

**HB**

**36**

## House Committees

Labor & Commerce  
Military & Veterans Affairs  
State Affairs  
Regulation Review

# Alaska State Legislature Representative Joe Hayes

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*While in Juneau*  
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## Sponsor Statement

### HB 36, Enterprise Zones

The idea of Enterprise Zones originated in England under Margaret Thatcher and was brought to the United States by the Reagan Administration. The basic idea is to stimulate the economy of depressed areas by offering incentives, such as tax breaks, to businesses. Enterprise zones have gained bipartisan support from lawmakers across the country. 38 states have passed enterprise zone legislation and in 1994 the Clinton Administration reshaped the Enterprise Zone idea into a federal program named Empowerment Zones/Enterprise Communities (EZ/EC).

The purpose of HB 36 is to help reinvigorate Alaska's depressed urban and rural areas. By providing incentives, businesses will be more likely to develop in a depressed area. This will in turn provide more jobs to the community, increase the average household income and, therefore, also the standard of living. Enterprise zones work and have been yielding promising results for nearly two decades.

Traditionally, enterprise zones rely on credits towards or exemptions from state taxes or fees. In Alaska, however, there is little in the way of state taxes. Therefore, in order to make the concept fit, HB 36 is based on local control. The backbone of the incentive package is the local options. The designation of an Enterprise Zone would authorize local communities to offer the incentive or incentives of choice from a short list: 1) reductions in permit or user fees, 2) credits on or exemption from property taxes, 3) flexibility in regulation and, 4) lease or sale of real property to private persons.

On top of authorizing greater flexibility in providing local economic development incentives, HB 36 would also establish statewide corporate income tax credits. The two statewide incentives are: 1) 15% of the initial investment would count as a credit towards state corporate income taxes, and 2) After one year of operation within an Enterprise Zone, a business could qualify for a corporate income tax credit of \$500 per new employee.

HB 36 will also help facilitate access to federal Grant money. Various Grant programs are available through the federal Department of Housing and Urban Development (HUD). Most notable are the Community Development Block Grants and the federal EZ/EC program.

The goal of HB 36 is to encourage business development and economic growth while providing new options to Alaskan communities to improve the quality of life. HB 36 will be good for economic development in Alaska. Please join me in supporting this bill.

# LEGAL SERVICES

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## MEMORANDUM

January 24, 2001

**SUBJECT:** Sectional summary of HB 36 (Work Order No. 22-LS0294\A)

**TO:** Representative Joe Hayes

**FROM:**  Theresa L. Bannister  
Legislative Counsel

You have requested a sectional summary of the above-described bill.

As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

### Section 1. Adds new sections in a new article dealing with enterprise zones.

Sec. 44.33.311. Authorizes the governor to designate up to four enterprise zones each year from a prioritized list. A designation lasts for 20 years.

Sec. 44.33.313. Lists the requirements for geographical areas to be eligible to be enterprise zones.

Sec. 44.33.315. Allows a borough, a unified municipality, and certain cities to apply to the Department of Community and Economic Development to have a geographical area designated an enterprise zone. Lists what information must be provided in the application.

Sec. 44.33.317. Limits to three the number of designated enterprise zones that may exist within a qualifying municipality at the same time.

Sec. 44.33.319. Lists the incentives that a qualifying municipality may identify in its application that it will provide to the area in the proposed zone.

### Section 2. Adds the rest of the sections in the new enterprise zone article.

Sec. 44.33.321. Directs the department to verify the information and eligibility of areas proposed as enterprise zones. Directs the department to prioritize each year's applications according to certain listed items. Directs the department to use certain data from the latest completed U.S. census when determining the degree of economic distress of an

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area. Directs the department to transmit the prioritized list to the governor each year. Allows the department to recommend to the governor and the legislature incentives for enterprise zones.

