

HB

306

<TARGET><BILL>HB 306</BILL><SUBJECT>HB
306</SUBJECT><COMM>SFIN28</COMM></TARGET>

SENATE FINANCE COMMITTEE REPORT

DATE: 4/17/14

FURTHER:

DATE TURNED
IN TO OFFICE: _____

Finance Committee considered CS FOR HOUSE BILL NO. 306(FIN)

HB 306-EVAL. INDIRECT EXPENDITURES; TAX CREDITS

"An Act relating to the review and administration of tax credit programs; requiring the Department of Revenue to report indirect expenditures; relating to the duties of state agencies; requiring the legislative finance division to analyze certain indirect expenditures; relating to lapse dates for appropriations for capital projects; repealing the insurance tax education credit, the income tax education credit, the veteran employment tax credit, the oil or gas producer education credit, the property tax education credit, the mining business education credit, the fisheries business education credit, the fisheries business tax credit for scholarship contributions, the fisheries business salmon product development tax credit, the fisheries business salmon utilization tax credit, the fisheries business landing tax credit for scholarship contributions, the fisheries resource landing tax credit for the fisheries resource harvested under the community development quota, the fisheries resource landing tax education credit, and the film production tax credit; and providing for an effective date."

and recommends:

- be replaced with SCS CS HB 306 (FIN) [] Same Title [] Technical Title Change
[] New Title/SCR No. _____
- [] adopt previous SCS _____ (_____) [] Same Title [] Technical Title Change
[] New Title/SCR No. _____
- [] attached amendment(s)
- [] adopt _____ Letter of Intent
- [] further referral to _____ Committee

Dept Abbr.	NEW FISCAL NOTE(S)					PREVIOUS FISCAL NOTE(S)				
	Dept.	Fiscal	Indet.	Zero	FN #	Dept.	Fiscal	Indet.	Zero	FN #
ADM LWF										
CED LAW						CED			✓	1
COR LEG						CED			✓	2
CRT MVA						LWF		✓		3
EED DNR						DNR			✓	4
DEC DPS						CED		✓		5
DFG REV						REV	✓			7
GOV DOT						LEG	✓			6
DHS UA										

[] APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	PRINTED LAST NAME	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Anna Fairclough</i>	FAIRCLOUGH	✓			
<i>Calvin Bishop</i>	BISHOP				✓
<i>Michael J. Dunaway</i>	DUNAWAY				✓
<i>Robert Hoffmann</i>	HOFFMAN			✓	
<i>William C. Johnson</i>	JOHNSON				✓
CO-CHAIR: <i>K. M. Meyer</i>	Meyer	✓			
CO-CHAIR: <i>Paul Kelly</i>		✓			

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 1
(H) Publish Date: 3/24/14

Identifier: HB306CS(FIN)-DCCED-DCRA-03-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Commerce, Community and Economic Development
Appropriation: Community and Regional Affairs
Allocation: Community and Regional Affairs
OMB Component Number: 2879

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues								
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Not applicable, initial version

Prepared By: Scott Ruby, Director
Division: Community and Regional Affairs
Approved By: Jeanne Mungle, Director
Agency: Administrative Services

Phone: (907)269-4569
Date: 03/21/2014 08:55 AM
Date: 03/21/14

FISCAL NOTE ANALYSIS #1

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

This bill would require that the division report on indirect expenditures. The division does have indirect expenditures reportable under the bill through the Bulk Fuel Loan Program, and a statutory allowable interest reduction incentive.

The division administers a substantial number of grants that are issued to named recipients. As of July 1, 2014 a total of 2,052 grants with an award amount of \$2.3 billion are under grant agreement.

The department currently substantially implements the intent of Section 5. All of our designated legislative grants are currently written with a term of 5 years. Seven months prior to the lapse of the grants, all grantees are notified of the lapse date and are requested to provide an status update of the project. They are given an opportunity to request an extension if they meet certain conditions, one of which is they have made substantial progress, or have definite plans to complete the project within the next 18 months.

There is no anticipated fiscal impact to the Division of Community and Regional Affairs from this bill.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 2
(H) Publish Date: 3/24/14

Identifier: HB306-DEC-FC-02-24-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance Committee

Department: Department of Environmental Conservation
Appropriation: Water
Allocation: Facility Construction
OMB Component Number: 637

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

Upon further review, this legislation does not affect the Village Safe Water program.

Prepared By: Tom Cherian, Director Phone: (907)465-5256
Division: Administrative Services Division Date: 02/28/2014 09:00 AM
Approved By: Lynn Kent, Deputy Commissioner Date: 02/28/14
Agency: Department of Environmental Conservation

FISCAL NOTE ANALYSIS #2

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

Analysis/Assumptions:

This bill has no financial impact on the Department of Environmental Conservation.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 3
(H) Publish Date: 3/24/14

Identifier: HB306CS(FIN)-DOLWD-AVTEC-03-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Labor and Workforce Development
Appropriation: Alaska Vocational Technical Center
Allocation: Alaska Vocational Technical Center
OMB Component Number: 2686

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services								
Travel								
Services								
Commodities								
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None								
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time								
Part-time								
Temporary								

Change in Revenues							***	***
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

Revised to reflect the change in the Education Tax Credit sunset to December 31, 2018

Prepared By: Paloma Harbour, Director	Phone: (907)465-5894
Division: Administrative Services	Date: 03/21/2014 12:30 PM
Approved By: Dianne Blumer, Commissioner	Date: 03/21/14
Agency: Office of the Commissioner	

FISCAL NOTE ANALYSIS #3

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

AVTEC has generated between \$50,000 to \$150,000 annually the past four years from Education Tax Credit donations that would be repealed as a part of this legislation.

The changes in revenue are uncertain as a result of repealing the tax credits.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 4
(H) Publish Date: 3/24/14

Identifier: HB306CS(FIN)-DNR-MLW-3-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Natural Resources
Appropriation: Land & Water Resources
Allocation: Mining, Land & Water
OMB Component Number: 3002

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services							
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues

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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

This fiscal note reflects the committee substitute adopted in the House Finance Committee. The CS removes the repeal of the mining exploration incentive credit (AS 27.30.010-27.30.099) and references to AS 38.05. Therefore, we remain status quo.

Prepared By: Wyn Menefee, Chief of Operations Phone: (907)269-8501
Division: Mining, Land and Water Date: 03/21/2014 09:00 AM
Approved By: Joe Balash, Commissioner Date: 03/21/14
Agency: Department of Natural Resources

FISCAL NOTE ANALYSIS #4

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

CSHB306(FIN) directs the Department of Revenue (DOR) to provide reports to the Legislature on the effect of indirect expenditures of several Departments that results in foregone revenue to the state. The bill would require the Department of Natural Resources (DNR) to provide DOR upon request, data necessary to complete this report for DNR indirect expenditures. The Legislative Finance Division would be required to review DNR's indirect expenditures beginning in 2017 with subsequent review every six years.

The bill also clarifies that unexpended balances of capital projects are valid for the life of the project if substantial, ongoing work has begun within five years after the effective date of the appropriation.

DNR does not anticipate needing additional resources to meet the provisions of the bill.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 5
(H) Publish Date: 3/24/14

Identifier: HB306-DCCED-DOI-03-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Department of Commerce, Community and Economic Development
Appropriation: Insurance Operations
Allocation: Insurance Operations
OMB Component Number: 354

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates				
			FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personal Services						***	***
Travel							
Services							
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	0.0	0.0	0.0	0.0	0.0	***	***

Fund Source (Operating Only)

None							
Total	0.0	0.0	0.0	0.0	0.0	***	***

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 (separate supplemental appropriation required)
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 (separate capital appropriation required)
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed? N/A

Why this fiscal note differs from previous version:

This version reflects a change in effective date to FY18.

Prepared By:	Lori Wing-Heier, Division Director	Phone:	(907)269-7900
Division:	Division of Insurance	Date:	03/21/2014 12:22 PM
Approved By:	Jeanne Mungle, Director	Date:	03/21/14
Agency:	Administrative Services		

FISCAL NOTE ANALYSIS #5

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

HB306 repeals certain statutes authorizing indirect expenditures, including the education tax credit and the tax credit for gifts to the Alaska Fire Standards Council. The education tax credit (AS 21.96.070) and the tax credit for gifts to the Alaska Fire Standards Council (AS 21.96.075) have generated premium tax credits totaling between \$250,000 to \$450,000 over the past five years.

The fiscal impact of this legislation cannot be accurately determined at this time, as changes in revenue are uncertain as a result of repealing the tax credits.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 6
(H) Publish Date: 3/24/14

Identifier: HB 306 - Leg. Finance
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: House Finance

Department: Alaska Legislature
Appropriation: Budget and Audit Committee
Allocation: Legislative Finance
OMB Component Number: 774

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015	Included in	Out-Year Cost Estimates				
	Appropriation Requested	Governor's FY2015 Request	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
OPERATING EXPENDITURES	FY 2015	FY 2015					
Personal Services							
Travel							
Services	25.0			25.0		25.0	
Commodities							
Capital Outlay							
Grants & Benefits							
Miscellaneous							
Total Operating	25.0	0.0	0.0	25.0	0.0	25.0	0.0

Fund Source (Operating Only)

1004 Gen Fund	25.0			25.0		25.0	
Total	25.0	0.0	0.0	25.0	0.0	25.0	0.0

Positions

Full-time							
Part-time							
Temporary							

Change in Revenues							
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? No
If yes, by what date are the regulations to be adopted, amended or repealed?

Why this fiscal note differs from previous version:

initial version

Prepared By: <u>David Teal</u>	Phone: <u>(907)465-3002</u>
Division: <u>Legislative Finance Division</u>	Date: <u>02/22/2014 12:00 PM</u>
Approved By: <u>David Teal</u>	Date: <u>02/22/14</u>
Agency: <u>Legislative Finance Division</u>	

FISCAL NOTE ANALYSIS #6

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

This bill :

- 1) requires the Department of Revenue to report indirect expenditures as they relate to the duties of state agencies ;
- 2) requires the Legislative Finance Division to analyze certain indirect expenditures ;
- 3) relates to lapse dates for appropriations for capital projects;
- 4) repeals certain statutes authorizing indirect expenditures; and
- 5) provides for an effective date.

Every year, the Legislative Finance Division shall analyze the indirect expenditure report provided by the Department of Revenue and deliver a report to the co- chairs of the finance committees in each house of the legislature. The report will be due no later than the first legislative day of each first regular session beginning with 2015.

The first review shall occur in the calendar year set out after each agency's name as follows, and subsequent reviews of each agency shall occur every six years:

- (1) Department of Commerce, Community, and Economic Development, 2015;
- (2) Department of Fish and Game, 2015;
- (3) Department of Health and Social Services, 2015;
- (4) Department of Labor and Workforce Development, 2015;
- (5) Department of Revenue, 2015;
- (6) Alaska Court System, 2017;
- (7) Department of Administration, 2017;
- (8) Department of Education and Early Development, 2017;
- (9) Department of Environmental Conservation, 2017;
- (10) Department of Natural Resources, 2017;
- (11) Department of Transportation and Public Facilities, 2017;
- (12) all remaining agencies, 2019.

The bill limits the period of analysis to approximately two weeks. Because the period of analysis coincides with the period for reviewing the Governor's budget, this fiscal note assumes that analysis will be limited to a brief assessment of the cost of each indirect expenditure versus economic impacts, and that the analyses will require contractual services.

Fiscal Note

State of Alaska
2014 Legislative Session

Bill Version: CSHB 306(FIN)
Fiscal Note Number: 7
(H) Publish Date: 3/24/14

Identifier: HB306CS(FIN)-DOR-TAX-03-21-14
Title: EVAL. INDIRECT EXPENDITURES; TAX CREDITS
Sponsor: THOMPSON
Requester: (H) Finance

Department: Department of Revenue
Appropriation: Taxation and Treasury
Allocation: Tax Division
OMB Component Number: 2476

Expenditures/Revenues

Note: Amounts do not include inflation unless otherwise noted below. (Thousands of Dollars)

	FY2015 Appropriation Requested	Included in Governor's FY2015 Request	Out-Year Cost Estimates					
			FY 2015	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
OPERATING EXPENDITURES								
Personal Services	377.4		261.4	261.4	116.0	116.0	116.0	
Travel	5.0		5.0	5.0	5.0	5.0	5.0	
Services	16.1		12.3	12.3	3.8	3.8	3.8	
Commodities	1.5		1.5	1.5	0.5	0.5	0.5	
Capital Outlay								
Grants & Benefits								
Miscellaneous								
Total Operating	400.0	0.0	280.2	280.2	125.3	125.3	125.3	

Fund Source (Operating Only)

1004 Gen Fund	400.0		280.2	280.2	125.3	125.3	125.3
Total	400.0	0.0	280.2	280.2	125.3	125.3	125.3

Positions

Full-time	1.0		1.0	1.0	1.0	1.0	1.0
Part-time							
Temporary	3.0		2.0	2.0			

Change in Revenues	***		***	***	***	***	***
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Estimated SUPPLEMENTAL (FY2014) cost: 0.0 *(separate supplemental appropriation required)*
(discuss reasons and fund source(s) in analysis section)

Estimated CAPITAL (FY2015) cost: 0.0 *(separate capital appropriation required)*
(discuss reasons and fund source(s) in analysis section)

ASSOCIATED REGULATIONS

Does the bill direct, or will the bill result in, regulation changes adopted by your agency? **Yes**
If yes, by what date are the regulations to be adopted, amended or repealed? **various**

Why this fiscal note differs from previous version:

Updated for changes in CS.

Prepared By:	Matt Fonder, Director	Phone:	(907)269-6620
Division:	Tax	Date:	03/21/2014 11:00 AM
Approved By:	Angela M. Rodell, Commissioner	Date:	03/21/14
Agency:	Department of Revenue		

FISCAL NOTE ANALYSIS #7

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis

Bill Language:

This bill would impact the Department of Revenue in two ways: First, it would repeal several existing tax credit programs; and second, it would institute a requirement for the department to create a new bi-annual report related to indirect expenditures.

This bill repeals several tax credit programs:

- The veterans employment, Winn Brindle scholarship, salmon utilization, and film production tax credits would be repealed effective 12/31/2016.
- The education tax credit which is allowed against 8 different tax types would be repealed effective 12/31/2018.
- The salmon product development and community development quota (CDQ) tax credits would be repealed effective 12/31/2020.

This bill provides transition language whereby any tax credits accrued before the effective dates identified above may be claimed in the year they are accrued or carried forward if allowed under existing provisions in each credit program.

