

SB

186

No. 1

FISCAL NOTE

Bill Version: CSSB 186(L&C)

(S) Publish Date: 3/18/96

**STATE OF ALASKA
1996 LEGISLATIVE SESSION**

Revision Date: _____
 Title: Limited Liability Partnerships
 Sponsor: Senate Labor & Commerce
 Requestor: Senate Labor & Commerce

Department: Commerce and Economic Development
 BRU: Banking, Securities and Corporations
 Component: Banking, Securities and Corporations
 COMPONENT SERIAL NO. 1233

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	00	00	00	00	00	00

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES	800	840	1040	1090	1150	1210
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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	00	00	00	00	00	00

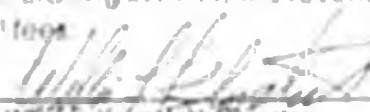
Estimate of any current year (FY 96) cost: \$ _____

POSITIONS

FULL-TIME	
PART-TIME	
TEMPORARY	

ANALYSIS: (Attach a separate page if necessary)

The revenue figures are based upon the current number of limited liability companies that have filed with the State of Alaska under the limited liability Act since July 1, 1995. Using those figures, the department estimates that approximately 324 limited liability partnerships (LLP) would file in FY 1997, and would increase at 5% per year. Starting in FY 99, the revenue figure anticipates additional revenue derived from biennial license renewal fees.



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 Division: Banking, Securities and Corporations
 Approved by Commissioner: William L. Hensley
 Agency: Commerce and Economic Development

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PRESENTATION TO THE SENATE LABOR AND COMMERCE
COMMITTEE ON SENATE BILL 186

MISTER CHAIRMAN AND MEMBERS OF THE COMMITTEE. MY NAME IS PETER DENN AND I AM AN ALASKAN CPA, HAVING LIVED AND WORKED IN THE STATE FOR THE LAST 22 YEARS. I AM THE MANAGING PARTNER OF THE ALASKA PRACTICE FOR DELOITTE & TOUCHE, WHICH NOW EMPLOYS APPROXIMATELY 50 ALASKANS, AND I AM HERE TODAY AS A MEMBER OF AND BEHALF OF THE ALASKA SOCIETY OF CPA'S. I GREATLY APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO SPEAK IN FAVOR OF SB 186, THE PROPOSED REGISTERED LIMITED LIABILITY PARTNERSHIP LAW.

BEFORE I TALK ABOUT THE BILL, I WOULD LIKE TO THANK YOU, SENATOR KELLY, THE MEMBERS OF YOUR COMMITTEE AND YOUR STAFF FOR YOUR PATIENCE OVER THE LAST YEAR. WE HAVE WORKED CLOSELY WITH THE ALASKA BANKERS, ESPECIALLY JOE SCHIERHORN AND JOHN BEARD, TO ARRIVE AT CONSENSUS BEFORE TODAY'S MEETING AND I BELIEVE YOU HAVE THE RESULTS OF THAT EFFORT BEFORE YOU

I WOULD LIKE TO POINT OUT THAT I AM NOT AN ATTORNEY THOUGH TODAY I AM ADDRESSING LEGAL FORMS OF ORGANIZATION. I BELIEVE, AS A

BUSINESSMAN, THAT THE LLP WILL BENEFIT SMALL AND GROWING BUSINESSES IN ALASKA AND ENHANCE OUR BUSINESS FRIENDLY ENVIRONMENT.

SELECTING THE FORM IN WHICH TO OPERATE IS ONE OF THE MOST SIGNIFICANT DECISIONS A CLIENT STARTING A BUSINESS, OR CONTINUING AN EXISTING ONE, WILL HAVE TO MAKE WITH RESPECT TO THAT BUSINESS.

