fiscal Note Analysis - Revised 3/20/95
HB 232 - Economic Development Tax Credit
Page 2 of 2

FISCAL ANALYSIS

Maximum Credit

The EDB determines the amount and duration of the credit to be awarded. A credit is not allowed for jobs that the taxpayer relocates from one site in the state to another site in the state. The credit may not exceed the lesser of 5% of the amount of gross wages payable as compensation to new employees or 25% of the tax due by the taxpayer under AS 44.20 (see technical correction below). The credit is in addition to all other credits that may be allowed under the corporation income tax provisions. The credit may be claimed for up to 10 consecutive taxable years after approval.

If Revenue determines that a taxpayer is not complying with the requirements of the agreement, a notice and hearing must be provided after which an enforcement action under AS 43.10 may be brought.

Operating Costs

In order to effectively implement this new program, considerable time and resources of impacted agencies would be needed for board activities and staff time to fulfill new requirements. Department of Revenue estimates the increase in operating costs to be \$19,250 which includes personal service costs of \$18,250. This work cannot be absorbed by existing staff during a time of continued budget reductions.

State Revenue Impact

Department of Revenue is unable to determine revenue impacts of this bill because it is not feasible to estimate the magnitude of projects eligible for credits under this bill and volume of applications that the EDB would receive for the credit.

Potential Legal Concerns

The United States Supreme Court has recently reaffirmed the fundamental principle that broad based taxes coupled with narrowly focused credits or exemptions favoring local interests offends the negative Commerce Clause of the United States Constitution. Thus, a tax credit targeted to a specific in-state activity, i.e. investment in an economic development project in Alaska, may be very vulnerable to a constitutional challenge.

Technical Correction

Page 4, lines 19 and 20 should be changed to replace "this chapter" with "AS 43.20" as there are no taxes due under AS 44.33.

FISCAL NOTE

STATE OF ALASKA

BILL NO. HB 232

1995 LEGISLATIVE SESSION

Revision Date: March 20, 1995

Department: Commerce and Economic Development

Title: "An Act establishing an economic development tax credit; and providing for an effective date."

BRU: Economic Development

Component: Economic Development

Sponsor: Representative Kott

Requestor: Representative Kott

COMPONENT SERIAL NO. 801

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL	5.0	5.0	5.0	5.0	5.0	5.0
CONTRACTUAL	25.0	25.0	25.0	25.0	25.0	25.0
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	30.0	30.0	30.0	30.0	30.0	30.0

CAPITAL EXPENDITURES

CHANGE IN REVENUES

FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund	30.0	30.0	30.0	30.0	30.0	30.0
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	30.0	30.0	30.0	30.0	30.0	30.0

Estimate of any current year (FY 95) cost: \$ 0.0

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

This fiscal note includes \$5.0 in travel costs for the members of the Economic Development Board, \$5.0 in contractual services for public notices and board meeting costs, and \$20.0 in contractual services for economic and financial analyses of requests which come before the board.

Prepared by: William G. Paulick, Industrial Developer

Phone: 465-3961

Division: Economic Development

Date: 3/20/95

Approved by Commissioner: William L. Hensley

Date: 3/20/95

Agency: Commerce and Economic Development

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FISCAL NOTE

STATE OF ALASKA
1995 LEGISLATIVE SESSION

BILL NO. CS HB232 (STA)

Revision Date: April 12, 1995
Title: An Act establishing an economic development
tax credit
Sponsor: Representative Kott
Requestor: House State Affairs

Department: Commerce and Economic Development
BRU: Alaska Industrial Export and Development
Authority
Component: _____
COMPONENT SERIAL NO. 1234

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 General Fund						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 95) cost: \$ _____

POSITIONS

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

Prepared by: Guy Bell, Director
Division: Administrative Services
Approved by Commissioner: William L. Hensley
Agency: Commerce and Economic Development

Phone: 465-2505
Date: 4/12/95
Date: 4/12/95

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FISCAL NOTE

Revision Date: _____ Dept. Affected: Revenue
Title: Economic Development Tax Credit BRU: Audit Operations
Sponsor: Rep. Kott Component: Income and Excise Audit
Requestor: (H) STA COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING	FY 96	FY 97	FY 98	FY 99	FY 00	FY 01
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL						
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REVENUE FUND SOURCE: GF	*****	*****	*****	*****	*****	*****
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FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current (FY95) impact \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Robert N. Bartholomew, Deputy Director *Robert N. Bartholomew* Phone: 465-2320
Division: Income and Excise Audit Date: 4/13/95
Approved by Commissioner: *[Signature]* Date: 4/13/95
Agency: Department of Revenue

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ALASKA DEPARTMENT OF REVENUE

Fiscal Note Analysis
CSHB 232(STA)
April 13, 1995
Page 2 of 2

FISCAL ANALYSIS

Maximum Credit

The Alaska Industrial Development and Export Authority (AIDEA) determines the amount and duration of the credit to be awarded. A credit is not allowed for jobs that the taxpayer relocates from one site in the state to another site in the state. The credit may not exceed the lesser of 5% of the amount of gross wages payable as compensation to new employees or 25% of the tax due by the taxpayer under AS 44.88 (*see technical correction below*). The credit is in addition to all other credits that may be allowed under the corporation income tax provisions. The credit may be claimed for up to 10 consecutive taxable years after approval.