Bi-Annual Report:

Beginning on July 1, 2014, this bill would require the Department to publish a new "Indirect Expenditure Report" providing detailed analysis of every "indirect expenditure" in the state. The report is due every other year. Indirect expenditures are broadly defined as tax credits, exemptions, deductions (not including deductions incurred in the normal course of a trade or business), discounts, exclusions, or other differential allowances that result in foregone revenue for the state. For each indirect expenditure made by the state, the Department would be required to identify: the name of the indirect expenditure, a brief description of the indirect expenditure, the statutory authority for the indirect expenditure, the date the indirect expenditure is set to sunset if applicable, the intent of the legislature in authorizing the indirect expenditure, the public purpose, estimate the annual revenue impact of the indirect expenditure for the past five years, estimate the cost to administer the indirect expenditure, and report the number of beneficiaries of the indirect expenditure. With the 5-year look-back for the revenue affects, the initial report would require a significant amount of data gathering and reporting. After the first report, the bi-annual reporting would require less effort, as the analysis done for the first report could be carried forward; for example, identifying the statutory authority and legislative intent in a subsequent year could be obtained from the first report.

There is no specific effective date for the expenditure reporting provisions within this bill. However, the bill indicates that the first report from the department is due no later than July 1, 2014. The Department recently began implementation of a new revenue management system. The system will not be fully implemented until the summer of 2016. Although some of the data needed to fulfill the reporting requirements of this legislation will reside in an automated system, the majority of the data would be extracted through manual processes. The July 1, 2014 due date for the first report is going to be very difficult to meet in any meaningful fashion.

Revenues:

The revenue impact of this bill is indeterminate. This bill would repeal several tax credit programs beginning on 12/31/2016 through 12/31/2020. In FY 2013, taxpayers claimed \$7.2 million in education tax credits, \$0.2 million in Winn Brindle scholarship credits, \$1.8 million in salmon product development tax credits, \$0 in veterans employment tax credits (this is a new program in 2013 for which we have no current data), \$0 in salmon utilization tax credits, \$0.5 million in Community Development Quota tax credits, and there are currently \$32.5 million in film production tax credits issued and outstanding with an additional \$60 million expected to be awarded within the next two fiscal years.

For FY 2015, revenue may be reduced if companies claim more credits due to the impending repeal. For FY 2017 and beyond, there would likely be indeterminate increases in revenue due to the elimination of the credit programs; however some of the credits can be carried forward to offset future tax liabilities.

FISCAL NOTE ANALYSIS #7

STATE OF ALASKA
2014 LEGISLATIVE SESSION

BILL NO. CSHB 306(FIN)

Analysis Continued

Revenues (cont.):

For the film production tax credit, a total of \$300 million was authorized for the program. For any credits pre-approved before the repeal date, those credits could be awarded for up to three years after repeal, and carried forward for an additional six years.

Expenditures:

This bill would require the Department of Revenue to analyze each and every indirect expenditure in the state. The Department currently administers 22 tax programs, and would also be required to analyze numerous programs in other state agencies. The initial compilation of this report would be a major undertaking and would require significant resources.

We anticipate needing at least 4 new positions in FY 2015 to undertake the initial analysis required of all indirect expenditures incurred by the Department of Revenue and all other state agencies; two Economist IIIs positions, one Tax Technician III position, and a College Intern IV. The new positions would be hired in FY 2015, to perform the significant research and work that would be needed in advance of the first report (which is required on the first day of FY 2015). Once the initial report is complete, we then anticipate that we will need to retain three positions for the next two years until the Tax Division's new revenue management system is fully implemented; one Economist III, one Tax Technician III, and a College Intern IV. In all future years, DOR believes it can prepare this report with a single Economist III. The costs shown include the payroll and benefits for the new positions, the interagency costs associated with these positions, the travel costs for these positions, and the computer and office supply costs. We anticipate the Economists IIIs and College Intern positions would be in Juneau and the Tax Technician position would be in Anchorage.

Although this legislation would repeal the film production tax credit program, because credits pre-approved before the repeal date would be allowed to be awarded up to three years after repeal, and carried forward for an additional six years, the film program and staffing would need to be maintained throughout the time horizon of this fiscal note. The repeal of the other tax credit programs would not result in a decrease in program costs to the department.

Regulations:

Regulations adopted by the department for the repealed tax credit programs would be repealed at various times following the expiration of time limits for claiming or carrying forward the relevant credits (i.e. in 2016 and beyond).

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

To: Senator Kevin Meyer
Senate Finance Committee

From: Representative Steve Thompson

Date: April 19, 2014

Re: Session Law References

Title

Sec 7 ch. 57, SLA 2003
Salmon Product Development Tax Credit

Sec 57, ch. 92, SLA 2010
Education Tax Credit

Secs. 40-42, ch. 51, SLA 2012
Film Tax Credit

Sec 22

Secs. 31-33, ch. 51, SLA 2012
Film Tax Credit

Sec 23

Secs. 3,5,7,10,14,16,18,21,23,25,28,30,32,35,37,39,42,44,46,49,51,53,55 ch. 92 SLA 2010
Education Tax Credit

Sec. 14, ch. 7 FSSLA 2011
Education Tax Credit

Sec. 15,17,19,21,23,25, ch. 74 SLASLA 2012

E-Mail: Representative.Steve.Thompson@akleg.gov

Education Tax Credit

Sec 24

Sec. 3, ch. 57 SLA 2003

Salmon Product Development Tax Credit

Salmon Utilization Tax Credit

Contingent Effect Section

Sec. 3 ch.57 SLA 2003 & Sec 7 ch. 57 SLA 2003

Salmon Product Development Tax Credit

Salmon Utilization Tax Credit

Sec. 4 ch. 3 SLA 2006

Salmon Product Development Tax Credit

Sec. 4 ch. 8 SLA 2008

Salmon Product Development Tax Credit

Sec. 3 ch. 102 SLA 2010

Salmon Product Development Tax Credit

Sec. 27

Sec. 42 ch. 51 SLA 2012

Film Tax Credit

Sec. 32 ch. 74 SLA 2012

Education Tax Credit

Sec 28

Sec. 57, ch. 92, SLA 2010

Education Tax Credit

Sec. 15, ch. 7, FSSLA 2011

Definition of Plant or Facility

Sec 29

Sec. 7 ch. 57, SLA 2003

Salmon Product Development Tax Credit

Salmon Utilization Tax Credit

Sec. ch.3 SLA 2006

Salmon Product Development Tax Credit

Sec. 4 ch.8 SLA 2008

Salmon Product Development Tax Credit

Sec. 3 ch. 102, SLA 2010

Salmon Product Development Tax Credit

Adopted 4/20/14

28-LS1396K
Nauman
4/19/14

**SENATE CS FOR CS FOR HOUSE BILL NO. 306(FIN)
IN THE LEGISLATURE OF THE STATE OF ALASKA
TWENTY-EIGHTH LEGISLATURE - SECOND SESSION**

BY THE SENATE FINANCE COMMITTEE

**Offered:
Referred:**

Sponsor(s): REPRESENTATIVES THOMPSON, Stoltze, Saddler, Millett, Chenault, Hawker, Keller, Tammie Wilson, Isaacson, Reinbold, Austerman, Olson, Hughes

A BILL

FOR AN ACT ENTITLED

1 **"An Act relating to the review and administration of tax credit programs; requiring the**
2 **Department of Revenue to report indirect expenditures; relating to the duties of state**
3 **agencies; requiring the legislative finance division to analyze certain indirect**
4 **expenditures; relating to lapse dates for appropriations for capital projects; relating to**
5 **lapse dates for capital budget grants; relating to capital expenditures; relating to**
6 **unexpended balances of capital projects; repealing the capital projects funds; repealing**
7 **the insurance tax education credit, the income tax education credit, the veteran**
8 **employment tax credit, the oil or gas producer education credit, the property tax**
9 **education credit, the mining business education credit, the fisheries business education**
10 **credit, the fisheries business tax credit for scholarship contributions, the fisheries**
11 **business salmon product development tax credit, the fisheries business salmon**
12 **utilization tax credit, the fisheries business landing tax credit for scholarship**

1 contributions, the fisheries resource landing tax credit for the fisheries resource
2 harvested under the community development quota, the fisheries resource landing tax
3 education credit, and the film production tax credit; providing for an effective date by
4 repealing the effective dates in sec. 7, ch. 57, SLA 2003, the effective date in sec. 57, ch.
5 92, SLA 2010, and the effective dates in secs. 40 - 42, ch. 51, SLA 2012; and providing
6 for an effective date."

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

8 * Section 1. AS 21.06.110 is amended to read:

9 **Sec. 21.06.110. Director's annual report.** As early in each calendar year as is
10 reasonably possible, the director shall prepare and deliver an annual report to the
11 commissioner, who shall notify the legislature that the report is available, showing,
12 with respect to the preceding calendar year,

13 (1) a list of the authorized insurers transacting insurance in this state,
14 with a summary of their financial statement as the director considers appropriate;

15 (2) the name of each insurer whose certificate of authority was
16 surrendered, suspended, or revoked during the year and the cause of surrender,
17 suspension, or revocation;

18 (3) the name of each insurer authorized to do business in this state
19 against which delinquency or similar proceedings were instituted and, if against an
20 insurer domiciled in this state, a concise statement of the facts with respect to each
21 proceeding and its present status;

22 (4) a statement in regard to examination of rating organizations,
23 advisory organizations, joint underwriters, and joint reinsurers as required by
24 AS 21.39.120;

25 (5) the receipt and expenses of the division for the year;

26 (6) recommendations of the director as to amendments or
27 supplementation of laws affecting insurance or the office of director;

28 (7) statistical information regarding health insurance, including the
29 number of individual and group policies sold or terminated in the state; this paragraph

1 does not authorize the director to require an insurer to release proprietary information;

2 (8) the annual percentage of health claims paid in the state that meets
3 the requirements of AS 21.36.495(a) and (d);

4 (9) the total amount of contributions reported and the total amount of
5 credit claimed under AS 21.96.075 [AS 21.96.070 AND 21.96.075]; and

6 (10) other pertinent information and matters the director considers
7 proper.

8 * **Sec. 2.** AS 21.09.210(j) is amended to read:

9 (j) The provisions of AS 21.96.075 [AS 21.96.070 AND 21.96.075] apply to a
10 taxpayer who is required to pay a tax due under this section.

11 * **Sec. 3.** AS 24.20.231 is amended to read:

12 **Sec. 24.20.231. Duties.** The legislative finance division shall

13 (1) analyze the budget and appropriation requests of each department,
14 institution, bureau, board, commission, or other agency of state government;

15 (2) analyze the revenue requirements of the state;

16 (3) provide the finance committees of the legislature with
17 comprehensive budget review and fiscal analysis services;

18 (4) cooperate with the office of management and budget in establishing
19 a comprehensive system for state budgeting and financial management as set out in
20 AS 37.07 (Executive Budget Act);

21 (5) complete studies and prepare reports, memoranda, or other
22 materials as directed by the Legislative Budget and Audit Committee;

23 (6) with the governor's permission, designate the legislative fiscal
24 analyst to serve ex officio on the governor's budget review committee; [AND]

25 (7) identify the actual reduction in state expenditures in the first fiscal
26 year following a review under AS 44.66.040 resulting from that review and inform the
27 Legislative Budget and Audit Committee of the amount of the reduction; **and**

28 **(8) not later than the first legislative day of each first regular**
29 **session of each legislature, conduct a review in accordance with AS 24.20.235 of**
30 **the report provided to the division under AS 43.05.095.**

31 * **Sec. 4.** AS 24.20 is amended by adding a new section to read:

1 **Sec. 24.20.235. Indirect expenditure report.** (a) Every two years, the
2 legislative finance division shall deliver to the chair of the finance committee in each
3 house of the legislature a report analyzing the indirect expenditure report created
4 under AS 43.05.095 for the appropriate agencies listed in this subsection. The first
5 review shall occur in the calendar year set out after each agency's name, as follows,
6 and subsequent reviews of each agency shall occur every six years:

7 (1) Department of Commerce, Community, and Economic
8 Development, 2015;

9 (2) Department of Fish and Game, 2015;

10 (3) Department of Health and Social Services, 2015;

11 (4) Department of Labor and Workforce Development, 2015;

12 (5) Department of Revenue, 2015;

13 (6) Alaska Court System, 2017;

14 (7) Department of Administration, 2017;

15 (8) Department of Education and Early Development, 2017;

16 (9) Department of Environmental Conservation, 2017;

17 (10) Department of Natural Resources, 2017;

18 (11) Department of Transportation and Public Facilities, 2017;

19 (12) all remaining agencies, 2019.

20 (b) The report prepared under this section must provide

21 (1) an estimate of the revenue foregone by the state because of the
22 indirect expenditure;

23 (2) an estimate of the monetary benefit of the indirect expenditure to
24 the recipients of the benefit of the indirect expenditure;

25 (3) a determination of whether the legislative intent of the indirect
26 expenditure is being met and, if necessary, a determination of why the legislative
27 intent of the indirect expenditure is not being met;

28 (4) a recommendation as to whether each indirect expenditure should
29 be continued, modified, or terminated, a basis for the recommendation, and the
30 expected effect on the economy of the state if the recommendation is executed; and

31 (5) an explanation of the methodology and assumptions used in

1 preparing the report.

2 * **Sec. 5.** AS 37.05.315(b) is amended to read:

3 (b) An appropriation or allocation for a grant to a municipality [FOR
4 CONSTRUCTION OF A PUBLIC FACILITY] lapses if substantial, ongoing work on
5 the project has not begun within five years after the effective date of the appropriation
6 or allocation.

7 * **Sec. 6.** AS 37.05.316 is amended by adding a new subsection to read:

8 (c) An appropriation or allocation for a grant to a named recipient that is not a
9 municipality lapses if substantial, ongoing work on the project has not begun within
10 five years after the effective date of the appropriation or allocation.

11 * **Sec. 7.** AS 37.05.317 is amended by adding a new subsection to read:

12 (c) An appropriation or allocation for a grant to an unincorporated community
13 lapses if substantial, ongoing work on the project has not begun within five years after
14 the effective date of the appropriation or allocation.

