

HOUSE FINANCE COMMITTEE
April 11, 2001
1:44 P.M.

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CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:44 P.M.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair
Representative Eldon Mulder, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster

MEMBERS ABSENT

Representative Carl Moses
Representative Richard Foster
Representative Jim Whitaker

ALSO PRESENT

David Stancliff, Staff, Representative Scott Ogan; Representative Norman Rokeburg; Representative Drew Scalzi; Jim Kelly, Director of Communications, Alaska Permanent Fund Corporation, Department of Revenue; Neal Slotnick, Deputy Commissioner, Department of Revenue; Chuck Halamert, Section Chief, Tax Division, Department of Revenue.

SUMMARY

HB 3 An Act relating to deposits to the Alaska permanent fund from mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments received by the state from mineral leases, and bonuses received by the state from mineral leases, and limiting deposits from those sources to the 25 percent required under art. IX, sec. 15, Constitution of the State of Alaska; and providing for an effective date.

HB 3 was passed out of Committee with a "do pass" recommendation and with a fiscal note by Department of Revenue dated 3/13/01.

HB 95 An Act relating to control of space in the state capitol and other buildings occupied by the legislature and its agencies; and providing for an effective date.

HB 95 was HEARD and HELD in Committee for further consideration.

HB 154 An Act relating to security for the payment of fishery business taxes and to payment of estimated fisheries resource landing taxes and penalties.

CS HB 154 (FSH) was reported out of Committee with a "do pass" recommendation and with a zero fiscal note by Department of Revenue dated 3/22/01.

HB 194 An Act relating to fees for commercial fishing licenses and permits; and providing for an effective date.

HB 194 was POSTPONED for a hearing at a latter date.

#HB194

HOUSE BILL NO. 194

An Act relating to fees for commercial fishing licenses and permits; and providing for an effective date.

Co-Chair Williams stated that HB 194 would be HELD until a satisfactory solution could be resolved. He encouraged the sponsor of the bill to work with Co-Chair Mulder.

#HB3

HOUSE BILL NO.3

An Act relating to deposits to the Alaska permanent fund from mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), federal mineral revenue sharing payments received by the state from mineral leases, and bonuses received by the state from mineral leases, and limiting deposits from those sources to the 25 percent required under art. IX, sec. 15, Constitution of the State of Alaska; and providing for an effective date.

REPRESENTATIVE NORMAN ROKEBURG noted that the legislation would return the percentage of all mineral lease royalties and bonuses deposited into the Permanent Fund to the constitutionally mandated 25% percent. HB 3 proposes

changes to a statute, not the Constitution. He advised that the surplus situation with State revenues no longer exists today. He claimed that it is time for the State to redirect the extra 25% to the General Fund. Passage of the bill would generate an estimated \$29 million dollars per year over the next thirteen years. As Prudhoe Bay and Kuparuk fields, which currently contribute to the general fund at a 25% rate diminish, the State needs to replace that production with new, smaller satellite fields contributing at the same 25% rate, not at the 50% rate.

Representative Rokeburg claimed that while the State can and should continue to make budget reductions, it would be foolish to ignore the source of general fund revenue in solving the budget problem. Prudent fiscal management requires a statutory change. HB 3 would be a small step in the right direction. He urged the Committee's support of what he called "fiscally prudent" legislation.

JIM KELLY, DIRECTOR OF COMMUNICATIONS, ALASKA PERMANENT FUND CORPORATION (APFC), DEPARTMENT OF REVENUE, provided information to Committee members. [Copy on File]. He noted that the impact on oil contributions would total \$333 million dollars between 2001-2011. The impact on per capita dividends would total \$90 million dollars over the same eleven years. He offered to answer questions of the Committee.

In response to queries by Representative Croft, Mr. Kelly explained that it would be the income earned on the oil revenues and would be averaged over five years. A reduction taken in oil revenues would amount to \$40 million dollars a year. That would amount to the expected income earned on the \$40 million dollars.

Representative Harris asked if the effect on the dividend would be higher than the Capital Budget Reserve (CBR). Mr. Kelly replied that the amount of money coming out of the CBR for FY02 was approximately \$500 billion dollars. That is more than the legislation proposes to take over the next ten years. To replace that with Permanent Fund income, the impact would be much more dramatic. The market during the past few months has reduced the dividend by more than the bill would reduce it over the next ten years.

Representative Hudson noted his support for the legislation. The total revenue received from oil at the original time was over \$3.5 billion dollars. Currently, oil revenues are at \$800-\$900 billion dollars. He stressed that oil provides the State two dividends.

- It provides the permanent fund dividends; and

- It provides for the funding of essential services of government.

Representative Hudson stated that funding has been deposited in excess to the statutory requirement. He observed that the Legislature has been an outstanding trustee. At this time, there is not enough funding in the second dividend for essential services. It is time to redirect the income stream to where it was originally. The 25% contribution would be the number excluding the bonus originally given. The bonus should be stopped, allowing the State of Alaska to provide an income stream and continue to provide essential services.

Representative Hudson MOVED to report HB 3 out of Committee with the accompanying fiscal note. Representative Davies OBJECTED for the purpose of discussion.