Operating Costs

Department of Revenue is submitting a zero fiscal note for HB 232(STA) contingent on understanding that AIDEA will assume responsibilities required under Section 1, page 2, lines 4 through 15. This fiscal note is based on a limited number of projects qualifying for the credit. If it is determined through further discussion with AIDEA and the bill's sponsor that the scope of this bill will apply to numerous projects, the Department may require additional staffing to verify credits through its audit program. Department of Revenue is working with AIDEA to clarify AIDEA's responsibilities in implementing the economic development tax credit program and the scope of application that this bill will have for qualifying projects.

State Revenue Impact

Department of Revenue is unable to determine revenue impacts of this bill because it is not feasible to estimate the magnitude of projects eligible for credits under this bill and volume of applications that AIDEA would receive for the credit. Initial discussions have indicated a small number of applications would qualify due to requirement for competition among two states for a new business opportunity. Discussions to refine intent of the legislation are ongoing. If this legislation in final form is applicable to most new business ventures the department may have additional policy concerns.

Technical Correction

Page 4, lines 12 and 13 should be changed to replace "this chapter" with "AS 43.20" as there are no taxes due under AS 44.88.

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT
March 21, 1995
9:04 a.m.

MEMBERS PRESENT

Representative Jerry Sanders, Chairman
Representative Carl E. Moses, Vice Chairman
Representative Pete Kelly
Representative Vic Kohring
Representative Eileen MacLean
Representative Norman Rokeberg

MEMBERS ABSENT

Representative Ed Willis

COMMITTEE CALENDAR

* HB 232: "An Act establishing an economic development
tax credit; and providing for an effective date."

(* First public hearing)

WITNESS REGISTER

REPRESENTATIVE PETE KOTT
Alaska State Legislature
Room 432, State Capitol
Juneau, Alaska 99801
Telephone: (907) 465-3777
POSITION STATEMENT: Prime Sponsor of HB 232

BILL PAULICK
General Business Development
Division of Economic Development
Department of Commerce and Economic Development
P.O. Box 110804
Juneau, Alaska 99801
Telephone: (907) 465-3961
POSITION STATEMENT: Supported the concept of HB 232

ROD MOURANT, Administrative Assistant
to Representative Pete Kott
Alaska State Legislature
Room 432, Capitol Building
Juneau, Alaska 99801
Telephone: (907) 465-3777
POSITION STATEMENT: Answered questions regarding HB 232

PREVIOUS ACTION

BILL: HB 232

SHORT TITLE: ECONOMIC DEVELOPMENT TAX CREDIT

SPONSOR(S): REPRESENTATIVE(S) KOTT

JRN-DATE	JRN-PG		ACTION
03/06/95	590	(H)	READ THE FIRST TIME - REFERRAL(S)
03/06/95	590	(H)	ECD, STA, L&C, FINANCE
03/21/95		(H)	ECD AT 09:00 AM CAPITOL 17
03/22/95	850	(H)	ECD RPT CS(ECD) 6DP

ACTION NARRATIVE

TAPE 95-5, SIDE A
Number 000

CHAIRMAN JERRY SANDERS called the House Special Committee on Economic Development to order at 9:04 a.m. He asked the secretary to do a roll call. Representatives Sanders, Kelly, Rokeberg and Moses were present. Representatives Kohring, MacLean and Willis were absent.

HECD - 03/22/95

HB 232 - ECONOMIC DEVELOPMENT TAX CREDIT

CHAIRMAN SANDERS noted for the record the first item of business would be House Bill 232. He stated Representative Pete Kott will give a sponsor statement.

Number 013

REPRESENTATIVE PETE KOTT, Prime Sponsor of HB 232, stated the legislature has done a number of things for various industries in Alaska as far as providing incentives, motivations and tax credits. He said the legislature did things for the mining industry and accommodated the oil and gas industry. However, there is another vast group of potential clients that represents the "all others" category. Representative Kott stated what this bill attempts to do is address the "all others" category in trying to attract new businesses to the state of Alaska in various fields. He said the bill sets up a board that will evaluate proposals that sets off the requirements to meet the board's demands as far as the clients tax payers bill and provides for tax relief for a period of up to ten years. He stated he has a proposed amendment he would like to introduce. He said there are some technical changes that need to be made to the bill as well as clarifying language.