15 * **Sec. 8.** AS 37.07.062(a) is amended to read:

16 (a) Each appropriation bill authorizing capital expenditures required to be
17 submitted to the legislature in AS 37.07.020(a) must be accompanied by documents
18 supporting the expenditures [FOR EACH OF THE CAPITAL PROJECTS FUNDS
19 (AS 44.42.080)]. The documents must list, for each project, the

20 (1) project identification number;

21 (2) project title;

22 (3) source of funding;

23 (4) amount expended on the project during the preceding fiscal year,
24 the amount authorized for the current fiscal year, [AND] the amount proposed to be
25 expended during the succeeding fiscal year, **and the amount proposed to be**
26 **expended each year until project completion;**

27 (5) estimated start for construction;

28 (6) **cost of each subsequent phase with estimated construction start**
29 **and completion dates, for projects that will be completed in phases; and**

30 (7) schedule of bond elections pertaining to the appropriation,
31 including elections previously held. [THE TOTAL APPROPRIATION TO EACH

1 CAPITAL PROJECTS FUND MUST BE REFLECTED IN THE BALANCE SHEET
2 OF EACH FUND AS OF JUNE 30 OF EACH FISCAL YEAR.]

3 * Sec. 9. AS 37.15.420(a) is amended to read:

4 (a) There is established [A CAPITAL PROJECT FUND KNOWN AS] the
5 "International Airports Construction Fund," into which shall be paid the proceeds of
6 the sale of the bonds (except any accrued interest paid on them, which shall be paid
7 into the bond redemption fund) and grant or other money that is legally provided for
8 the same purposes for which the bonds are authorized. The money in the construction
9 fund shall be used to pay the costs of acquiring, equipping, constructing and installing
10 additions and improvements to and extensions of and facilities for the airports and
11 costs incidental thereto, including costs of the authorization, issuance and sale of the
12 bonds. To the extent provided in the bond resolution, money in the construction fund
13 may also be used for the payment of interest on the bonds during the period of actual
14 construction, and for a further period, not exceeding one year after the period of
15 construction, that may be provided in the bond resolution. Money in the construction
16 fund may also be transferred to the bond redemption fund, to the extent provided in
17 the bond resolution, to establish a reserve for the payment of the principal of and
18 interest on the bonds.

19 * Sec. 10. AS 37.25.020 is amended to read:

20 **Sec. 37.25.020. Unexpended balances of appropriation for capital projects.**
21 An appropriation made for a capital project is valid for the life of the project, and the
22 unexpended balance shall be carried forward to subsequent fiscal years **if substantial,**
23 **ongoing work on the project has begun within five years after the effective date of**
24 **the appropriation.** Between July 1 and August 31 of each fiscal year, a statement
25 supporting the amount of the unexpended balance required to complete the projects for
26 which the initial appropriation was made and the amount that may be lapsed shall be
27 recorded with the Department of Administration. **The office of management and**
28 **budget, in coordination with the Department of Administration, shall deliver to**
29 **the house and senate finance committees a report of unexpended balances of**
30 **appropriations for capital projects not later than the 15th day of each regular**
31 **session of the legislature.**

1 * **Sec. 11.** AS 43.05 is amended by adding a new section to read:

2 **Sec. 43.05.095. Indirect expenditure report.** (a) The commissioner shall, not
3 later than July 1 before the first regular session of each legislature, submit a report to
4 the chair of the finance committee of each house of the legislature and to the
5 legislative finance division that states, for each indirect expenditure made by the state,

6 (1) the name of the indirect expenditure;

7 (2) a brief description of the indirect expenditure;

8 (3) the statutory authority for the indirect expenditure;

9 (4) the date the statute authorizing the indirect expenditure is to be
10 repealed, if applicable;

11 (5) the intent of the legislature in enacting the statute authorizing the
12 indirect expenditure;

13 (6) the public purpose served by the indirect expenditure;

14 (7) the estimated annual effect on revenue of the indirect expenditure
15 for the previous five fiscal years, excluding the fiscal year immediately preceding the
16 date the report is due;

17 (8) the estimated cost to administer the indirect expenditure, if
18 applicable;

19 (9) the number of beneficiaries of the indirect expenditure.

20 (b) For purposes of (a) of this section, federal tax credits adopted under
21 AS 43.20.021 shall be reported in the aggregate.

22 (c) A department, agency, or public corporation of the state shall, upon the
23 request of the commissioner, provide the records, reports, data analysis, or other
24 information necessary for the commissioner to complete the report required by this
25 section. The commissioner may enter into a confidentiality agreement if necessary to
26 obtain information or a record required to prepare the report under this section.

27 (d) In this section, "indirect expenditure" means an express provision of state
28 law that results in foregone revenue for the state by providing

29 (1) a tax credit or other credit;

30 (2) an exemption, but does not include federal tax exemptions adopted
31 by reference in AS 43.20.021;

- 1 (3) a discount;
- 2 (4) a deduction, but does not include costs incurred in the ordinary
- 3 course of business that are deducted in the calculation of a tax under this title or in the
- 4 calculation of a royalty or net profit share payment for a lease issued under AS 38;
- 5 (5) a differential allowance.

6 * **Sec. 12.** AS 43.75.035(e) is amended to read:

7 (e) Qualified investment costs upon which a tax credit is claimed under this
 8 section may not be considered for another tax credit in this title. A tax credit applied
 9 under this section [TOGETHER WITH A TAX CREDIT APPLIED UNDER
 10 AS 43.75.036] may not exceed 50 percent of the taxpayer's tax liability incurred for
 11 the processing of salmon during the tax year.

12 * **Sec. 13.** AS 43.75.035(h) is amended to read:

13 (h) The amount of a tax credit recaptured under (g)(1) - (3) of this section may
 14 not be included in the determination of the amount of that tax credit that is allowable
 15 under this section [OR AS 43.75.036].

16 * **Sec. 14.** AS 43.75.130(f) is amended to read:

17 (f) For purposes of this section, tax revenue collected under AS 43.75.015
 18 from a person entitled to a credit under AS 43.75.035 [, 43.75.036, OR AS 43.98.030]
 19 shall be calculated as if the person's tax were collected without applying the credit; tax
 20 revenue collected does not include the amount of a tax credit recaptured under
 21 AS 43.75.035(g) [OR 43.75.036(g)].

22 * **Sec. 15.** AS 43.77.050(b) is amended to read:

23 (b) The tax collected under this chapter shall be paid into a separate account in
 24 the general fund. The annual balance in the account may be appropriated by the
 25 legislature for revenue sharing under AS 43.77.060. [THE AMOUNT OF ALL TAX
 26 CREDITS APPROVED BY THE COMMISSIONER UNDER AS 43.77.040(b)
 27 SHALL BE DEDUCTED FROM AMOUNTS PAID TO MUNICIPALITIES UNDER
 28 AS 43.77.060(a) - (c).]

29 * **Sec. 16.** AS 43.77.060(e) is amended to read:

30 (e) For purposes of this section, tax revenue collected under AS 43.77.010
 31 from a person entitled to a credit under AS 43.77.045 [AS 43.77.035, 43.77.045, OR

1 AS 43.98.030] shall be calculated as if the person's tax had been collected without
2 applying the credits.

3 * **Sec. 17.** AS 37.07.062(b), 37.07.062(c), 37.07.062(d); and AS 44.42.080 are repealed.

4 * **Sec. 18.** AS 24.20.271(12); AS 43.20.048; AS 43.75.032, 43.75.036, 43.75.130(b);
5 AS 43.77.035; AS 43.98.030; AS 44.25.100, 44.25.105, 44.25.110, 44.25.115, 44.25.120,
6 44.25.125, 44.25.130, 44.25.135, 44.25.140, 44.25.145, 44.25.150, 44.25.190; and
7 AS 44.33.231(c) are repealed.

8 * **Sec. 19.** AS 21.66.110(b); AS 21.96.070, 21.96.075(c)(2); AS 43.05.010(15);
9 AS 43.20.014; AS 43.55.019; AS 43.56.018; AS 43.65.018; AS 43.75.018, 43.75.130(g);
10 AS 43.77.045, and 43.77.060(e) are repealed.

11 * **Sec. 20.** AS 43.75.035 and 43.75.130(f) are repealed.

12 * **Sec. 21.** AS 43.77.040 is repealed.

13 * **Sec. 22.** Sections 31, 32, and 33, ch. 51, SLA 2012, are repealed.

14 * **Sec. 23.** Sections 3, 5, 7, 10, 14, 16, 18, 21, 23, 25, 28, 30, 32, 35, 37, 39, 42, 44, 46, 49,
15 51, 53, and 55, ch. 92, SLA 2010, sec. 14, ch. 7, FSSLA 2011, and secs. 15, 17, 19, 21, 23,
16 and 25, ch. 74, SLA 2012, are repealed.

17 * **Sec. 24.** Section 3, ch. 57, SLA 2003, is repealed.

18 * **Sec. 25.** The uncodified law of the State of Alaska is amended by adding a new section to
19 read:

20 **TRANSITION.** (a) A taxpayer that accrues a credit authorized by a statute repealed by
21 secs. 17 - 21 of this Act before the effective date of the repeal of the credit under this Act, but
22 whose tax year ends on or after the effective date of the repeal of the credit under this Act,
23 may take the tax credit in the tax year the taxpayer accrues the credit, or, if the credit may be
24 carried forward, the credit may be carried forward in accordance with the statute under which
25 it was accrued.

26 (b) For purposes of AS 43.75.130, tax revenue collected under AS 43.75.015 from a
27 person entitled to a credit under AS 43.75.035, 43.75.036, or AS 43.98.030 shall be calculated
28 as if the person's tax were collected without applying the credit; tax revenue collected does
29 not include the amount of a tax credit recaptured under AS 43.75.035(g) or 43.75.036(g). For
30 purposes of AS 43.77.060, tax revenue collected under AS 43.77.010 from a person entitled to
31 a credit under AS 43.77.035, 43.77.045, or AS 43.98.030 shall be calculated as if the person's

1 tax had been collected without applying the credits.

2 (c) Subject to AS 43.98.030, secs. 18 and 31 of this Act do not prohibit the film office
3 from determining the qualified expenditures of a film production, awarding a tax credit, or
4 reviewing a tax credit for a production that has received a notice of qualification under
5 AS 44.25.120(b) before December 31, 2016, or the Department of Revenue from providing a
6 transferable film production tax credit to a producer under AS 43.98.030(a), by applying the
7 provisions repealed by sec. 18 of this Act, the regulations adopted by the Department of
8 Commerce, Community, and Economic Development under AS 44.25.100 - 44.25.190, and
9 the regulations adopted by the Department of Revenue under AS 43.98.030.

10 * **Sec. 26.** The uncodified law of the State of Alaska is amended by adding a new section to
11 read:

12 CONTINGENT EFFECT. Sections 20, 21, and 27 of this Act take effect only if the
13 Twenty-Eighth Alaska State Legislature passes a bill that becomes law that further delays the
14 repeal of AS 43.75.035 under sec. 3, ch. 57, SLA 2003, and sec. 7, ch. 57, SLA 2003, as
15 amended by sec. 4, ch. 3, SLA 2006, sec. 4, ch. 8, SLA 2008, and sec. 3, ch. 102, SLA 2010,
16 beyond January 1, 2019.

17 * **Sec. 27.** Sections 40 - 42, ch. 51, SLA 2012, and sec. 32, ch. 74, SLA 2012, are repealed.

18 * **Sec. 28.** Section 57, ch. 92, SLA 2010, as amended by sec. 15, ch. 7, FSSLA 2011, is
19 repealed.

20 * **Sec. 29.** Section 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006, sec. 4, ch. 8,
21 SLA 2008, and sec. 3, ch. 102, SLA 2010, is repealed.

22 * **Sec. 30.** Sections 5 - 10 and 17 of this Act take effect July 1, 2014.

23 * **Sec. 31.** Sections 12 - 14, 16, 18, 22, and 27 of this Act take effect December 31, 2016.

24 * **Sec. 32.** Sections 1, 2, 19, 23, and 28 of this Act take effect December 31, 2018.

25 * **Sec. 33.** If secs. 20, 24, and 29 of this Act take effect under sec. 26 of this Act, they take
26 effect December 31, 2020.

27 * **Sec. 34.** Sections 15 and 21 of this Act take effect December 31, 2020.

28 * **Sec. 35.** Except as provided in secs. 30 - 34 of this Act, this Act takes effect immediately
29 under AS 01.10.070(c).

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

Changes Between HB306 28-LS1396\N & HB306 (FIN) LS-1396\H

- Title** Page 1, lines 1-12, Page 2, lines 1 & 2 – Title Change to tighten title
- Section 1** – Page 2, lines 3-30, Page 3, line 1 – New section re: conforming language pursuant to repealing insurance tax education credit
- Section 2** – Previous section 1, renumbered
- Section 3** – Previous section 2, renumbered
- Section 4** – Page 3, line 26 - Conforming change to every two years, previously read every year
- Old Section 6** - Deleted section on lapsing grants to unincorporated communities
- Old Sections 7, 8, 9, 10** - Removed since they were conforming language to the minerals exploration tax credit that has been removed.
- Section 6 & 7** Previous section 7 and 8, renumbered
- Section 7** – Page 5, line 16 - Establishes the date of July 1st as the date that Department of Revenue has to submit their report.
Page 5, lines 28-29 - Excludes the fiscal year immediately preceding the date of the report from the five year fiscal analysis.
Page 5, lines 30-31 – Adds the words if applicable to the estimated cost to administer the direct expenditure
Page 6, lines 9-18 – Reworded definition of indirect expenditure.
- Sections 8, 9, 10, 11, 12** - Previous sections, renumbered, Page 6, lines 19-31, Page 7, line 1-3, Page 7, line 11-15 – New sections re: conforming language pursuant to repealing Winn Brindle Scholarship Contributions

- Section 13** - Previous section 12 renumbered. Deleted the Mineral Exploration Tax Credit. Withdrew all references to Education Tax Credits, Salmon Product Development Tax Credit, CDQ Tax Credit
- Section 14** - New Section includes sun-setting provision removed from previous section 12 on Education Tax Credits,
- Section 15** - New Section includes sun-setting provision removed from previous section 12 on Salmon Production Development Tax Credit
- Section 16** - New Section includes sun-setting provision removed from previous section 12 on CDQ Tax Credit
- Sections 17** - Transition language and effective date of the bill now conform to new section numbers.
- Section 18** - Contingency language regarding the passage of House Bill 204
- Section 19** - Sun-sets sections 8-10, 12, 13 in 2016 (Film Production, Veteran Employment, Salmon Utilization, Winn Bridle Scholarship Contributions)
- Section 20** - Sun-sets sections 1, 2, 14 in 2018 (Education Tax Credits)
- Section 21 & 22** - Sun-sets sections 11, 15, 16 in 2020 (Salmon Product Development Tax Credit, CDQ Tax Credit)

ALASKA STATE LEGISLATURE

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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

Tax Credits Sun-setting in 2016

Film Production Credit

AS 24.20.271 (12), AS 43.75.130(f)(g), AS 43.98.030, AS 43.77.60(e), AS 44.25.100-190

Veteran Employment Tax Credit

AS 43.20.048

Scholarship Contributions Credit Known as the "Winn Brindle" Scholarship Tax Credit or Fisheries Business Tax Credit for Scholarship Contributions

AS 43.75.032, AS 43.75.130(b)(f)(g), AS 43.77.035, AS 43.77.60(e)

Salmon Utilization Tax Credit

AS 43.75.036 AS 43.75.130(f)(g)

Tax Credits Sun-setting in 2018

Education Credit

AS 21.66.110(b), AS 21.96.070, AS 21.96.075 (c)(2), AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045, AS 43.77.60(e)

Tax Credits Sun-setting in 2020

Salmon Product Development Credit

AS 43.75.035 AS 43.75.130(f)(g),

8) Community Development Quota Credit

AS 43.77.040

E-mail Representative_Steve_Thompson@akleg.gov

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MEMORANDUM

February 14, 2014

SUBJECT: Sectional of HB 306 (Work Order No. 28-LS1396N)

TO: Representative Steve Thompson
Attn: Brodie Anderson

FROM: Emily Nauman 
Legislative Counsel

You have requested a sectional summary of the above-described draft 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. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1 makes an amendment conforming to the repeal of AS 21.96.075 (insurance tax credit for gifts to the Alaska Fire Standards Council).