Sec. 44.33.323. Allows a qualifying municipality that submits an application for an area to be designated an enterprise zone to appeal to the commissioner a determination that the area is not eligible to be an enterprise zone, a denial of the application (for a reason other than a determination of ineligibility), and the priority given to the application. States that the commissioner's determination may be appealed to the superior court. Directs the department to adopt regulations that establish the procedure for the appeal to the commissioner.

Sec. 44.33.325. Directs the department to establish by regulation deadlines for the submittal, review, and other administrative handling of applications. Directs that the deadlines be compatible with the deadlines for grant applications under 42.U.S.C. 5318a.

Sec. 44.33.327. Allows the department to adopt other regulations to implement the enterprise zone article. Directs that department regulations required or authorized for this article must be adopted under the state's Administrative Procedure Act.

Sec. 44.33.329. Defines terms for the enterprise zone article.

**Section 3.** Amends the municipal code to allow a borough, a unified municipality, and certain cities to partially or totally exempt by ordinance from taxation the property in an enterprise zone or to provide tax credits on taxes due on property in an enterprise zone.

**Section 4.** Amends a subsection of the state's income tax chapter to state that the tax credit limitation imposed by the subsection does not apply to enterprise zone investment tax credits under sec. 43.20.046 or to tax credits for new business facility employees under sec. 43.20.047.

**Section 5.** Amends the state's income tax chapter by adding new sections to allow enterprise zone tax credits.

Sec. 43.20.046. Allows a taxpayer to apply against the taxpayer's tax liability for a tax year 15 percent of certain investments in a new business facility in an enterprise zone during the tax year. Prorates the tax credit if the taxpayer has not operated the new business facility for the entire tax year. Reduces the tax credit by a certain amount if the new business facility replaces another facility. Defines certain terms for the section.

Sec. 43.20.047. Allows a taxpayer who establishes a new business facility for at least one year in an enterprise zone to apply, as a tax credit for the first full income tax year of the new business facility, \$500 for each new business facility employee who works in the zone. Indicates how to calculate the number of new business facility employees that may be claimed for credit. Defines certain terms for the section.

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Sec. 43.20.048. Defines certain terms for secs. 43.20.046 - 43.20.048.

Section 6. Adds implementation of the new enterprise zone article provisions to the department's duties.

Section 7. States that the bill's changes to the state's income tax chapter apply to tax years beginning on or after January 1, 2002.

If I may be of further assistance, please advise.

TLB:glc  
01-051.glc



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February 21, 2001

The Honorable Lesil McGuire, Chairman  
Special Committee on Economic Development, Trade and Tourism  
State Capitol Room 418  
Juneau, Alaska 99801

Dear Representative McGuire:

I would like to voice my support for House Bill 36 relating to Enterprise Communities and Empowerment Zones sponsored by Representative Joe Hayes.

As a Councilman from the City of Fairbanks and a 20-year resident of the area, I have seen boom and stagnation, development and depression. The city is currently in a state of slow growth and I would entertain any feasible legislative support to allow us to encourage growth at the community and municipal level. I believe HB 36 can do this for us.

The principles of HB 36 are simple: give cities and municipalities more local control to govern their own tax structure and offer the incentives for growth and business development.

For instance, there are specific areas in the South Fairbanks business district that are impoverished, but have a great potential for future growth and industrial development. The area in South Fairbanks has all of the necessary utilities, large tracts of land with good soils and police and fire coverage, yet remains undeveloped. The ability to offer tax credits or exemptions from property taxes for this particular area could greatly promote growth.

I would encourage the passage of House Bill 36 from this committee.

Respectfully,

Councilman Scott J Kawasaki  
City of Fairbanks

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**Proudly serving the citizens of the Golden Heart City**

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February 21, 2001

Representative Joe Hayes  
Alaska State House  
State Capitol  
Juneau, AK 99811

Dear Representative Hayes:

We are writing in support of HB 36, relating to the creation of enterprise zones. We believe passage of this legislation expands the list of tools available to the state and municipalities that could be used to facilitate urban renewal and encourage economic development in depressed areas of the state. As long as the formation of the enterprise zones remains a local option to be determined by the local community, we would encourage its passage.