Number 054

REPRESENTATIVE PETE KELLY stated the bill is a good idea and certainly consistent with the mission of rewarding people that create jobs.

Number 061

REPRESENTATIVE KOTT responded that the intent of the bill is to expand our economy to creating jobs, that is what this measure is all about.

Number 070

CHAIRMAN SANDERS asked if Representative Kott would like to put forth his amendment.

REPRESENTATIVE KOTT asked if each of the members had a copy of the bill. Amendment 1 was read as follows:

Page 1, Line 13, Delete: "[and]"

Page 1, Line 14, amend as follows:

"(1) may not be [claimed] awarded for more than 10 consecutive taxable years after approval; and [.]"

Page 2, Line 1, Insert a new section as follows:

"(3) cannot be used in a tax year by a taxpayer in conjunction with any other tax credit program."

Page 3, Line 26, amend as follows:

"expand[ing]s existing facilities in the state;"

Page 5, Line 8, amend as follows:

"reported under (6) of this subsection and after doing so shall issue a certificate of verification to the taxpayer stating that the amounts were verified;"

Number 179

CHAIRMAN SANDERS stated, for the record, that Representative Kohring arrived at 9:15 a.m.

REPRESENTATIVE KELLY made a motion to move Amendment 1.

Number 228

CHAIRMAN SANDERS noted Amendment 1 has been moved and asked if there was an objection. Hearing none, Amendment 1 was adopted.

CHAIRMAN SANDERS introduced Mr. Bill Paulick, Division of Economic Development and asked him to state his name for the record.

Number 239

BILL PAULICK, General Business Development, Division of Economic Development, Department of Commerce and Economic Development said he was also representing Commissioner Willie Hensley. He stated his role is more to convey their support for the concept and answer any questions that may be asked of the Department of Commerce.

MR. PAULICK stated he has a personal example having worked with Lancair Aviation Group that proposed to put a major aircraft facility in Alaska, last year, which would have employed 900 technicians, crafters and other of various occupations. He said one of the problems they had was the tax moratorium clause that they were looking for and did not receive. This would have gone a long way towards bringing that manufacturer to the state. He stated the numbers they were looking for were significantly different from the 25 percent shown here, but it would have gone a long way towards opening discussion to get them up here. He said in one instance, over the last 12 months, this would have been very beneficial to bringing one business to Alaska.

MR. PAULICK further stated he does not see where they are going to get a lot of response to this in terms of corporations, seeing they now have this clause in companies coming up to Alaska by the dozens. He thinks they will probably experience between three and five but there is no way to know. In judging from what other states have received in terms of response to legislation like this it seems like they probably have a half a dozen a year. Mr. Paulick stated their fiscal note reflects that presumption and they have shown \$30,000 for administration of the committee as well as performing the studies required on page 3, line 23, where in that case they would see if the projects were economically sound and do an analysis on each of the proposals.

MR. PAULICK stated one question they have with respect to content appears on page 4. Having discussed this with Lancair Aviation they were concerned they would take advantage of any tax moratorium and then leave the state. Mr. Paulick stated they prefer to see some teeth in that clause. He noted that particular clause is on page 28, "a requirement that the tax payer shall maintain operation at the project location for at least two times the number of years as the term of the tax credit." He said what if they do not, then we need to discuss what happens. Other than that, he stated they are in support of this concept.

Number 290

REPRESENTATIVE EILEEN MACLEAN stated she supports the bill but she would like to know the difference between the increases of the fiscal notes from \$19,300 to \$30,000.

MR. PAULICK asked if they have two different fiscal notes.

CHAIRMAN SANDERS noted one is from Commerce and Economic Development and one is from the Department of Revenue.

REPRESENTATIVE MACLEAN stated there is one for \$19,300 and one for \$30,000 and that it does increase the state government's fiscal notes. She asked Mr. Paulick to explain what these are for.

MR. PAULICK said the \$25,000 for contractual would allow us to perform the required studies. He said they will have to look at the proposals to see what the effect on the revenue is. Mr. Paulick stated that working together with the Department of Revenue which would judge the revenue, they would look at the proposal from an economic development standpoint as to whether or not the project is feasible. He referred to page 3, line 23, in the bill where it talks about whether or not the project is economically sound. He said it is going to take some time and effort. He also stated they are not in a position to absorb that currently so they would do that contractually with Alaska Industrial Economic Development Agency or another agency. The \$5,000 is for transportation for the Department of Commerce.

Number 330

REPRESENTATIVE MACLEAN stated, for the record, that it will increase the over all budget by \$49,000.