Section 2 requires the Legislative Finance Division to prepare and deliver to the legislature an indirect expenditure report.

Section 3 sets out a schedule of the departments to be reviewed and the contents of the indirect expenditure report prepared by the Legislative Finance Division.

Section 4 lapses an appropriation or allocation to a named recipient for a project if, five years after appropriation or allocation, the project has not begun.

Section 5 lapses an appropriation or allocation to an unincorporated community for a project if, five years after appropriation or allocation, the project has not begun.

Section 6 amends AS 37.25.020 to state that an appropriation made for a capital project is valid for the life of the project unless work on the project has not begun within five years after the effective date of the appropriation.

Section 7 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 8 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 9 requires the Department of Revenue to prepare and deliver to the legislature a report of indirect expenditures. The section sets out the contents of the report and directs all departments, agencies, and public corporations to provide the commissioner of the Department of Revenue with any information necessary to complete the indirect expenditures report. The section also defines "indirect expenditures."

Section 10 makes an amendment conforming to the repeal of AS 27.30 (administration of the exploration incentive credit).

Section 11 makes an amendment conforming to the repeal of AS 43.77.040 (credit for the fishery resource harvested under the community development quota).

Section 12 repeals, on the day after the last day of the second regular session of the twenty-ninth legislature, the following credits and statutes related to the administration of credits:

- AS 21.66.110(b) (related to the administration of the insurance tax education credit);
- AS 21.96.070 (insurance tax education credit);
- AS 21.96.075(c)(2) (administration of the education tax credits and the cap on the insurance tax credit for gifts to the Alaska Fire Standards Council);
- AS 24.20.271(12) (administration of the film production tax credit);
- AS 27.30.010 - 27.30.099 (administration of the exploration incentive credit);
- AS 43.20.014 (income tax education credit);
- AS 43.20.044 (exploration incentive credit);
- AS 43.20.048 (veteran employment tax credit);
- AS 43.55.019 (oil or gas producer education credit);
- AS 43.56.018 (property tax education credit);
- AS 43.65.018 (mining business education credit);
- AS 43.75.018 (fisheries business education credit);
- AS 43.75.032 (fisheries business tax credit for scholarship contributions);
- AS 43.75.035 (fisheries business salmon product development tax credit);
- AS 43.75.036 (fisheries business salmon utilization tax credit);
- AS 43.75.130(b) (administration of the fisheries business tax credit for scholarship contributions);
- AS 43.75.130(f) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit);
- AS 43.75.130(g) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit);
- AS 43.77.035 (fisheries resource landing tax credit for scholarship contributions);

Representative Steve Thompson

February 14, 2014

Page 3

- AS 43.77.040 (fisheries resource landing tax credit for the fishery resource harvested under the community development quota);
- AS 43.77.045 (fisheries resource landing tax education credit);
- AS 43.77.060(e) (administration of the fisheries resource landing tax credit for scholarship contributions, fisheries resource landing tax education credit, and the film production tax credit)
- AS 43.98.030 (film production tax credit);
- AS 44.25.100 - 44.25.190 (administration of the film production tax credit).

ELN:ray

14-067.ray

LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES
LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA

(907) 465-3867 or 465-2450
FAX (907) 465-2029
Mail Stop 3101


State Capitol
Juneau, Alaska 99801-1182
Deliveries to: 129 6th St., Rm. 329

MEMORANDUM

March 25, 2014

SUBJECT: Sectional of CSHB 306(FIN) (Work Order No. 28-LS1396(H))

TO: Representative Steve Thompson
Attn: Brodie Anderson

FROM: Emily Nauman 
Legislative Counsel

You have requested a sectional summary of the above-described draft 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. If you would like an interpretation of the bill as it may apply to a particular set of circumstances, please advise.

Section 1 makes an amendment conforming to the repeal of AS 21.96.070 (insurance tax education credit).

Section 2 makes an amendment conforming to the repeal of AS 21.96.070 (insurance tax education credit).

Section 3 requires the Legislative Finance Division to review the Department of Revenue report of the indirect expenditures of executive branch agencies.

Section 4 requires the Legislative Finance Division to deliver its analysis of the indirect expenditure report, and sets out a schedule of the departments to be reviewed and the contents of the indirect expenditure report prepared by the Legislative Finance Division.

Section 5 lapses an appropriation or allocation to a named recipient for a project if, five years after appropriation or allocation, the project has not begun.

Section 6 amends AS 37.25.020 to state that an appropriation made for a capital project is valid for the life of the project unless work on the project has not begun within five years after the effective date of the appropriation.

Section 7 requires the Department of Revenue to prepare and deliver to the legislature a report of indirect expenditures. The section sets out the contents of the report and directs all departments, agencies, and public corporations to provide the commissioner of the

Department of Revenue with any information necessary to complete the indirect expenditures report. The section also defines "indirect expenditures."

Section 8 makes an amendment conforming to the repeal of AS 43.75.036 (fisheries business salmon utilization tax credit).

Section 9 makes an amendment conforming to the repeal of AS 43.75.036 (fisheries business salmon utilization tax credit).

Section 10 makes an amendment conforming to the repeal of AS 43.77.045 and AS 43.98.030 (fisheries resource landing tax education credit and film production tax credit).

Section 11 makes an amendment conforming to the repeal of AS 43.77.040 (fisheries resource landing tax credit for the fishery resource harvested under the community development quota).

Section 12 makes an amendment conforming to the repeal of AS 43.77.035 (fisheries resource landing tax credit for scholarship contributions).

Section 13 repeals, on December 31, 2016, the following credits and statutes related to the administration of credits:

- AS 24.20.271(12) (administration of the film production tax credit);
- AS 43.20.048 (veteran employment tax credit);
- AS 43.75.032 (fisheries business tax credit for scholarship contributions);
- AS 43.75.036 (fisheries business salmon utilization tax credit);
- AS 43.75.130(b) (administration of the fisheries business tax credit for scholarship contributions);
- AS 43.77.035 (fisheries resource landing tax credit for scholarship contributions);
- AS 43.98.030 (film production tax credit);
- AS 44.25.100 - 44.25.190 (administration of the film production tax credit).

Section 14 repeals, on December 31, 2018, the following credits and statutes related to the administration of credits:

- AS 21.66.110(b) (administration of the insurance tax education credit);
- AS 21.96.070 (insurance tax education credit);
- AS 21.96.075(c)(2) (administration of the education tax credits and the cap on the insurance tax credit for gifts to the Alaska Fire Standards Council);
- AS 43.05.010(15) (administration of the education tax credits);
- AS 43.20.014 (income tax education credit);
- AS 43.55.019 (oil or gas producer education credit);
- AS 43.56.018 (property tax education credit);
- AS 43.65.018 (mining business education credit);

- AS 43.75.018 (fisheries business education credit);
- AS 43.75.130(g) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit);
- AS 43.77.045 (fisheries resource landing tax education credit);
- AS 43.77.060(e) (administration of the fisheries resource landing tax credit for scholarship contributions, fisheries resource landing tax education credit, and the film production tax credit).

Section 15 repeals, on December 31, 2020 and contingent on the passage by the legislature of a bill extending the repeal of AS 43.75.035, the following credit and statute related to the administration of the credit:

- AS 43.75.035 (fisheries business salmon product development tax credit);
- AS 43.75.130(f) (administration of the fisheries business salmon product development tax credit, fisheries business salmon utilization tax credit, and the film production tax credit).

Section 16 repeals, on December 31, 2020, the following credit:

- AS 43.77.040 (fisheries resource landing tax credit for the fishery resource harvested under the community development quota).

Section 17 provides transition language related to the phase out of credits that span across tax years.

Section 18 makes the December 31, 2020 repeal of AS 43.75.035 (fisheries business salmon product development tax credit) contingent on the passage by the legislature of a bill extending the repeal of AS 43.75.035. Under current law, the credit will expire January 1, 2019 at the latest.

Section 19 establishes the effective date of the repeal of the credits in sec. 13 as December 31, 2016.

Section 20 establishes the effective date of the repeal of the credits in sec. 14 as December 31, 2018.

Section 21 establishes the effective date of the repeal of the credits in sec. 15, if the contingency in sec. 18 is met, as December 31, 2020.

Section 22 establishes the effective date of the repeal of the credits in sec. 16 as December 31, 2020.

ALASKA STATE LEGISLATURE

Session:

**State Capitol Building
Room 500
Juneau, Alaska 99801-2186
Phone (907) 465-3004
Toll Free: (877) 465-3004**



Interim:

**1292 Sadler Way, Ste. 308
Fairbanks, Alaska 99701
Phone: (907) 452-1088
Toll Free: (877) 465-3004**

REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Tuesday, March 11, 2014

To: Representative Bill Stoltze
House Finance Co-Chair

From: Rep. Steve Thompson 

RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Thursday, March 6th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

Many of the committee members requested a comprehensive list of all of the tax credits in the Department of Revenue. The following list of credits, years enacted, sunset dates and detailed credit explanations came from the Legislative Research Report, Department of Revenue Fall 2013 Resource Book, and Department of Revenue Tax Division 2013 Annual Report.

List of Credits with Enacted/Amended and Sunset Dates

<u>Credit</u>	<u>Year Enacted</u>	<u>Sunset/Expiration Date</u>
Exploration Incentive Credit	1978	None
Qualified Capital Expenditure & Well Lease Expenditure Credit	2006 Amended 2007	None
Carried-Forward Annual Loss Credit	2006 Amended 2008	None
Small Producer/New Area Dev. Credit	2006	2016

E-mail Representative_Steve_Thompson@akleg.gov

Transitional Investment Expenditure Credit	2006 Amended 2008	2013
Alternative Credit for Exploration	2003 Amended 2008	2016
Cook Inlet Jack-Up Rig Credit	2010	2016
Frontier Basin Credit	2012	2016
Federal Tax Credits	1975	None
Gas Exploration and Development Credit	2003 Amended 2010	None
Gas Storage Facility Credit	2011	2015
Veteran Employment Tax Credit	2012	None
LNG Storage Facility Credit	2012	None
Film Production Credit	2008 Amended 2012	2023
Education Credit	1987 Amended 2012	None
Minerals Exploration Incentive Credit	1995	None
Scholarship Contribution Credit	1986	None
Salmon Product Development Credit	2003 Amended 2010	2019
Community Development Quota Credit	1993	None

Credits Applicable to the Oil and Gas Production Tax

Alternative Credit for Exploration

AS 43.55.025(a)(1)-(4)

The Alternative Credit for Exploration is a transferable credit for expenditures for certain oil and gas exploration activities. Outside of Cook inlet, the credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 25 miles from an existing unit, 30% for pre-approved new targets greater than 3 miles from an existing well, and 40% for pre-approved new targets greater than 3 miles from a well and greater than 25 miles from an existing unit. The 3-mile limit has been dropped for wells in "Frontier Basins," as described under the Frontier Basin Credit below. For Cook Inlet, the credit is 40% for seismic costs outside an existing unit, 30% or drilling costs greater than 10 miles from an existing unit, 30% for pre-approved new targets, and 40% for drilling costs that are greater than 10 miles from an existing unit and pre-approved new targets. The credit expires on July 1, 2016 for the North Slope and Cook Inlet; for areas other than the North Slope and Cook Inlet, the credit expires January 1, 2022.

Carried-Forward Annual Loss Credit

AS 43.55.023(b)

This credit is a transferable credit for a carried-forward annual loss, defined as a producer or explorer's adjusted lease expenditures that are not deductible in calculating production tax values for the calendar year. The credit is currently 25% of the carried-forward annual loss. Beginning January 1, 2014, the credit for carried-forward annual losses incurred on the North Slope increases to 45% of the loss, and certificates for these credits may be taken in a single year. On January 1, 2016, the credits for losses incurred on the North Slope decreases to 35% of the loss.

Cook Inlet Jack-Up Rig Credit**AS 43.55.025(a)(5)**

This credit is for exploration expenses for the first three wells drilled by the first jack-up rig brought in to Cook Inlet. It is only for expenses incurred in drilling wells that test pre-tertiary; all three wells must be drilled by unaffiliated parties using the same rig. The credit is 100% of costs for the first well up to \$25 million, 90% of costs for the second well up to \$22.5 million, and 80% of costs for the third well up to \$20 million. If the exploration well is brought into production, the operator repays 50% of the credit over ten years following production start-up.

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Exploration Incentive Credit**AS 38.05.180(i)**

The exploration incentive credit is a non-transferrable credit for the cost of drilling or seismic work performed under a limited time period established by the Commissioner of the Department of Natural Resources. Credit may be granted for up to 50% of the cost of drilling or seismic work, not to exceed 50% of the tax liability to which it is being applied. This credit may also be applied against the State royalty.

Frontier Basin Credit**AS 43.55.025(a)(6)-(7)**

The Frontier Basin Credit is for expenses for the first four persons to drill exploration wells and the first four persons to conduct seismic projects within an area designated in AS 43.55.025(p), also called the "Frontier Basins." The credit is for the lesser of 80% of qualified exploration drilling expenses or \$25 million; or for seismic projects, credit is for lesser of 75% of qualified seismic exploration expenditures or \$7.5million. It includes expenditures incurred for work performed after June 1, 2012 and before July 1, 2016.