THE CHOICE OF ENTITY WILL HAVE BROAD IMPLICATIONS. IT WILL AFFECT HOW THE BUSINESS IS CONDUCTED, THE PERSONAL AFFAIRS OF ITS OWNERS, AND EVEN IMPACT ON THE BUSINESSES' EMPLOYEES. TO CONTINUE TO ATTRACT AND RETAIN BUSINESSES, IT IS IMPORTANT THAT BUSINESSES HAVE, AND ALASKA PROVIDES, A FULL CHOICE OF FORMS IN WHICH BUSINESSES MAY OPERATE.

THE LIMITED LIABILITY PARTNERSHIP (OR LLP) IS A NEW TYPE OF GENERAL PARTNERSHIP THAT IS BEGINNING TO SWEEP THE NATION. THIRTY-EIGHT (38) STATES AND THE DISTRICT OF COLUMBIA HAVE ALREADY ADOPTED LLP LEGISLATION. TWELVE (12) ADDITIONAL STATES, NOW INCLUDING ALASKA, ARE CONSIDERING LLP LEGISLATION IN 1996.

THE LLP FORM IS APPEALING TO LOTS OF PARTNERSHIPS, BUT PARTICULARLY TO THE SEGMENT OF THE ECONOMY THAT IS GROWING THE FASTEST -- SMALL

BUSINESSES AND START-UP VENTURES. THIS IS BECAUSE IT HAS LOW START-UP COSTS, IS FLEXIBLE, AND RELATIVELY EASY TO OPERATE.

LLP'S PROVIDE A FLEXIBLE FORM OF ORGANIZATION FOR SMALL BUSINESSES THAT HELPS THEM OBTAIN PARITY WITH LARGER, BETTER CAPITALIZED ORGANIZATIONS WHICH CAN AFFORD THE ANCILLARY BENEFITS OF MORE COMPLICATED BUSINESS ORGANIZATIONS. AT THE SAME TIME, THE LIMITED LIABILITY PARTNERSHIP RETAINS MANY OF THE POSITIVE ATTRIBUTES OF A GENERAL PARTNERSHIP.

FIRST, IT IS SIMPLE TO FORM.

SECOND, IT IS SIMPLE TO OPERATE -- UNLIKE GENERAL CORPORATIONS, THERE ARE NO REQUIRED ARTICLES OF INCORPORATION BY-LAWS, BOARD OF DIRECTORS MEETINGS, ETC.

THIRD, IT IS TAXED LIKE A PARTNERSHIP -- MEANING THAT THE TAX LIABILITY FLOWS THROUGH DIRECTLY TO THE LLP'S PARTNERS.

THE LIMITED LIABILITY PARTNERSHIP ALSO HAS ONE OF THE POSITIVE ATTRIBUTES OF MORE COMPLICATED BUSINESS FORMS -- PARTIAL LIMITED LIABILITY.

INDIVIDUAL PARTNERS IN AN LLP ARE NOT PERSONALLY LIABLE FOR THE DEBTS AND OBLIGATIONS OF THE LLP ARISING OUT OF ERRORS, OMISSIONS, NEGLIGENCE, INCOMPETENCE, OR MALFEASANCE COMMITTED IN THE COURSE OF THE PARTNERSHIP BUSINESS BY ANOTHER PARTNER OR REPRESENTATIVES OF THE PARTNERSHIP NOT WORKING UNDER THEIR DIRECTION OR SUPERVISION.

PLEASE NOTE THAT ALL PARTNERS CONTINUE TO BE PERSONALLY LIABLE FOR THEIR OWN ACTS AND OMISSIONS AND THE ACTS AND OMISSIONS OF PERSONS OVER WHOM THEY HAVE CONTROL. ALL PARTNERS ALSO CONTINUE TO BE PERSONALLY LIABLE FOR ALL OTHER DEBTS AND OBLIGATIONS OF THE PARTNERSHIP.