Number 337

REPRESENTATIVE VIC KOHRING asked Representative Kott or his aide if legislation has been submitted in other states so that we can use it as a guide for effectiveness.

Number 344

ROD MOURANT, Administrative Assistant to Representative Pete Kott, responded that their office contacted Legislative Research when they were doing their preliminary work. Legislative Research gave them an example, i.e. New York, Florida, Texas and Utah all used tax incentive type programs that demonstrate real development expansion in the industries in their state by awarding appropriate tax credit. Mr. Mourant stated these tax credits vary a little as far as percentages and the exact applications but many states are using this type of concept.

MR. MOURANT continued in response to the question raised by the Department of Commerce concerning enforcement. What happens if a tax payer violates the required length of time. Violators of any provisions of the bill would be subject to punishment under AS 43.10, Alaska's Department of Revenue tax enforcement and

collection statute.

Number 361

REPRESENTATIVE KOHRING asked the effects are. Have they followed up to see if this similar legislation in other states actually worked as far as the tax credit program.

Number 365

MR. MOURANT answered that a fine example is the state of Utah. The state of Utah's economy is booming is an understatement of what is happening there. It is because of a combination of regulatory reform, tax credit, and tax incentives for expansion and development of new businesses and increase of jobs in the state. It is literally a booming economy in the state of Utah.

Number 371

MR. PAULICK stated Department of Commerce would concur with that.

CHAIRMAN SANDERS asked Mr. Paulick this may not pertain to the bill, but he would like to know where did the aviation company go that they were negotiating with last year.

MR. PAULICK said they stayed right at home in Oregon. Oregon offered them more property and incentives that allowed them to expand in their current location.

Number 380

CHAIRMAN SANDERS asked if there were any more questions.

Number 382

REPRESENTATIVE KOHRING made a motion to move HB 232 bill out of committee with individual recommendations and fiscal notes as amended.

Number 385

CHAIRMAN SANDERS noted there is a motion to move CSHB 232(ECD) out of committee and asked if there are any objections.

CHAIRMAN SANDERS stated there being no objection, committee substitute for House Bill 232 is moved out of Economic Development Committee with the accompanying of the fiscal notes and individual recommendations.

CHAIRMAN SANDERS asked if there is anything else to come before the committee.

Number 389

REPRESENTATIVE KOHRING apologized for being late. He explained he was on teleconference with Anchorage.

CHAIRMAN SANDERS noted, for the record, Representative MacLean arrived at 9:15 a.m.

ADJOURNMENT

There being no further business to come before the committee, Chairman Sanders adjourned the meeting at 9:28 a.m.

HOUSE SPECIAL COMMITTEE ON ECONOMIC DEVELOPMENT

March 21, 1995

9:04 a.m. ✓

MEMBERS PRESENT

Representative Jerry Sanders, ~~President~~ *Chairman?*
Representative Carl E. Moses, Vice Chairman
Representative Pete Kelly
Representative Vic Kohring
Representative Eileen MacLean
Representative Norman Rokeberg

MEMBERS ABSENT

Representative Ed Willis

COMMITTEE CALENDAR

✓ * HB 232: "An Act establishing an economic development
tax credit; and providing for an effective date."

(* First public hearing)

WITNESS REGISTER

REPRESENTATIVE PETE KOTT

Alaska State Legislature
Room 432, State Capitol
Juneau, Alaska 99801
Telephone: (907)465-3777

POSITION STATEMENT: Prime Sponsor of HB 232

BILL PAULICK, General Business Development, *Division of Economic Development*
Department of Commerce and Economic Development
P.O. Box 110804

Juneau, Alaska 99801
Telephone: (907)465-3961

POSITION STATEMENT: Supported HB 232

the concept of

Administrative Assistant
ROD MOURANT, ~~Aide to Representative~~ Pete Kott

Alaska State Legislature
Room 432, Capitol Building

Juneau, Alaska 99801

Telephone: (907)465-3777

POSITION STATEMENT: *Answered questions on*
~~support~~ HB 232

ACTION NARRATIVE

TAPE 95-5, SIDE A

Number 000

CHAIRMAN JERRY SANDERS called the House Special Committee on Economic Development to order at 9:04 a.m. He asked the secretary to do a roll call. Representatives Sanders, Kelly, Rokeberg and Moses were present. Representatives Kohring, MacLean and Willis were absent.

CHAIRMAN SANDERS noted for the record the first item of business will be House Bill 232. He stated that Representative Pete Kott will give a sponsor statement.