Per-Taxable-Barrel Credit**AS 43.55.024(j)**

Beginning January 1, 2014, there is a per-taxable-barrel credit for oil production on the North Slope. This credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. In areas that qualify for a gross value reduction (GVR), the credit is \$5per taxable barrel. Those areas are defined in AS 43.55.160(f) and (g).For areas that do not qualify fora GVR, the credit is on a \$10increment sliding scale. The sliding scale credit is a dollar-per-taxable barrel credit ranging from zero dollars per barrel at per-barrel gross value at point of production (GVPP) values greater than \$150to \$8 per barrel at per-barrel GVPP values less than \$80. The sliding scale credit may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f).

Qualified Capital Expenditure and Well Lease Expenditure Credit**AS 43.55.023(a) and (l)**

This credit is a transferable tax credit for qualified oil and gas capital expenditures in the State. It can be taken in lieu of exploration incentive credits under AS 43.55.025 and gas exploration credits under AS43.20.043. The credit is 20% of eligible expenditures anywhere in the State, or 40% for qualified well lease expenditures for areas other than the North Slope. The qualified capital expenditure credit will no longer be available for North Slope capital expenditures beginning January 1,2014.

Small Producer / New Area Development Credit

AS 43.55.024(a) and (c)

The Small Producer Credit is a non-transferable credit for oil and gas produced by small producers, defined as having average taxable oil and gas production of less than 100,000 BTU equivalent barrels per day. The credit is available until the later of 2016 or nine years after the first commercial production of oil and gas on the properties for which the credit applies. The small producer credit is capped at \$12 million annually for producers with less than 50,000 BTU equivalent barrels per day. The credits then phases out, reaching to zero for producers with 100,000 or more BTU equivalent barrels per day. The credit may only be used against a tax liability, providing the producer has a positive tax liability before the application of credits. The New Area Development Credit is a credit of up to \$6 million per company annually, for oil or gas produced from leases outside Cook Inlet and south of 68 degrees North latitude, providing the producer has a positive tax liability on that production before the application of credits. The credit is available until the later of 2016 or nine years after the first commercial production of oil and gas on the properties for which the credit applies.

Transitional Investment Expenditure Credit

AS 43.55.023(i)

The transitional investment expenditure credit is a non-transferable credit for qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2006. It is only available to companies that did not have production in commercial quantities prior to January 1, 2008. The credit may not be used after December 31, 2013. The credit is 20% of qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2006, not to exceed 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.

Credits Applicable to Corporate Income Tax

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Gas Exploration and Development Credit

AS 43.20.043

The Gas Exploration and Development Credit is a nontransferable credit for qualified expenditures for the exploration and development of non-North Slope natural gas reserves. The credit is 25% of qualified expenditures for investment after January 1, 2010; investments in existing units qualify. The credit is capped at 75% of tax liability as calculated before applying other credits.

Gas Storage Facility Credit

AS 43.20.046

The Gas Storage Facility Credit is a non-transferable credit for the costs incurred to establish a natural gas storage facility. The credit is \$1.50 per thousand cubic feet of "working gas" storage capacity as determined by the Alaska Oil and Gas Conservation Commission. It does not apply to gas storage related to a gas sales pipeline on the North Slope. To qualify, the facility must operate as a public utility regulated by the Regulatory Commission of Alaska with open access for third parties. It is effective for facilities placed into service between January 1, 2011 and December 31, 2015. The maximum credit is the lesser of \$15 million or 25% of costs incurred to establish the facility.

Internal Revenue Code Credits Adopted By Reference

AS 43.20.021

Under Alaska's blanket adoption of the federal Internal Revenue Code, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits. In most cases, the credit is limited to 18% of the amount of the credit determined for federal income tax purposes which is attributable to Alaska.

LNG Storage Facility Credit

AS 43.20.047

The LNG Storage Facility Credit is a non-transferable credit for the costs incurred to establish a storage facility for liquefied natural gas. The credit is lesser of \$15 million or 50% of costs incurred to establish the facility. It applies to facilities with a minimum storage capacity of 25,000 gallons of LNG, and that are public utilities regulated by the Regulatory Commission of Alaska. It is for facilities placed into service after January 1, 2011.

Oil and Gas Industry Service Expenditures Credit

AS 43.20.049

The Oil and Gas Industry Service Expenditures Credit is a credit of 10% of qualified oil and gas industry service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of three years or more. The credit may be applied to corporate income tax liabilities in amounts up to \$10 million per taxpayer per year. The credit is effective for expenditures incurred after January 1, 2014. The credit is not transferable but any amount of the credit that exceeds the taxpayer's liability may be carried forward up to five years.

Minerals Exploration Incentive Credit

See "Credits Applicable to Multiple Tax Programs."

Veteran Employment Tax Credit

AS 43.20.048

The Veteran Employment Credit is a non-transferable credit for corporate income taxpayers that employ qualified veterans in the State. A "qualified veteran" is a veteran who was unemployed for more than four weeks preceding the employment date and who was discharged or released from military service not more than ten years before employment date (for a disabled veteran) or not more than two years before employment date (for a veteran who is not disabled). The credit is \$3,000 for a disabled veteran or \$2,000 for a veteran who is not disabled for employment for a minimum of 1,560 hours during 12 consecutive months following the veteran's employment date. For seasonal employment, the credit is \$1,000 for a veteran employed for a minimum of 500 hours during three consecutive months following the employment date.

Credits Applicable to Fisheries Taxes

Community Development Quota Credit

AS 43.77.040

The Community Development Quota Credit is a non-transferable credit for contributions to an Alaska nonprofit corporation that is dedicated to fisheries industry related expenditures. The credit is available only for fishery resources harvested under a community development quota (CDQ). The credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Other Taxes Credit**AS 43.77.030**

The Other Taxes Credit is a nontransferable credit for taxes paid to another jurisdiction on fishery resources landed in Alaska. The credit is 100% of taxes paid with a maximum of 100% of the Alaska tax liability on the fishery resources.

Salmon Product Development Credit**AS 43.75.035**

The Salmon Product Development Credit is a non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon, including ice-making machines. The credit is 50% of qualified investments up to 50% of tax liability incurred for processing salmon during the tax year. The credit may be carried forward for three years, but the authorizing statute is scheduled to sunset on December 31, 2015.

Scholarship Contributions Credit**AS 43.75.032, AS 43.77.035**

The Scholarship Contributions Credit is applicable to both the Fisheries Business Tax and the Fishery Resource Landing Tax. It is a non-transferable credit for contributions to the A.W. "Winn" Brindle memorial education loan account. The credit is 100% of the contribution amount, up to a maximum of 5% of tax liability.

Credits Applicable to Multiple Tax Programs

Education Credit**AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045**

The Education Credit is a nontransferable credit applicable to the Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premiums Tax, Title Insurance Premiums Tax, Mining License Tax, Oil and Gas Production Tax, and the Oil and Gas Property Tax. It is a nontransferable credit for contributions to vocational educational programs, accredited Alaska universities or colleges for educational purposes or facilities, annual intercollegiate sports tournaments, Alaska Native educational programs, and facilities that qualify under the Coastal American Partnership. The credit is available for up to 50% of annual contributions up to \$100,000, 100% of the next \$200,000, and 50% of annual contributions beyond \$300,000 up to \$10 Million. The credit for any one taxpayer cannot exceed \$5,000,000 annually across all eligible tax types. The credit at these rates is effective from January 1, 2011 until December 31, 2020, at which point the maximum credit for any taxpayer is \$150,000 per year.

Film Production Credit**AS 43.98.030, under AS 21.09.210, AS 21.66.110, AS 43.20, AS 43.55, AS 43.56, AS 43.65, AS 43.75, AS 43.77**

The Film Production Credit is a transferable credit for expenditures on eligible film production activities in Alaska. Effective July 1, 2013: 1) a producer must spend at least \$75,000 in qualified expenditures over a consecutive 24-month period to qualify, 2) the credit is 30% of eligible film production expenditures, plus an additional 20% credit for wages paid to Alaska residents, plus

an additional 6% credit for filming in a rural area, plus an additional 2% credit for filming between October 1 and March 30, 3) the credits must be used within six years, 4) the tax credit applies to multiple tax programs in addition to corporate income tax. The program is capped at a \$300 million maximum budget for all projects and expires on July 1, 2023.

Minerals Exploration Incentive Credit

AS 27.30.030, AS 43.20.044

The Minerals Exploration Incentive Credit is applicable to the Corporate Income Tax, Mining License Tax, and Mineral Production Royalty. It is a non-transferable credit for eligible costs of mineral or coal exploration activities and must be used within fifteen years. The credit is 100% of allowable exploration costs with a maximum of \$20 million. For mining license tax (MLT), the credit is limited to the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total MLT liability. For the corporate income tax, it is limited to the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total CIT liability. For mineral royalty, the credit is limited to 50% of royalty liability from the mining operation at which the exploration activity occurred.

Responses to Specific Questions

CCED responded to Rep. Newman's question regarding encumbered funds allocated to departments for specific education and school funding.

Funding for schools goes almost exclusively through the Dept. of Education and is not appropriated under AS 37.05.316-.317. Likewise grants for; water and sewer projects appropriated to ADEC/ Village Safe Water, roads, airports, and harbors through DOT&PF, or projects through the Alaska Energy Program are all appropriated under different statutory authorities and the provisions in this bill would not apply.

Legislative Legal responded to Rep Wilson's question regarding the difference (if any) to a Repealer or Sunset provision.

In legal terms there is no difference between a "Repealer" and a "Sunset" provision. The effect is still accomplished on a specified date.

CCED responded to concerns about the administration of lapsing grants to unincorporated communities and named recipients and substantial work.

Currently, AS 37.05.318 prohibits the Department from enacting regulations with regard to the administration of grants appropriated under 37.05.315 - .317, so there is no regulatory definition of this term. The Department however, does have an obligation to prudently manage these public funds.

In order to meet the intent of this statute, approximately seven months prior to the lapsing date of a legislative grant, grant administrators send a notice to all grantee's with a grant balance, notifying them of the upcoming funding lapse date. A copy of one of these notices and the response from the grantee is attached. In order for a grant to be extended, a grantee must meet the following 4 requirements:

1. A grant must have a balance of \$1,000 or more.
2. The grantee must file a written request.
3. The grantee must be current on progress and financial reporting.

4. Financial and Progress Reports must reflect that substantial progress towards project completion has been made on the project. If a grantee cannot demonstrate substantial ongoing progress, they must provide a written explanation for the delays and written assurance that the project can be successfully completed within one year.

The Department feels that item number 4 addresses the statutory requirement of determining substantial, ongoing work. While not a statutory requirement, to be consistent with all designated legislative grants, the Department currently use this same process for grants issued under the authority of AS 37.05.316 (Named Recipients) and .317 (Unincorporated Communities).

The following is an example of the current process.



THE STATE
of ALASKA
GOVERNOR SEAN PARNELL

**Department of Commerce, Community,
and Economic Development**

DIVISION OF COMMUNITY AND REGIONAL AFFAIRS

550 West Seventh Avenue, Suite 1440
Anchorage, Alaska 99501
Main: 907.269.4252
IDD: 907.465.5437
Fax: 907.269.4066

January 9, 2014

Derek Martin, City Manager
City of Kotzebue
PO Box 46
Kotzebue, Alaska 99752

Re: Important Information Regarding Grants due to lapse on June 30, 2014

Dear Derek:

This notice is to inform you that the grant referenced below is due to lapse on June 30, 2014.

Grant #08-DC-465, Regional Recreation Center Construction

Please review the options on the attached form, check the appropriate box and return the completed form to our office no later than **February 14, 2014**. If you are requesting an extension for this grant, you will need to meet the necessary requirements on the attached form and submit supporting documentation.

If you have any questions please call me at (907)269-4252. I will be happy to assist you in the preparation of the required information.

Sincerely,

A handwritten signature in cursive script that reads "Rachel Spicer".

Rachel Spicer
Grant Administrator II

Enclosures

DESIGNATED LEGISLATIVE LAPSING GRANT CONFIRMATION

Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs

Grantee: City of Kotzebue	Grant #: 08-DC-465
Project Title: Regional Recreation Center Construction	Lapse Date: 06/30/2014
Amount of Award: \$250,000.00	Balance as of (01/9/2014): \$250,000.00

Please check one of the following boxes, sign and return this form to the address below no later than **February 14, 2014**.

- An extension of this grant is requested. Extensions are contingent upon approval and grants will not be extended past June 30, 2014, unless the following conditions are met:
1. A grant must have a balance of \$1,000.00 or more in order to be considered for an extension;
 2. A written request to extend the grant must be submitted to this office;
 3. Financial and Progress Reporting for the grant must be current; and
 4. Financial and Progress Reports must reflect that substantial progress toward project completion has been made on the project. If you cannot demonstrate substantial ongoing progress, you must provide a written explanation for the delays and written assurance that the project can be successfully completed by June 30, 2015, in order for the Department to consider a one year extension.
- The balance of funds will be spent prior to June 30, 2014, and it is understood that a final financial progress report is due to DCRA no later than July 15, 2014.
- This project is complete and it is understood that any unexpended funds on June 30, 2014, will lapse into the general fund.
- This grantee will be seeking a re-appropriation or a language amendment directly from the Legislature. It is understood that these changes are contingent upon legislative approval and funds may not be spent towards the new purpose until legislation passes and notification is received from DCRA. Financial reporting requirements and grant agreement conditions remain in effect for the current project while pending reappropriation or language amendment.

Signature of Authorized Chief Administrator

Date

Derek Martin, City Manager
Printed Name and Title

Confirmations can be faxed to 907.269.4252, attached to an email to: rachel.spicer@alaska.gov or mailed to:
DCCED/DCRA, 550 West 7th Ave., Suite 1640, Anchorage, Alaska 99501-3510



P.O. Box 46
Kotzebue, Alaska 99752

City Hall
(907) 442-3401

Police Dept.
(907) 442-3351

Fire Dept.
(907) 442-3404

Public Works
(907) 442-3401

February 10, 2014

Rachel Spicer, Grants Administrator
State of Alaska, DCCED
DCRA Grants Section
550 West 7th Avenue, Suite 1640
Anchorage, Alaska 99501

RE: 08-DC-465: Regional Recreation Center Construction -Grant Extension Request

Dear Ms. Spicer:

The City of Kotzebue is requesting a 6 month extension beyond the June 30, 2014 deadline to December 31, 2014. As you know, the City of Kotzebue, through its contractor Drake Construction Inc. (DCI) was able to place 40,000 cubic yards of Swan Lake fill at the project site. Site leveling, which included the placement of geotextile fabric & classified fill, took place at the end of the construction season. Unfortunately, the winter weather prevented the final grading of the five acre site, seeding of the ball field, installation of the security fencing, and installation of the site amenities such as the bleachers and ball field fencing. Some of these items will arrive on the July 2014 marine transportation service.