THE LLP ITSELF REMAINS LIABLE FOR ALL OF THE ACTIONS OF ITS OWNERS AND EMPLOYEES AND THE LLP OWNERS REMAIN PERSONALLY LIABLE FOR THEIR OWN ACTIONS AND THE ACTIONS OF THOSE UNDER THEIR CONTROL. BUT, BEYOND ANY INVESTMENTS IN THE LLP ITSELF, THE PERSONAL ASSETS OF THE OWNERS AND THEIR FAMILIES NEED NOT BE SACRIFICED TO PAY JUDGMENTS ARISING FROM EVENTS OR ACTIONS OVER WHICH THEY HAVE NO CONTROL.

WHILE THE OTHER FORMS OF ORGANIZATION, SUCH AS CORPORATIONS, PROFESSIONAL CORPORATIONS, AND LIMITED PARTNERSHIPS, PROVIDE FAR MORE COMPREHENSIVE PROTECTION FOR THE PERSONAL ASSETS OF A BUSINESS OWNER AND GENERALLY PROTECT OWNERS FROM ANY ACTION AGAINST THE ENTITY, THEY ALSO CARRY WITH THEM SIGNIFICANT COSTS AND REQUIRE A LEVEL OF SOPHISTICATION TO SET UP AND OPERATE.

CONSEQUENTLY, THE LIMITED LIABILITY PARTNERSHIP SHOULD APPEAL TO THE TYPES OF BUSINESSES TODAY THAT ARE OPERATING AS PARTNERSHIPS AND THAT CAN NOT AFFORD OR DO NOT HAVE THE TIME TO DEAL WITH STATUTORY AND REGULATORY REQUIREMENTS OF QUALIFYING AND OPERATING AS THESE OTHER BUSINESS FORMS.

FROM ALASKA'S PERSPECTIVE, IT WILL BE A TREMENDOUS ADVANTAGE TO OFFER BUSINESS THE LLP FORM FOR THE FOLLOWING REASONS:

THE LLP IS BUSINESS DEVELOPMENT ORIENTED. STATES AT THE FOREFRONT OF ECONOMIC DEVELOPMENT ARE THERE BECAUSE THEY OFFER AN EXPANSIVE MENU OF ORGANIZATIONAL ALTERNATIVES FOR DOING BUSINESS. THEY ENABLE THE BUSINESSES IN THEIR STATES TO BE COMPETITIVE WITH BUSINESSES FROM OTHER STATES AND ABROAD BY ENABLING THEM TO USE THE BUSINESS FORM MOST SUITABLE TO THEIR BUSINESS SITUATION.

ENACTMENT OF LLP LEGISLATION IS CONSISTENT WITH PUBLIC POLICY POSITIONS ALREADY ADOPTED BY THE STATE. LIKE ANY BUSINESS FORM, THE PARTNERS IN AN LLP ALWAYS REMAIN RESPONSIBLE FOR THEIR OWN ACTIONS, AND THE PARTNERSHIP REMAINS RESPONSIBLE FOR THE ACTIONS TAKEN ON ITS BEHALF BY EMPLOYEES OR PARTNERS.

ADOPTION OF A LIMITED LIABILITY PARTNERSHIP LAW WILL PROVIDE A FAVORABLE BUSINESS CLIMATE -- AND WILL ESPECIALLY BENEFIT THAT PORTION OF THE ECONOMY THAT HAS THE POTENTIAL TO GROW THE FASTEST, SMALL BUSINESSES AND START-UP VENTURES.

A LLP LAW WILL ENABLE ALASKA TO MAKE AVAILABLE AN ORGANIZATION FORM AVAILABLE TO 4/5 OF THE NATION AND ALLOW BUSINESSES THAT ARE RESIDENT HERE TO BETTER COMPETE WITH OUT-OF-STATE FIRMS.

FOR THESE REASONS, WE URGE YOU TO ADOPT THIS LEGISLATION.

THANK YOU FOR ALLOWING ME TO APPEAR HERE. IF YOU HAVE ANY QUESTIONS, I WILL BE HAPPY TO TRY TO ANSWER THEM.