Number 013

REPRESENTATIVE PETE KOTT stated the legislature has done a number of things for various industries in Alaska as far as providing incentives, motivations and tax credits. He said the legislature did things for the mining industry and accommodated the oil and gas industry. However, there is another vast group of potential clients that represents the "all others" category. Representative Kott stated what this bill attempts to do is address the "all others" category in trying to attract new businesses to the state of Alaska in various fields. He said the bill sets up a board that will evaluate proposals that sets off the requirements to meet the board's demands as far as the clients tax payers bill and provides for tax relief for a period of up to ten years. He stated he has an amendment he would like to introduce. He said there are some technical changes that need to be made to the bill as well as clarifying language.

Number 054

REPRESENTATIVE PETE KELLY stated the bill is a good idea and certainly consistent with the mission of rewarding people that create jobs.

Number 061

REPRESENTATIVE KOTT responded that the intent of the bill is to expand our economy to creating jobs, that is what this measure is all about.

Number 070

CHAIRMAN SANDERS asked if Representative Kott would like to put forth his amendment.

REPRESENTATIVE KOTT asked if each of the members had a copy of the bill. Amendment #1 was read as follows:

Pg.1,Ln.13 Delete "[and]"

Pg.1,Ln.14 Amend as follows:

"(1) may not be [claimed] awarded for more than 10 consecutive taxable years after approval; and [.]"

Pg.2,Ln.1 Insert a new section as follows:

"(3) cannot be used in a tax year by a taxpayer in conjunction with any other tax credit program."

Pg.3,Ln. 26 Amend as follows:

"expand[ing]s existing facilities in the state;"

Pg.5,Ln. 8 Amend as follows:

"reported under (6) of this subsection and after doing so shall issue a certificate of verification to the taxpayer stating that the amounts were verified;"

Number 179

CHAIRMAN SANDERS stated for the record the Representative Kohring arrived at 9:15 a.m.

REPRESENTATIVE KELLY made a motion to move ~~A~~ amendment number 1.

Number 228

if there was an objection

CHAIRMAN SANDERS noted that ~~A~~ amendment number 1 has been moved and asked for ~~any objection~~. ~~Without any objection,~~ *Hearing none,* amendment number 1 has been adopted for House Bill 232.

CHAIRMAN SANDERS introduced Mr. Bill Paulick, Division of Economic Development and asked him to state his name for the record.

Number 239

~~MR.~~ BILL PAULICK, Division of Economic Development, representing the Department of Commerce and Economic Development and Commissioner Willie Hensley. He stated his role is more to convey their support for the concept and answer any questions that may be asked of the Department of Commerce.

MR. PAULICK stated he has a personal example having worked with Lancair aviation group that proposed to put a major aircraft facility in Alaska last year that would have employed 900 technicians, crafters and various occupations. He said one of the problems they had was the tax moratorium clause that they looking for and did not receive. This would have gone a long way towards bringing that manufacturer to the state. He stated the numbers they were looking for were significantly different from the 25% shown here, but it would have gone a long way towards opening discussion to get them up here. He said in one instance the last 12 months this would have been very beneficial to bringing one business to Alaska.

MR. PAULICK further stated he does not see where they are going to get a lot of response to this in terms of corporations, seeing they now have this clause in companies coming up to Alaska by the dozens. He thinks

they will probably experience between 3 and 5 but there is no way to know. In judging from what other states have received in terms of response to legislation like this it seems like they probably have a half a dozen a year. Mr. Paulick stated their fiscal note reflects that presumption and they have shown \$30,000 for administration of the committee as well as performing the studies required on page 3, line 23 where in that case they would see if the projects were economically sound and do an analysis on each of the proposals.

MR. PAULICK stated one question they have with respect to content appears on page 4. Having discussed this with Lancair aviation they were concerned they would take advantage of any tax moratorium and then leave the state. Mr. Paulick stated they prefer to see some teeth in that clause. He noted that particular clause is on page 28, "a requirement that the tax payer shall maintain operation at the project location for at least two times the number of years as the term of the tax credit." He said what if they do not, then we need to discuss what happens. Other than that, he stated they are in support of this concept.

Number 290

REPRESENTATIVE EILEEN MACLEAN stated she supports the bill but she would like to know the difference between the increases of the fiscal notes from \$19,300 to \$30,000.

MR. PAULICK asked if they have two different fiscal notes.

CHAIRMAN SANDERS noted one is Economic Development and one is Revenue.

REPRESENTATIVE MACLEAN stated there is one for \$19,300 and one for \$30,000 and that it does increase the state government's fiscal notes. She asked Mr. Paulick to explain what these are for.