Therefore, the City of Kotzebue respectfully request that you extend this grant to December 31, 2014, as indicated in the attached form. Under separate cover, all financial/progress reports should be current.

Thank you for your consideration of this request. For any questions or comments, do not hesitate to contact me at (907) 442-5101.

Sincerely,
City of Kotzebue

Derek Martin, City Manager

Cc: 484 DCCED Grant file

Enclosure: DCCED Grant Extension Request [1 pg]

DESIGNATED LEGISLATIVE LAPSING GRANT CONFIRMATION

Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs

Grantee: City of Kotzebue	Grant #: 08-DC-465
Project Title: Regional Recreation Center Construction	Lapse Date: 06/30/2014
Amount of Award: \$250,000.00	Balance as of (01/9/2014): \$250,000.00

Please check one of the following boxes, sign and return this form to the address below no later than **February 14, 2014**.

An extension of this grant is requested. Extensions are contingent upon approval and grants will not be extended past June 30, 2014, unless the following conditions are met:

1. A grant must have a balance of \$1,000.00 or more in order to be considered for an extension;
2. A written request to extend the grant must be submitted to this office;
3. Financial and Progress Reporting for the grant must be current; and
4. Financial and Progress Reports must reflect that substantial progress toward project completion has been made on the project. If you cannot demonstrate substantial ongoing progress, you must provide a written explanation for the delays and written assurance that the project can be successfully completed by June 30, 2015, in order for the Department to consider a one year extension.

The balance of funds will be spent prior to June 30, 2014, and it is understood that a final financial progress report is due to DCRA no later than July 15, 2014.

This project is complete and it is understood that any unexpended funds on June 30, 2014, will lapse into the general fund.

This grantee will be seeking a re-appropriation or a language amendment directly from the Legislature. It is understood that these changes are contingent upon legislative approval and funds may not be spent towards the new purpose until legislation passes and notification is received from DCRA. Financial reporting requirements and grant agreement conditions remain in effect for the current project while pending reappropriation or language amendment.


Signature of Authorized Chief Administrator

01/31/14
Date

Derek Martin, City Manager
Printed Name and Title

Confirmations can be faxed to 907.269.4252, attached to an email to: rachel.spicer@alaska.gov or mailed to: DCCED/DCRA, 550 West 7th Ave., Suite 1640, Anchorage, Alaska 99501-3510

ALASKA STATE LEGISLATURE

Session:
State Capitol Building
Room 500
Juneau, Alaska 99801-2186
Phone (907) 465-3004
Toll Free: (877) 465-3004



Interim:
1292 Sadler Way, Ste. 308
Fairbanks, Alaska 99701
Phone: (907) 452-1088
Toll Free: (877) 465-3004

REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Wednesday, March 26, 2014
To: Representative Bill Stoltze
House Finance Co-Chair
From: Rep. Steve Thompson
RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Wednesday, March 12th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

CCED Responded to Representative Edgmon's and Representative Guttenberg's question/comments on Unincorporated Communities:

The legislature appropriates the funds; the Department only administers the disbursement of the funds to the grantee based upon the project title, and amount stated in the appropriation. In the grant agreement, the paragraph that states:

"In the event funding from the state, federal, or other sources is withdrawn, reduced, or limited in any way after the effective date of this Grant Agreement and prior to normal completion, the Department may terminate the agreement, reduce funding, or re-negotiate subject to those new funding limitations and conditions. "

The legislature may reappropriate the funding made to any grantee be it municipality, named recipient, or unincorporated community. The reappropriation can be at any time of the grant, not just in the last year of the grant. The practice has been that grants are only reappropriated

E-mail Representative_Steve_Thompson@akleg.gov

when a grantee requests it, but there have been a few cases where funds were reappropriated either without the grantee being aware, or over the objections of the grantee. The power to appropriate or reappropriate funds lies with the legislature. To facilitate the reappropriation process, the Department sends the notice to grantee's (municipalities, named recipients, and unincorporated communities) offering them the chance to request an extension if substantial ongoing work is occurring, or to make them aware of the timeframe to expend the remainder of the funds. We also prepare a listing of all grants that will be lapsing at the end of the current fiscal year (June 30th), and provide this list to legislators at the beginning of the legislative session. The list is updated every two weeks throughout the legislative session.

CCED is current administering approximately 1,600 grants that under AS 37.05.315-.317.

From the most current lapsing grant spreadsheet provided by CCED, there are 102 of these grants that are going to lapse on June 30, 2014 if no further action is taken.

Of these 102 grants:

85 (83.3%) are to Municipalities (AS 37.05.315)

13 (12.7%) are to Named Recipients (AS 37.05.316)

4 (3.9%) are to Unincorporated Communities (AS 37.05.317).

Grantee's have 5 years to expend the funds. DCRA's grant administrator's contact all grantee's throughout the life of the grant reminding them of the grant, and requesting progress reports. The grant administrator increases this contact in the year prior to any funding lapsing. There are a variety of reasons that a grantee may not have fully expended funding. It may have to do with other anticipated funding not materializing as planned, scope changes, cost changes, personnel changes. In determining if a grant extension should be executed, the Department is sympathetic to the grantee. If a grantee can reasonable demonstrate that the project is ongoing or will get built within an additional 12 months, DCRA execute an extension. It is very uncommon for the department to close out a grant over the grantee's objection. The majority of grants are either reappropriated, have small left over amounts of funding that are lapsed because the grantee completed the project, or the grantee agrees the project cannot be completed

Scott Ruby, the Division Director of Community and Regional Affairs provided these responses and will be available to the House Finance Committee to answer additional questions.

ALASKA STATE LEGISLATURE

Session:
State Capitol Building
Room 500
Juneau, Alaska 99801-2186
Phone (907) 465-3004
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1292 Sadler Way, Ste. 308
Fairbanks, Alaska 99701
Phone: (907) 452-1088
Toll Free: (877) 465-3004

REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Thursday, April 17, 2014
To: Representative Bill Stoltze
House Finance Co-Chair
From: Rep. Steve Thompson
RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Thursday, March 6th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

Many of the committee members requested a comprehensive list of all of the tax credits in the Department of Revenue. The following list of credits, years enacted, sunset dates and detailed credit explanations came from the Legislative Research Report, Department of Revenue Fall 2013 Resource Book, and Department of Revenue Tax Division 2013 Annual Report.

List of Credits with Enacted/Amended and Sunset Dates

<u>Credit</u>	<u>Year Enacted</u>	<u>Sunset/Expiration Date</u>
Exploration Incentive Credit	1978	None
Qualified Capital Expenditure & Well Lease Expenditure Credit	2006 Amended 2007	None
Carried-Forward Annual Loss Credit	2006 Amended 2008	None
Small Producer/New Area Dev. Credit	2006	2016

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Transitional Investment Expenditure Credit	2006 Amended 2008	2013
Alternative Credit for Exploration	2003 Amended 2008	2016
Cook Inlet Jack-Up Rig Credit	2010	2016
Frontier Basin Credit	2012	2016
Federal Tax Credits	1975	None
Gas Exploration and Development Credit	2003 Amended 2010	None
Gas Storage Facility Credit	2011	2015
Veteran Employment Tax Credit	2012	None
LNG Storage Facility Credit	2012	None
Film Production Credit	2008 Amended 2012	2023
Education Credit	1987 Amended 2012	None
Minerals Exploration Incentive Credit	1995	None
Scholarship Contribution Credit	1986	None
Salmon Product Development Credit	2003 Amended 2010	2019
Community Development Quota Credit	1993	None

Credits Applicable to the Oil and Gas Production Tax

Alternative Credit for Exploration

AS 43.55.025(a)(1)-(4)

The Alternative Credit for Exploration is a transferable credit for expenditures for certain oil and gas exploration activities. Outside of Cook inlet, the credit is 40% for seismic costs outside an existing unit, 30% for drilling costs greater than 25 miles from an existing unit, 30% for pre-approved new targets greater than 3 miles from an existing well, and 40% for pre-approved new targets greater than 3 miles from a well and greater than 25 miles from an existing unit. The 3-mile limit has been dropped for wells in "Frontier Basins," as described under the Frontier Basin Credit below. For Cook Inlet, the credit is 40% for seismic costs outside an existing unit, 30% or drilling costs greater than 10 miles from an existing unit, 30% for pre-approved new targets, and 40% for drilling costs that are greater than 10 miles from an existing unit and pre-approved new targets. The credit expires on July 1, 2016 for the North Slope and Cook Inlet; for areas other than the North Slope and Cook Inlet, the credit expires January 1, 2022.

Carried-Forward Annual Loss Credit

AS 43.55.023(b)

This credit is a transferable credit for a carried-forward annual loss, defined as a producer or explorer's adjusted lease expenditures that are not deductible in calculating production tax values for the calendar year. The credit is currently 25% of the carried-forward annual loss. Beginning January 1, 2014, the credit for carried-forward annual losses incurred on the North Slope increases to 45% of the loss, and certificates for these credits may be taken in a single year. On January 1, 2016, the credits for losses incurred on the North Slope decreases to 35% of the loss.

Cook Inlet Jack-Up Rig Credit

AS 43.55.025(a)(5)

This credit is for exploration expenses for the first three wells drilled by the first jack-up rig brought in to Cook Inlet. It is only for expenses incurred in drilling wells that test pre-tertiary; all three wells must be drilled by unaffiliated parties using the same rig. The credit is 100% of costs for the first well up to \$25 million, 90% of costs for the second well up to \$22.5 million, and 80% of costs for the third well up to \$20 million. If the exploration well is brought into production, the operator repays 50% of the credit over ten years following production start-up.

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Exploration Incentive Credit

AS 38.05.180(i)

The exploration incentive credit is a non-transferrable credit for the cost of drilling or seismic work performed under a limited time period established by the Commissioner of the Department of Natural Resources. Credit may be granted for up to 50% of the cost of drilling or seismic work, not to exceed 50% of the tax liability to which it is being applied. This credit may also be applied against the State royalty.

Frontier Basin Credit

AS 43.55.025(a)(6)-(7)

The Frontier Basin Credit is for expenses for the first four persons to drill exploration wells and the first four persons to conduct seismic projects within an area designated in AS 43.55.025(p), also called the "Frontier Basins." The credit is for the lesser of 80% of qualified exploration drilling expenses or \$25 million; or for seismic projects, credit is for lesser of 75% of qualified seismic exploration expenditures or \$7.5million. It includes expenditures incurred for work performed after June 1, 2012 and before July 1, 2016.

Per-Taxable-Barrel Credit

AS 43.55.024(j)

Beginning January 1, 2014, there is a per-taxable-barrel credit for oil production on the North Slope. This credit cannot be transferred, carried forward, or used to reduce the producer's tax liability to less than zero. In areas that qualify for a gross value reduction (GVR), the credit is \$5per taxable barrel. Those areas are defined in AS 43.55.160(f) and (g).For areas that do not qualify for a GVR, the credit is on a \$10increment sliding scale. The sliding scale credit is a dollar-per-taxable barrel credit ranging from zero dollars per barrel at per-barrel gross value at point of production (GVPP) values greater than \$150to \$8 per barrel at per-barrel GVPP values less than \$80. The sliding scale credit may not reduce the producer's tax liability to less than the minimum tax established under AS 43.55.011(f).

Qualified Capital Expenditure and Well Lease Expenditure Credit

AS 43.55.023(a) and (l)

This credit is a transferable tax credit for qualified oil and gas capital expenditures in the State. It can be taken in lieu of exploration incentive credits under AS 43.55.025 and gas exploration credits under AS43.20.043. The credit is 20% of eligible expenditures anywhere in the State, or 40% for qualified well lease expenditures for areas other than the North Slope. The qualified capital expenditure credit will no longer be available for North Slope capital expenditures beginning January 1,2014.

Small Producer / New Area Development Credit

AS 43.55.024(a) and (c)

The Small Producer Credit is a non-transferable credit for oil and gas produced by small producers, defined as having average taxable oil and gas production of less than 100,000 BTU equivalent barrels per day. The credit is available until the later of 2016 or nine years after the first commercial production of oil and gas on the properties for which the credit applies. The small producer credit is capped at \$12 million annually for producers with less than 50,000 BTU equivalent barrels per day. The credits then phases out, reaching to zero for producers with 100,000 or more BTU equivalent barrels per day. The credit may only be used against a tax liability, providing the producer has a positive tax liability before the application of credits. The New Area Development Credit is a credit of up to \$6 million per company annually, for oil or gas produced from leases outside Cook Inlet and south of 68 degrees North latitude, providing the producer has a positive tax liability on that production before the application of credits. The credit is available until the later of 2016 or nine years after the first commercial production of oil and gas on the properties for which the credit applies.

Transitional Investment Expenditure Credit

AS 43.55.023(i)

The transitional investment expenditure credit is a non-transferable credit for qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2006. It is only available to companies that did not have production in commercial quantities prior to January 1, 2008. The credit may not be used after December 31, 2013. The credit is 20% of qualified oil and gas capital expenditures incurred between March 31, 2001 and April 1, 2006, not to exceed 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.

Credits Applicable to Corporate Income Tax

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Gas Exploration and Development Credit

AS 43.20.043

The Gas Exploration and Development Credit is a nontransferable credit for qualified expenditures for the exploration and development of non-North Slope natural gas reserves. The credit is 25% of qualified expenditures for investment after January 1, 2010; investments in existing units qualify. The credit is capped at 75% of tax liability as calculated before applying other credits.

Gas Storage Facility Credit

AS 43.20.046

The Gas Storage Facility Credit is a non-transferable credit for the costs incurred to establish a natural gas storage facility. The credit is \$1.50 per thousand cubic feet of "working gas" storage capacity as determined by the Alaska Oil and Gas Conservation Commission. It does not apply to gas storage related to a gas sales pipeline on the North Slope. To qualify, the facility must operate as a public utility regulated by the Regulatory Commission of Alaska with open access for third parties. It is effective for facilities placed into service between January 1, 2011 and December 31, 2015. The maximum credit is the lesser of \$15 million or 25% of costs incurred to establish the facility.

Internal Revenue Code Credits Adopted By Reference

AS 43.20.021

Under Alaska's blanket adoption of the federal Internal Revenue Code, taxpayers can claim all federal incentive credits. Federal credits that refund other federal taxes are not allowed. Multistate taxpayers apportion their total federal incentive credits. In most cases, the credit is limited to 18% of the amount of the credit determined for federal income tax purposes which is attributable to Alaska.