We appreciate your taking a proactive role in offering an option to help communities find solutions to improve economic development. It is one of the top concerns of our membership.

If we can assist you further with this or any other municipal issue, please call on me.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin Ritchie', written over a horizontal line.

Kevin Ritchie  
Executive Director

Cc: Land Use, Resources & Economic Development Committee

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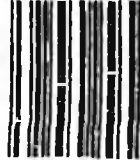
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# CRS Report for Congress

Received through the CRS Web

## Empowerment Zone/Enterprise Communities Program: Overview of Rounds I, II & III

Bruce K. Mulock  
Specialist in Business and Government  
Government and Finance Division

### Summary

In 1993, Congress set in motion a major economic development initiative designed to revitalize deteriorating urban and rural communities. The Empowerment Zone/Enterprise Communities (EZ/EC) program targeted federal grants for social services and community redevelopment, and provided tax and regulatory relief intended to attract and retain businesses in designated areas. It embraces a two-tier designation process. Originally, six urban and three rural areas were designated Empowerment Zones (EZs). They enjoy the bulk of the tax and grant incentives. An additional 60 urban and 30 rural areas were designated Enterprise Communities (ECs); they received a much smaller package of federal incentives.

In 1997, Congress created a Round II of the EZ/EC program, authorizing the designation of 20 additional EZs. Round II EZs were given a different mix of tax incentives. And, unlike the Round I EZs, the enabling legislation for Round II zones did not include Social Service Block Grant (SSBG) funding.

At the end of the post-election session, the 106<sup>th</sup> Congress passed legislation which included authorization for the Secretaries of HUD and Agriculture to designate nine additional EZs (seven urban and two rural) by January 1, 2001. The Consolidated Appropriations Act (P.L. 106-554) also included provisions that significantly effect Round I and Round II EZs. This report provides an overview of Rounds I and II of the EZ/EC program—including funding issues—as well as a summary of EZ-related provisions of P.L. 106-554. It will be updated as events warrant.

### Background

Over the past half century, Congress has enacted a half dozen or more major economic development initiatives designed to revitalize some of the nation's more impoverished areas. Beginning with the Housing Act of 1949 which authorized loans and capital grants to help selected localities undertake so-called slum clearance and urban redevelopment, through the Model Cities program (1966) which sought to improve urban

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: \_\_\_\_\_  
 Bill Version: HB 36  
 () Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): 02/22/2001 9:24a.m. Dept. Affected: DCED  
 Title: An Act relating to enterprise zones BRU: Comm.Asst & Econ.Dev  
 Component: Community & Business Development  
 Sponsor: Representative Hayes Component Number: 2486  
 Requester: House EDT&T

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services	33.1	16.6	16.6	16.6	16.6	16.6
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>33.1</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>

<b>CAPITAL EXPENDITURES</b>						
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<b>CHANGE IN REVENUES ( )</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
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**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	33.1	16.6	16.6	16.6	16.6	16.6
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>33.1</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>	<b>16.6</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time	0.50	0.25	0.25	0.25	0.25	0.25
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This legislation would create a new state-administered program of enterprise zones. It requires that the department develop regulations to operate the program, including a formal application and appeals process. The department would be required to annually perform analyses to determine if applications met specific requirements laid out in the legislation. The department would then prioritize applications and make recommendations to the Governor and the Legislature regarding appropriate enterprise zone incentives.

These requirements represent significant administrative duties that cannot reasonably be absorbed by existing staff. The department estimates that the new administrative functions would require an additional Development Specialist II position (Range 20a) for half of the first program year (during regulation and application process development); and, for a fourth of subsequent years for general program administration

Prepared by: Pat Poland, Director Phone 907-269-4580  
 Division: Community & Business Development Date/Time 02/22/2001 9:24a.m.  
 Approved by: Commissioner Deborah B. Sedwick Date 2/22/2001  
 Agency: Department of Community & Economic Development

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