MR. PAULICK said the \$25,000 for contractual would allow us to perform the required studies. He said they will have to look at the proposals to see what the effect on the revenue is. Mr. Paulick stated that working together with the Department of Revenue which would

judge the revenue, they would look at the proposal from an economic development standpoint as to whether or not the project is feasible. He referred to page 3, line 23 in the bill where it talks about whether or not the project is economically sound. He said it is going to take some time and effort. He also stated they are not in a position to absorb that currently so they would do that contractually with Alaska Industrial Economic Development Agency or another agency. The \$5,000 is for transportation for the Department of Commerce.

Number 330

REPRESENTATIVE MACLEAN stated for the record that it will increase the over- all budget by \$49,000.

Number 337

REPRESENTATIVE VIC KOHRING asked Representative Kott or his aide if legislation has been submitted in other states so that we can use it as a guide for effectiveness.

Number 344

ROD MOURANT, aide to Representative Pete Kott, responded that their office contacted Legislative Research when they were doing their preliminary work. Legislative Research gave them an example. i.e. New York, Florida. Texas and Utah all used tax incentive type programs that demonstrate real development expansion in the industries in their state by awarding appropriate tax credit. Mr. Mourant stated these tax credits vary a little as far as percentages and the exact applications but many states are using this type of concept.

MR. MOURANT continued in response to the question raised by the Department of Commerce concerning enforcement. What happens if a tax payer violates the required length of time. Violators of any provisions of the bill would be subject to punishment under AS 43.10, Alaska's Department of Revenue tax enforcement and collection statute.

Number 361

REPRESENTATIVE KOHRING asked what are the effects. Have they followed up to see if this similar legislation in other states actually worked as far as the tax credit program.

Number 365

MR. MOURANT answered that a fine example is the state of Utah, that the state of Utah's economy is booming is an understatement of what is happening there. It is because of a combination of regulatory reform, tax credit, and tax incentives for expansion and development of new businesses and increase of jobs in the state. It is literally a booming economy in the state of Utah.

Number 371

MR. PAULICK stated Department of Commerce would concur with that.

CHAIRMAN SANDERS asked Mr. Paulick this may not pertain to the bill, but he would like to know where did the aviation company go that they were negotiating with last year.

MR. PAULICK said they stayed right at home in Oregon. Oregon offered them more property and incentives that allowed them to expand in their current location.

Number 380

CHAIRMAN SANDERS asked if there were any more questions.

Number 382

REPRESENTATIVE KOHRING made a motion to move ~~this~~ bill out of committee with individual recommendations and fiscal notes as amended.

~~HB~~ HB232
(ECD)

Number 385

CHAIRMAN SANDERS noted there is a motion to move ~~this bill~~ out of committee and asked if there are any objections.

CHAIRMAN SANDERS stated there being no objection, House Bill 232 is moved out of Economic Development Committee with the accompanying of the fiscal notes and individual recommendations.

CHAIRMAN SANDERS asked if there is anything else to come before the committee.

Number 389

REPRESENTATIVE KOHRING apologized for being late. He explained he was on teleconference with Anchorage.

CHAIRMAN SANDERS noted for the record that Representative MacLean arrived at 9:15 a.m.

ADJOURNMENT

There being no further business to come before the committee, Chairman Sanders adjourned the meeting at 9:28 a.m.

CS HB 232 (ECD)

Committee substitute

COMMITTEE TAPE LOG

COMMITTEE: Economic Development DATE: 3-21-95 TIME: 9:04 AM

SUBJECT: HB 232

MEMBERS: Chairman Sanders, Kelly, Maclean, Kohring,
Rokeberg, Willis, Moses

SPEAKER	TAPE#	SIGNIFICANT INFORMATION
	95-5 Side A	
Sanders	000	Called to order at 9:04
Kott	013	sponsor HB 232
		Asked for questions
Kelly	054	good idea for creating jobs
Kott	061	this measure is all about creating jobs
Sanders	070	
Kott		substitute & changes on proposed amendments on HB 232
	130	Additional changes
Sanders	179	Kohring arrived at 9:15 AM
Kott	192	change to certificate of verification
Sanders	228	
Kott	233	stand by for questions
Sanders		
Pollock	239	Analysis on proposals requirement
		Supportive of concept
Maclean	290	Supports bill
		explain difference between fiscal notes
Pollock	304	allow to perform the requirements
Maclean	330	will increase the overall budget by 49,000
Sanders	335	
Kohring	337	What is done in legislation
~~Pete Kott~~	344	
Rad Maurant		



Official Business

PLEASE PRINT!
NAME

COMMITTEE:

Economic Development

DATE: 3-21-95

SIGN-IN

Subject of meeting:

HB 232

ADDRESS (MAILING) & (ZIP)**PHONE**

REPRESENTING

DO YOU WANT TO TESTIFY?