LNG Storage Facility Credit

AS 43.20.047

The LNG Storage Facility Credit is a non-transferable credit for the costs incurred to establish a storage facility for liquefied natural gas. The credit is lesser of \$15 million or 50% of costs incurred to establish the facility. It applies to facilities with a minimum storage capacity of 25,000 gallons of LNG, and that are public utilities regulated by the Regulatory Commission of Alaska. It is for facilities placed into service after January 1, 2011.

Oil and Gas Industry Service Expenditures Credit

AS 43.20.049

The Oil and Gas Industry Service Expenditures Credit is a credit of 10% of qualified oil and gas industry service expenditures that are for in-state manufacture or in-state modification of oil and gas tangible personal property with a service life of three years or more. The credit may be applied to corporate income tax liabilities in amounts up to \$10 million per taxpayer per year. The credit is effective for expenditures incurred after January 1, 2014. The credit is not transferable but any amount of the credit that exceeds the taxpayer's liability may be carried forward up to five years.

Minerals Exploration Incentive Credit

See "Credits Applicable to Multiple Tax Programs."

Veteran Employment Tax Credit

AS 43.20.048

The Veteran Employment Credit is a non-transferable credit for corporate income taxpayers that employ qualified veterans in the State. A "qualified veteran" is a veteran who was unemployed for more than four weeks preceding the employment date and who was discharged or released from military service not more than ten years before employment date (for a disabled veteran) or not more than two years before employment date (for a veteran who is not disabled). The credit is \$3,000 for a disabled veteran or \$2,000 for a veteran who is not disabled for employment for a minimum of 1,560 hours during 12 consecutive months following the veteran's employment date. For seasonal employment, the credit is \$1,000 for a veteran employed for a minimum of 500 hours during three consecutive months following the employment date.

Credits Applicable to Fisheries Taxes

Community Development Quota Credit

AS 43.77.040

The Community Development Quota Credit is a non-transferable credit for contributions to an Alaska nonprofit corporation that is dedicated to fisheries industry related expenditures. The credit is available only for fishery resources harvested under a community development quota (CDQ). The credit is 100% of contribution amount up to a maximum of 45.45% of tax liability on fishery resources harvested under a CDQ.

Education Credit

See "Credits Applicable to Multiple Tax Programs."

Other Taxes Credit**AS 43.77.030**

The Other Taxes Credit is a nontransferable credit for taxes paid to another jurisdiction on fishery resources landed in Alaska. The credit is 100% of taxes paid with a maximum of 100% of the Alaska tax liability on the fishery resources.

Salmon Product Development Credit**AS 43.75.035**

The Salmon Product Development Credit is a non-transferable credit for eligible capital expenditures to expand value-added processing of Alaska salmon, including ice-making machines. The credit is 50% of qualified investments up to 50% of tax liability incurred for processing salmon during the tax year. The credit may be carried forward for three years, but the authorizing statute is scheduled to sunset on December 31, 2015.

Scholarship Contributions Credit**AS 43.75.032, AS 43.77.035**

The Scholarship Contributions Credit is applicable to both the Fisheries Business Tax and the Fishery Resource Landing Tax. It is a non-transferable credit for contributions to the A.W. "Winn" Brindle memorial education loan account. The credit is 100% of the contribution amount, up to a maximum of 5% of tax liability.

Credits Applicable to Multiple Tax Programs

Education Credit**AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, AS 43.77.045**

The Education Credit is a nontransferable credit applicable to the Corporate Income Tax, Fisheries Business Tax, Fishery Resource Landing Tax, Insurance Premiums Tax, Title Insurance Premiums Tax, Mining License Tax, Oil and Gas Production Tax, and the Oil and Gas Property Tax. It is a nontransferable credit for contributions to vocational educational programs, accredited Alaska universities or colleges for educational purposes or facilities, annual intercollegiate sports tournaments, Alaska Native educational programs, and facilities that qualify under the Coastal American Partnership. The credit is available for up to 50% of annual contributions up to \$100,000, 100% of the next \$200,000, and 50% of annual contributions beyond \$300,000 up to \$10 Million. The credit for any one taxpayer cannot exceed \$5,000,000 annually across all eligible tax types. The credit at these rates is effective from January 1, 2011 until December 31, 2020, at which point the maximum credit for any taxpayer is \$150,000 per year.

Film Production Credit**AS 43.98.030, under AS 21.09.210, AS 21.66.110, AS 43.20, AS 43.55, AS 43.56, AS 43.65, AS 43.75, AS 43.77**

The Film Production Credit is a transferable credit for expenditures on eligible film production activities in Alaska. Effective July 1, 2013: 1) a producer must spend at least \$75,000 in qualified expenditures over a consecutive 24-month period to qualify, 2) the credit is 30% of eligible film production expenditures, plus an additional 20% credit for wages paid to Alaska residents, plus

an additional 6% credit for filming in a rural area, plus an additional 2% credit for filming between October 1 and March 30, 3) the credits must be used within six years, 4) the tax credit applies to multiple tax programs in addition to corporate income tax. The program is capped at a \$300 million maximum budget for all projects and expires on July 1, 2023.

Minerals Exploration Incentive Credit

AS 27.30.030, AS 43.20.044

The Minerals Exploration Incentive Credit is applicable to the Corporate Income Tax, Mining License Tax, and Mineral Production Royalty. It is a non-transferable credit for eligible costs of mineral or coal exploration activities and must be used within fifteen years. The credit is 100% of allowable exploration costs with a maximum of \$20 million. For mining license tax (MLT), the credit is limited to the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total MLT liability. For the corporate income tax, it is limited to the lesser of 50% of the MLT liability at the mining operation at which the exploration occurred or 50% of total CIT liability. For mineral royalty, the credit is limited to 50% of royalty liability from the mining operation at which the exploration activity occurred.

Responses to Specific Questions

CCED responded to Rep. Newman's question regarding encumbered funds allocated to departments for specific education and school funding.

Funding for schools goes almost exclusively through the Dept. of Education and is not appropriated under AS 37.05.316-.317. Likewise grants for; water and sewer projects appropriated to ADEC/ Village Safe Water, roads, airports, and harbors through DOT&PF, or projects through the Alaska Energy Program are all appropriated under different statutory authorities and the provisions in this bill would not apply.

Legislative Legal responded to Rep Wilson's question regarding the difference (if any) to a Repealer or Sunset provision.

In legal terms there is no difference between a "Repealer" and a "Sunset" provision. The effect is still accomplished on a specified date.

CCED responded to concerns about the administration of lapsing grants to unincorporated communities and named recipients and substantial work.

Currently, AS 37.05.318 prohibits the Department from enacting regulations with regard to the administration of grants appropriated under 37.05.315 - .317, so there is no regulatory definition of this term. The Department however, does have an obligation to prudently manage these public funds.

In order to meet the intent of this statute, approximately seven months prior to the lapsing date of a legislative grant, grant administrators send a notice to all grantee's with a grant balance, notifying them of the upcoming funding lapse date. A copy of one of these notices and the response from the grantee is attached. In order for a grant to be extended, a grantee must meet the following 4 requirements:

1. A grant must have a balance of \$1,000 or more.
2. The grantee must file a written request.
3. The grantee must be current on progress and financial reporting.

4. Financial and Progress Reports must reflect that substantial progress towards project completion has been made on the project. If a grantee cannot demonstrate substantial ongoing progress, they must provide a written explanation for the delays and written assurance that the project can be successfully completed within one year.

The Department feels that item number 4 addresses the statutory requirement of determining substantial, ongoing work. While not a statutory requirement, to be consistent with all designated legislative grants, the Department currently use this same process for grants issued under the authority of AS 37.05.316 (Named Recipients) and .317 (Unincorporated Communities).

The following is an example of the current process.



THE STATE
of ALASKA
GOVERNOR SEAN PARNELL

**Department of Commerce, Community,
and Economic Development**

DIVISION OF COMMUNITY AND REGIONAL AFFAIRS

550 West Seventh Avenue, Suite 1640
Anchorage, Alaska 99501
Main: 907.269.4252
TDD: 907.465.5437
Fax: 907.269.4066

January 9, 2014

Derek Martin, City Manager
City of Kotzebue
PO Box 46
Kotzebue, Alaska 99752

Re: Important Information Regarding Grants due to lapse on June 30, 2014

Dear Derek:

This notice is to inform you that the grant referenced below is due to lapse on June 30, 2014.

Grant #08-DC-465, Regional Recreation Center Construction

Please review the options on the attached form, check the appropriate box and return the completed form to our office no later than **February 14, 2014**. If you are requesting an extension for this grant, you will need to meet the necessary requirements on the attached form and submit supporting documentation.

If you have any questions please call me at (907)269-4252. I will be happy to assist you in the preparation of the required information.

Sincerely,

Handwritten signature of Rachel Spicer in cursive.

Rachel Spicer
Grant Administrator II

Enclosures

DESIGNATED LEGISLATIVE LAPSING GRANT CONFIRMATION

Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs

Grantee: City of Kotzebue	Grant #: 08-DC-465
Project Title: Regional Recreation Center Construction	Lapse Date: 06/30/2014
Amount of Award: \$250,000.00	Balance as of (01/9/2014): \$250,000.00

Please check one of the following boxes, sign and return this form to the address below no later than **February 14, 2014**.

- An extension of this grant is requested. Extensions are contingent upon approval and grants will not be extended past June 30, 2014, unless the following conditions are met:
1. A grant must have a balance of \$1,000.00 or more in order to be considered for an extension;
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 4. Financial and Progress Reports must reflect that substantial progress toward project completion has been made on the project. If you cannot demonstrate substantial ongoing progress, you must provide a written explanation for the delays and written assurance that the project can be successfully completed by June 30, 2015, in order for the Department to consider a one year extension.
- The balance of funds will be spent prior to June 30, 2014, and it is understood that a final financial progress report is due to DCRA no later than July 15, 2014.
- This project is complete and it is understood that any unexpended funds on June 30, 2014, will lapse into the general fund.
- This grantee will be seeking a re-appropriation or a language amendment directly from the Legislature. It is understood that these changes are contingent upon legislative approval and funds may not be spent towards the new purpose until legislation passes and notification is received from DCRA. Financial reporting requirements and grant agreement conditions remain in effect for the current project while pending reappropriation or language amendment.

Signature of Authorized Chief Administrator

Date

Derek Martin, City Manager
Printed Name and Title

Confirmations can be faxed to 907.269.4252, attached to an email to: rachel.spicer@alaska.gov or mailed to: DCCED/DCRA, 550 West 7th Ave., Suite 1640, Anchorage, Alaska 99501-3510



P.O. Box 46
Kotzebue, Alaska 99752

City Hall
(907) 442-3401

Police Dept.
(907) 442-3351

Fire Dept.
(907) 442-3404

Public Works
(907) 442-3401

February 10, 2014

Rachel Spicer, Grants Administrator
State of Alaska, DCCED
DCRA Grants Section
550 West 7th Avenue, Suite 1640
Anchorage, Alaska 99501

RE: 08-DC-465: Regional Recreation Center Construction -Grant Extension Request

Dear Ms. Spicer:

The City of Kotzebue is requesting a 6 month extension beyond the June 30, 2014 deadline to December 31, 2014. As you know, the City of Kotzebue, through its contractor Drake Construction Inc. (DCI) was able to place 40,000 cubic yards of Swan Lake fill at the project site. Site levelling, which included the placement of geotextile fabric & classified fill, took place at the end of the construction season. Unfortunately, the winter weather prevented the final grading of the five acre site, seeding of the ball field, installation of the security fencing, and installation of the site amenities such as the bleachers and ball field fencing. Some of these items will arrive on the July 2014 marine transportation service.

Therefore, the City of Kotzebue respectfully request that you extend this grant to December 31, 2014, as indicated in the attached form. Under separate cover, all financial/progress reports should be current.

Thank you for your consideration of this request. For any questions or comments, do not hesitate to contact me at (907) 442-5101.

Sincerely,
City of Kotzebue


Derek Martin, City Manager

Cc: 484 DCCED Grant file

Enclosure: DCCED Grant Extension Request [1 pg]

DESIGNATED LEGISLATIVE LAPSING GRANT CONFIRMATION

Department of Commerce, Community, and Economic Development, Division of Community and Regional Affairs

Grantee: City of Kotzebue	Grant #: 08-DC-465
Project Title: Regional Recreation Center Construction	Lapse Date: 06/30/2014
Amount of Award: \$250,000.00	Balance as of (01/9/2014): \$250,000.00

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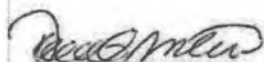
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The balance of funds will be spent prior to June 30, 2014, and it is understood that a final financial progress report is due to DCRA no later than July 15, 2014.

This project is complete and it is understood that any unexpended funds on June 30, 2014, will lapse into the general fund.

This grantee will be seeking a re-appropriation or a language amendment directly from the Legislature. It is understood that these changes are contingent upon legislative approval and funds may not be spent towards the new purpose until legislation passes and notification is received from DCRA. Financial reporting requirements and grant agreement conditions remain in effect for the current project while pending reappropriation or language amendment.



Signature of Authorized Chief Administrator

01/31/14

Date

Derek Martin, City Manager

Printed Name and Title

Confirmations can be faxed to 907.269.4252, attached to an email to: rachel.spicer@alaska.gov or mailed to:
DCCED/DCRA, 550 West 7th Ave., Suite 1640, Anchorage, Alaska 99501-3510

ALASKA STATE LEGISLATURE

Session:
State Capitol Building
Room 500
Juneau, Alaska 99801-2186
Phone (907) 465-3004
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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Thursday, April 17, 2014
To: Representative Bill Stoltze
House Finance Co-Chair
From: Rep. Steve Thompson
RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Wednesday, March 12th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

CCED Responded to Representative Edgmon's and Representative Guttenberg's question/comments on Unincorporated Communities:

The legislature appropriates the funds; the Department only administers the disbursement of the funds to the grantee based upon the project title, and amount stated in the appropriation. In the grant agreement, the paragraph that states:

"In the event funding from the state, federal, or other sources is withdrawn, reduced, or limited in any way after the effective date of this Grant Agreement and prior to normal completion, the Department may terminate the agreement, reduce funding, or re-negotiate subject to those new funding limitations and conditions. "

The legislature may reappropriate the funding made to any grantee be it municipality, named recipient, or unincorporated community. The reappropriation can be at any time of the grant, not just in the last year of the grant. The practice has been that grants are only reappropriated

E-mail Representative_Steve_Thompson@akleg.gov

when a grantee requests it, but there have been a few cases where funds were reappropriated either without the grantee being aware, or over the objections of the grantee. The power to appropriate or reappropriate funds lies with the legislature. To facilitate the reappropriation process, the Department sends the notice to grantee's (municipalities, named recipients, and unincorporated communities) offering them the chance to request an extension if substantial ongoing work is occurring, or to make them aware of the timeframe to expend the remainder of the funds. We also prepare a listing of all grants that will be lapsing at the end of the current fiscal year (June 30th), and provide this list to legislators at the beginning of the legislative session. The list is updated every two weeks throughout the legislative session.

CCED is current administering approximately 1,600 grants that under AS 37.05.315-.317.

From the most current lapsing grant spreadsheet provided by CCED, there are 102 of these grants that are going to lapse on June 30, 2014 if no further action is taken.

Of these 102 grants:

- 85 (83.3%) are to Municipalities (AS 37.05.315)
- 13 (12.7%) are to Named Recipients (AS 37.05.316)
- 4 (3.9%) are to Unincorporated Communities (AS 37.05.317).

Grantee's have 5 years to expend the funds. DCRA's grant administrator's contact all grantee's throughout the life of the grant reminding them of the grant, and requesting progress reports. The grant administrator increases this contact in the year prior to any funding lapsing. There are a variety of reasons that a grantee may not have fully expended funding. It may have to do with other anticipated funding not materializing as planned, scope changes, cost changes, personnel changes. In determining if a grant extension should be executed, the Department is sympathetic to the grantee. If a grantee can reasonable demonstrate that the project is ongoing or will get built within an additional 12 months, DCRA execute an extension. It is very uncommon for the department to close out a grant over the grantee's objection. The majority of grants are either reappropriated, have small left over amounts of funding that are lapsed because the grantee completed the project, or the grantee agrees the project cannot be completed

Scott Ruby, the Division Director of Community and Regional Affairs provided these responses and will be available to the House Finance Committee to answer additional questions.

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REPRESENTATIVE STEVE THOMPSON DISTRICT 3

MEMORANDUM

Date: Thursday, April 17, 2014
To: Representative Bill Stoltze
House Finance Co-Chair
From: Rep. Steve Thompson
RE: House Bill 306

Thank you for the opportunity to respond to certain requests and questions asked on Wednesday, March 12th, 2014 regarding HB 306, "Evaluation of Indirect Expenditures; Tax Credits".

In Response to Representative Costello's questions regarding what other states are doing in relation to indirectEdgmon's and Representative Guttenberg's question/comments on Unincorporated Communities:

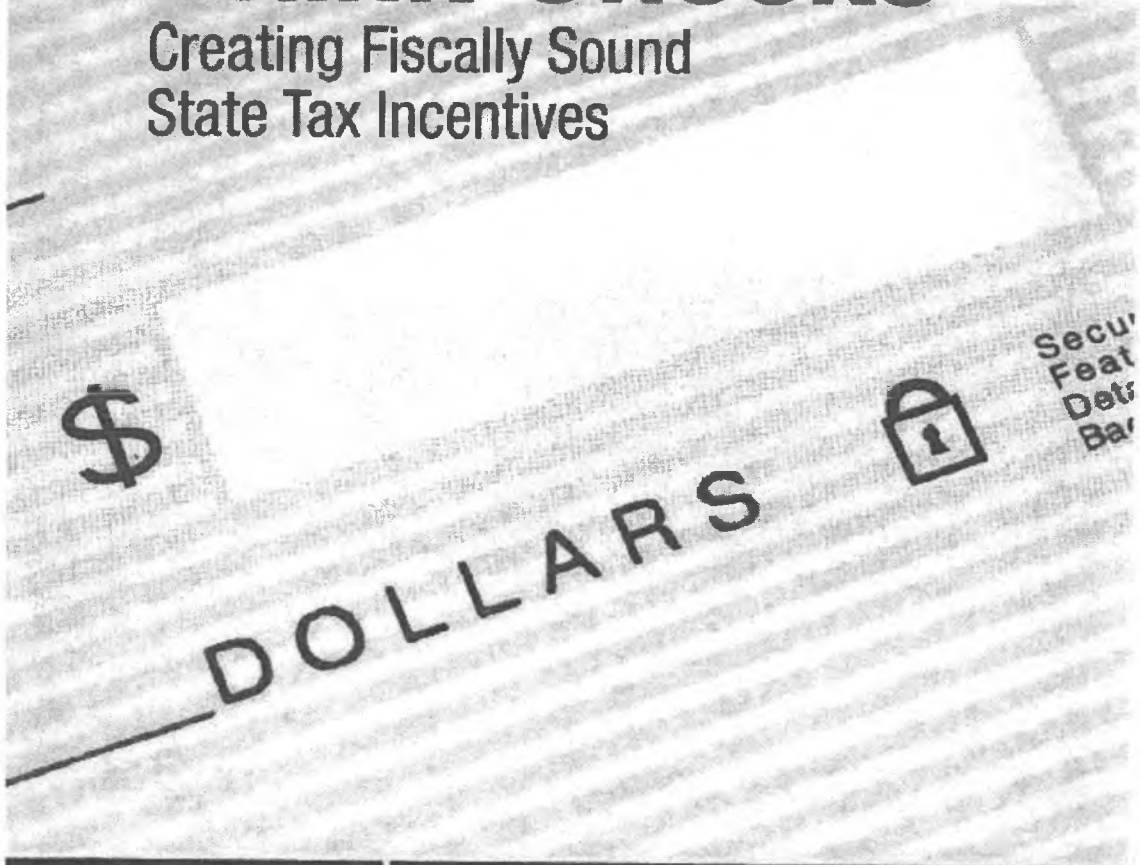
E-mail Representative_Steve_Thompson@akleg.gov



THE
PEW
CENTER ON THE STATES

Avoiding Blank Checks

Creating Fiscally Sound
State Tax Incentives



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OVERVIEW

**TABLE 1:
TOOLS TO AVOID BLANK CHECKS NOT
USED CONSISTENTLY**

To understand whether and how states use cost estimates and controls when making economic development investments, we examined a selection of recently passed tax incentive bills. This review illustrates that policy makers have made major investments without a clear sense of their fiscal impact.

E Reliable cost estimates **C** Annual cost controls

Arizona HB 2001 2011	E C	Legislative analysts used data on historic job growth to estimate the fiscal impact of the new Quality Jobs Tax Credit. The cap on the program starts at \$30 million in FY 2013, but grows to \$90 million by FY 2015.
California SBX3-15 2009	E C	The new Film & Television Tax Credit Program was capped at \$100 million per year for five years, and the New Jobs Tax Credit expires once the total amount allocated reaches \$400 million.
Florida S1752 2010	E C	The Entertainment Industry Financial Incentive Program was amended with annual caps totaling \$242 million over five years. The new Manufacturing and Spaceport Investment Incentive Program included yearly caps that totaled \$43 million over two years.
Georgia HB 234 2011		Fiscal analysts said they were "unable to give a precise estimate" on the cost of the new Georgia Tourism Development Act, since the program gives the governor final say over which projects qualify.
Illinois SB 2093 2010		The Department of Revenue said it lacked the information needed to reliably predict the full cost of the new Sales Tax and Revenue (STAR) bond program, which was not capped. Two other programs in the bill (the New Markets Development Credit and the Angel Investment Credit) had annual caps totaling \$30 million.
Louisiana HB 808 2009	E	While the Motion Picture Investor Tax Credit was not capped, the Legislative Fiscal Office estimated that the expansions to the program would cost a total of \$100 million over four years.
Massachusetts H.4829 2008	C	The Life Sciences Tax Incentive Program was a new 10-year program capped at \$25 million a year. As is standard procedure in the state, the program did not receive a formal cost estimate.
Michigan HB 5841 2008		Legislative analysts were unable to predict the price of the new Michigan Film Production Credit, which ended up costing in excess of \$280 million from FY 2009 through FY2011 before being converted to a grant program and scaled back.
Minnesota HF2695 (SF2568) 2010	E	While the new Small Business Investment Tax Credit (estimated to cost \$59 million over five years) was capped, the expanded Credit for Increasing Research Activities (estimated to cost \$31 million over three years) was not.

(continued)

OVERVIEW

**TABLE 1:
TOOLS TO AVOID BLANK CHECKS NOT
USED CONSISTENTLY** *(continued)*

New Jersey S3043 2008		Legislative analysts were unable to estimate the cost of the new Urban Transit Hub Tax Credit because of the program's design.	
New York A9709-C (2010) S2811C (2011)	C	The Excelsior Jobs Program was enacted in 2010 with annual caps totaling \$1.25 billion between 2011 and 2019. In 2011, the program was extended to 2024 and a total of \$1 billion was added to the annual caps over the life of the program.	
North Carolina HB 1973 2010	E	While the price of the Film Incentive expansion was not capped, legislative analysts estimated the cost would grow by over \$50 million per year within three years.	
Ohio HB 153 2011	C	The new Small Business Investment Tax Credit, capped at \$100 million biennially, did not receive an official fiscal estimate until after the bill was passed. Expansions to the Job Retention Tax Credit and Historical Rehabilitation Tax Credit received fiscal estimates and are capped annually at \$25 and \$60 million, respectively.	
Pennsylvania SB 97 2007	E	C	The Film Production Tax Credit was a new program with annual caps of \$75 million. It was estimated to cost just \$25 million in the first year.
Texas HB 3676 2009		The extension of Texas' Chapter 313 Economic Development Act did not cap the cost. The bulk of the costs will occur beyond the five years analyzed in the legislature's fiscal note.	
Wisconsin Assembly Act 4 2011	E	The state increased by \$25 million the amount available for the state's Economic Development Tax Credits, but did not place an annual cap on awards.	

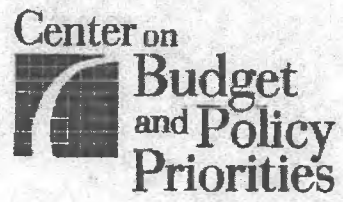
Out of the hundreds of pieces of legislation states have considered to create or expend tax incentives in recent years (2007 to 2011), we focused on 16 that passed with the potential to be among the costliest nationwide. Because we sought to identify those programs with the highest price tags, each of the 16 states in the selection is among the 20 states with the largest budgets in the country (four of the 20 states with the biggest budgets did not pass major incentive legislation during the period studied). Most states, however, rely heavily on tax incentives to pursue economic development goals, and our review of legislation in states with smaller budgets suggests that many have also used cost estimates and controls inconsistently. As a result, our selection of 16 bills helps illustrate the range of current practices—and options for improvement—in all 50 states.

In five states—California, Florida, Illinois, Ohio, and Minnesota—the selected bill contained multiple tax incentive programs. These bills are indicated above as having cost estimates or annual cost controls only when policy makers used these tools for all tax incentives in the legislation. In the case of New York, we chose a program that was enacted in 2010 and then increased in potential cost by 80 percent one year later. Other than New York, we limited our list to no more than one bill per state, working to identify—as best as possible, given varying or unavailable data on projected costs—the one with the most significant potential budgetary impact. For each bill, researchers examined the design of the program, analyzed legislative fiscal notes and other official documents, and interviewed agency officials. Because states are not always consistent in their use of cost estimates and controls, these bills do not necessarily represent the treatment of all tax incentives within the 16 states.

WWW.PEWSTATES.ORG

Full report available at:

http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_tax_incentives_report.pdf



**PROMOTING STATE BUDGET
ACCOUNTABILITY THROUGH
TAX EXPENDITURE REPORTING**

By Michael Leachman, Dylan Grundman, and Nicholas Johnson*

May 2011

*Jason Levitis and Jeremy Koulish contributed to the original version of this report in 2009.

Tax Expenditure Report Checklist

To achieve its goals of improving transparency, encouraging accountability, and saving money, a tax expenditure report should have the features listed below.

Accessibility. The report should be:

- ✓ Published regularly.
- ✓ Incorporated into the budget process.
- ✓ Available on the Web.

Scope. The report should include:

- ✓ Tax expenditures related to all taxes.
- ✓ All tax expenditures, including those with lower costs or those benefitting few taxpayers.
- ✓ Explicit and implicit tax expenditures.
- ✓ Tax expenditures enacted by the state that affect local government.

Detail. The report should include:

- ✓ The cost of the tax expenditure, using current data.
- ✓ The cost in future years, to allow comparison with other proposed expenditures.
- ✓ A description of the tax expenditure.
- ✓ The relevant legal citation and year of enactment.
- ✓ Detail on the taxpayers who benefit from the tax expenditure.
- ✓ Separate reporting for the state and local revenue losses, where applicable.

Analysis. The report should:

- ✓ Classify tax expenditures using the same categories as direct spending.
- ✓ State the purpose of each tax expenditure.
- ✓ Evaluate the extent to which that purpose has been accomplished.
- ✓ Analyze the distribution of benefits by income level and size of business.

- Almost every state's report omits some essential information, such as the law that mandates a given tax expenditure or the number of households or businesses that benefit. Some reports even omit the cost of many tax expenditures.
- Two states, Arkansas and New Hampshire, fail to make their report accessible to the public through means such as posting it on the Internet.

Some state tax expenditure reports are much better than others, but every state could improve its practices in this area. Oregon, Minnesota, and the District of Columbia publish relatively comprehensive and informative reports that could serve as a model for other states. Among the least useful reports are those issued by Arkansas, Colorado, and Utah, because they omit major taxes, fail to provide cost estimates and other key information for many tax expenditures, and/or are not available online.

Seven states produce no regular tax expenditure report, meaning that citizens have no way of knowing on an ongoing basis what the state is spending or what policies it is pursuing through the tax code. These states are: Alabama, Alaska, Indiana, Nevada, New Mexico, South Dakota, and Wyoming.

This report lays out best practices for tax expenditure reports — ways to make the reports maximally useful to policymakers and to the public. (For a list of the features a report should contain, see the box on page 2.) It also describes other steps, beyond producing a tax expenditure report, states can take to better manage their tax-side spending. The goal is not to eliminate tax expenditures, which are neither good policy nor bad policy per se. Tax expenditures are one of a policymaker's tools for achieving policy goals; like other tools, they can be put to good use or abused, and like other tools, their use should be transparent and accountable. A well-designed tax expenditure report can help accomplish that, especially when accompanied by other reforms that allow legislatures to regularly review and better manage tax-side spending.

Recent Developments in Tax Expenditure Reporting

In the last two years, New Jersey and Georgia have passed tax expenditure reporting requirements and produced their first reports. The District of Columbia's report has been drastically improved, and several other states have made significant enhancements, including North Carolina, Rhode Island, and Vermont.

Missouri, on the other hand, has discontinued its tax expenditure report, now providing only an extremely limited report on economic development tax credits. In New Mexico, a bill to create a tax expenditure budget was passed unanimously by both legislative houses in 2011, but vetoed by the governor.

Tax Expenditure Reporting Lagging in Many States