[illegible]

HB 232
Proposed Amendments
9-LS0323\G

KOTT

AMENDMENT 1 -

Pg. 1, Ln. 13 Delete "[and]"

Pg. 1, Ln. 14 Amend as follows:

"(1) may not be [claimed] awarded for more than 10 consecutive taxable years after approval; and[.]"

AMENDMENT 2 -

Pg. 2, Ln. 1 Insert a new section as follows:

"(3) cannot be used in a tax year by a taxpayer in conjunction with any other tax credit program."

AMENDMENT 3 -

Pg. 3, Ln. 26 Amend as follows:

"expand[ing]s existing facilities in the state;"

AMENDMENT 4 -

Pg. 5, Ln. 8 Amend as follows:

"reported under (6) of this subsection and after doing so shall issue a certificate of verification to the taxpayer stating that the amounts were verified;"

CALL THE MEETING TO ORDER

ASK SECRETARY TO CALL THE ROLL

FIRST ITEM OF BUSINESS BEFORE THE COMMITTEE IS HB 232

**CALL THE BILL SPONSOR OR STAFF TO TESTIFY
QUESTIONS FROM THE COMMITTEE**

OPEN PUBLIC TESTIMONY

**ASK IF ANYONE HERE IN JUNEAU WISHES TO TESTIFY
ASK THEM TO STATE NAME AND AFFILIATION
ASK IF ANY COMMITTEE MEMBERS HAVE QUESTIONS**

CLOSE PUBLIC TESTIMONY

OPEN DEBATE AMONG COMMITTEE MEMBERS

ASK WHAT IS THE WILL OF THE COMMITTEE

**SOMEONE MOVES THE BILL
IS THERE OBJECTION**

IF YES ---DEBATE

**IF NO FURTHER DEBATE SECRETARY CALL
ROLE**

TALLY THE ROLE

IF NO BILL IS MOVE WITH ACCOMPANYING

FISCAL

NOTES

ADJOURN THE MEETING

*I move that we move HB 232
from this Comm. with accompanying
fiscal notes & recommendations*

HB 232
Proposed Amendments
9-LS0323\G

KOTT

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Pg. 1, Ln. 13 Delete "[and]"

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Pg. 5, Ln. ⁶8 Amend as follows:

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*check
Dead Space*

*McClan
Support
Board*

*Neco Amateur
900
Oregon*

Alaska State Legislature House of Representatives

COMMITTEE ASSIGNMENTS:

LABOR & COMMERCE, CHAIRMAN
MILITARY & VETERANS AFFAIRS, CHAIRMAN
COMMUNITY & REGIONAL AFFAIRS
RESOURCES
INTERNATIONAL TRADE / TOURISM
LEGISLATIVE COUNCIL

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SESSION:

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JUNEAU, AK 99801-1182
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SPONSOR STATEMENT HB 232

In the continuing effort to facilitate economic diversity in the State, House Bill 232 establishes the Economic Development Board in the Department of Commerce & Economic Development.

This board, whose membership is comprised of the Commissioner of Commerce, the Director of the Office of Budget & Management, the Commissioner of Revenue and two public members, has the authority to allow net income tax credits to taxpayers whose proposed project meets the criteria established in this legislation.

The legislation also makes provision for monitoring the project and calls on the Board to report on the performance of the program to the legislature.

I encourage your support for this legislation which provides an attractive incentive to foster economic development in the form of expanded business and employment in Alaska.



Representative Pete Kott



Alaska State Legislature House of Representatives

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SECTIONAL ANALYSIS HB232 - 9-LS0323\G

- Sec. 1. - Amends Alaska Net Income Tax section of law defining the economic development tax credit.
- Sec. 2. - Establishes an Economic Development Board in the Dept. of Commerce & Economic Development and defines its membership. It also establishes the criteria for qualifying for a tax credit and the administration of the program.
- Sec. 3. - Establishes the effective date of the act as January 1, 1996.



Representative Pete Kott



ALASKA DEPARTMENT OF REVENUE

Fiscal Note Analysis - Revised 3/20/95
HB 232 - Economic Development Tax Credit
Page 2 of 2

FISCAL ANALYSIS

Maximum Credit

The EDB determines the amount and duration of the credit to be awarded. A credit is not allowed for jobs that the taxpayer relocates from one site in the state to another site in the state. The credit may not exceed the lesser of 5% of the amount of gross wages payable as compensation to new employees or 25% of the tax due by the taxpayer under AS 44.20 (see technical correction below). The credit is in addition to all other credits that may be allowed under the corporation income tax provisions. The credit may be claimed for up to 10 consecutive taxable years after approval.

If Revenue determines that a taxpayer is not complying with the requirements of the agreement, a notice and hearing must be provided after which an enforcement action under AS 43.10 may be brought.

Operating Costs

In order to effectively implement this new program, considerable time and resources of impacted agencies would be needed for board activities and staff time to fulfill new requirements. Department of Revenue estimates the increase in operating costs to be \$19,250 which includes personal service costs of \$18,250. This work cannot be absorbed by existing staff during a time of continued budget reductions.

State Revenue Impact

Department of Revenue is unable to determine revenue impacts of this bill because it is not feasible to estimate the magnitude of projects eligible for credits under this bill and volume of applications that the EDB would receive for the credit.

Potential Legal Concerns

The United States Supreme Court has recently reaffirmed the fundamental principle that broad based taxes coupled with narrowly focused credits or exemptions favoring local interests offends the negative Commerce Clause of the United States Constitution. Thus, a tax credit targeted to a specific in-state activity, i.e. investment in an economic development project in Alaska, may be very vulnerable to a constitutional challenge.

Technical Correction

Page 4, lines 19 and 20 should be changed to replace "this chapter" with "AS 43.20" as there are no taxes due under AS 44.33.

Incentives: How Far Should Anchorage Go?

The *Wall Street Journal* recently reported that Amarillo, Texas -- a city of roughly 500,000 people -- is offering to pay companies up to \$10 million, or \$10,000 per employee, to locate there. This is not your typical "soft" economic development incentive. Amarillo is actually offering cold, hard cash... no strings attached.

MARY HUGHES

Newly elected
AEDC Chairman
and Partner at
Hughes,
Thorsness, Gantz,
Powell & Brundin

Amarillo is only one example of the hundreds of states and cities across the U.S. and throughout the world that are getting more and more aggressive in the economic development game. In all cases, the object of the game is to create jobs and stabilize economies.

Yet, incentives of any kind always provoke some measure of controversy. How aggressive is aggressive enough? At what point does aggressive become imprudent? What mechanisms can be established that ensure only projects with a high probability of success are lured by incentives? And how can the risk of failure be reduced to acceptable levels?

The AEDC board of directors has been grappling with these questions even more than usual this year, trying to find answers appropriate for Anchorage. In my first column as incoming board chairman, I would like to share with you some highlights of these debates.

The Lancair project was the at the center of this year's incentives debate. Lancair, an Oregon-based "kit" aircraft manufacturer was looking at Alaska locations to establish a new arm of its company -- the manufacture of fully assembled general aviation aircraft.

The company's primary interest in Alaska was how much venture financing the state was willing to put on the table to enable its owners to finance their venture with debt rather than be forced to concede equity to traditional venture capitalists. Anchorage and Mat-Su Valley emerged as the contenders for Lancair in Alaska. The company was also entertaining proposals from other parts of the world.

Lancair was not shy in its financing request -- more than \$12 million. In retrospect we also found that the company was looking for some debt forgiveness, free land and facilities, or other subsidies to help offset the higher cost of manufacturing in Alaska. The AEDC board debated whether or not to submit a financing proposal at all.

*"In the end,
AEDC's board decided
that, in certain
situations, offering to
assist with venture
financing should not
be ruled out."*

But, because the Lancair project had so much upside, including 600 well-paying manufacturing jobs and the potential for establishing a manufacturing base in Anchorage, the board directed management to submit a proposal.

In arriving at this decision, the board held two special board meetings. Debate centered around how aggressive Anchorage's proposal should be. Is 600 jobs worth a \$12 million risk? Should a city offer

that kind of money to help finance a private company when traditional financing institutions are demurring? Are the mechanisms in place to adequately evaluate credit risk?

In the end, AEDC's board decided that, in certain situations, offering to assist with venture financing should not be ruled out.

However, the board also decided that Anchorage's existing mechanisms for evaluating public sector participation in project financing are inadequate. Therefore, the board has directed AEDC management to survey the tools that other states and cities use for economic development financing, contrast them with what Alaska and Anchorage have available today, and recommend what changes, if any, would be desirable.

So what became of our Lancair proposal? We submitted a financing proposal that took a somewhat more conservative approach than company officials had requested, i.e., it involved sequential phasing of credit as the company achieved certain milestones, and it stipulated significant participation by one or more commercial banks.

While the proposal may have pushed the limits of Anchorage's aggressiveness threshold, it was not enough for Lancair (nor was Mat-Su's). And it was only in retrospect that we learned major, additional inducements would be required, beyond financing. Had that been clear early on, AEDC may have declined to even propose. It helps neither party to propose more than what can (or should) ultimately be delivered.

Nonetheless, the policy debates leading up to the Lancair proposal were extremely beneficial. And, once again, the Anchorage Assembly played a very positive role in this process, including providing letters of support that were included in the proposal itself. And, who knows? If improved local financing mechanisms are the ultimate outcome, Lancair will have made a tremendous contribution to Anchorage's future.

* * *