Representative J. Davies agreed that HB 3 was a piece of a long-range fiscal plan, but he emphasized that it is a "small" piece relative to what the problem is. He expressed concern that the State's fiscal problem is being addressed "piece meal". Representative J. Davies WITHDREW his OBJECTION.

Representative Croft OBJECTED and stressed that there has been no comprehensive discussion on a fiscal plan. He reiterated that no components of a plan have been addressed to date. Representative Croft maintained that there should be a comprehensive discussion and indicated that a five-year fiscal plan should raise revenues.

Representative Harris commented that the legislation would raise revenues into the General Fund that otherwise, would not have been available.

Representative Rokeberg disagreed with the indication that the legislation was a mistake except as part of a total plan.

A roll call vote was taken on the motion.

IN FAVOR: Bunde, Davies, Harris, Hudson, Lancaster,
Williams
OPPOSED: Croft

Representatives Moses, Foster, Mulder, and Whittaker were absent from the vote.

The MOTION PASSED (6-1).

HB 3 was reported out of Committee with a "do pass" recommendation and with a fiscal note by Department of Revenue dated 3/13/01.

#HB154

HOUSE BILL NO. 154

An Act relating to security for the payment of fishery business taxes and to payment of estimated fisheries resource landing taxes and penalties.

REPRESENTATIVE DREW SCALZI, stated that in recent years, the fishing industry has seen the development of fish "brokers" who like e-commerce businesses, facilitate or broker interstate commerce between parties without actually handling the product. Because the brokers export the product, they are subject to the fisheries business tax. However, some businesses may have a small working capital and may not possess "real" property of lien-able value against which a tax may be collected, should the business default.

Presently, absent a lien-able value of property equal to three times the amount of the estimated tax, a surety bond must be paid equal to twice the estimated amount of the tax. He commented that the cost of the bond is a burden to a company operating on a small margin.

Representative Scalzi maintained that the bill would amend the statutes by offering an additional option so that applicants may avoid posting a bond for twice the amount of the estimated taxes if the business:

- Remits all tax obligations on a monthly basis by paying the taxes due on or before the 15th day of the month following the month in which the tax liability was incurred;
- Files a bond in the amount of \$50,000; or
- Provides the Department with proof that the applicant is the owner of lien-able real property in the State of a value of at least \$100,000 dollars.

Representative Scalzi stated that the bill would reduce the operating costs of fish broker businesses, facilitates competition and increased markets for fishermen, while ensuring a measure of security for fish business taxes.

Representative Lancaster inquired how many applicants would be affected. Representative Scalzi estimated that three business would be affected. He enumerated that there are two or three in the halibut and sablefish market alone in the Homer and Seward area that would be affected. He

suspected that there would be many smaller operators that the legislation would not affect.

Representative Croft asked the difference between Sections 1, 2 & 3. Representative Scalzi did not know, however, noted that they do cite the 15th of each month, taken the Administrative Code. Representative Croft commented that each appears to be a different type of fish tax.

Vice-Chair Bunde questioned if the proposed legislation would fall under "special interest" legislation. Representative Scalzi acknowledged that the legislation would pertain to a small group of "entrepreneurs". He emphasized that area of business is new and growing and should be encouraged.

NEAL SLOTNICK, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, offered to answer questions of the Committee.

CHUCK HALAMERT, SECTION CHIEF, TAX DIVISION, DEPARTMENT OF REVENUE, referenced that Section C was the alternate methodology for the security for that type of fisheries business. It tends to mimic the existing security with one additional option.

Representative Croft requested taxes be identified from Sections 1-3. Mr. Halamert replied that AS 16.51 is the Seafood Marketing tax in the amount of .3%. He continued, AS 43.76 is part of the Salmon tax, and AS 43.77.020 is the landing tax.

Representative Croft noted that AS 43.77 contained both the tax component and the amount that needed to be collected. Mr. Halamert agreed. He noted that some are paid and some are collected.

Representative Scalzi added that under the Individual Fishery Quota (IFQ) system, the fisherman cannot be a direct fish seller without proper authorization from the National Marine Fisheries Service.

Representative Lancaster MOVED to report CS HB 154 (FSH) out of Committee with individual recommendations and with the accompanying fiscal note.

Representative Davies asked who would be excluded in the reference on the bottom of Page 2. Mr. Halamert explained that language was used to prevent an existing taxpayer from establishing an existing company and obtaining a license to buy fish.

There being NO OBJECTION, it was so ordered.

CS HB 154 (FSH) was reported out of Committee with a "do pass" recommendation and with a zero fiscal note by Department of Revenue dated 3/22/01.

#HB95

HOUSE BILL NO. 95

An Act relating to control of space in the state capitol and other buildings occupied by the legislature and its agencies; and providing for an effective date.

DAVE STANCLIFF, STAFF, REPRESENTATIVE SCOTT OGAN, stated that HB 95 is a bill to bring the entire capital building under the management by the Legislature. He noted that at the present time, the Legislature occupies and controls by law all but the Governor's floor of the State Capitol building.

Mr. Stancliff noted that that the bill would allow the Legislative Council to create more space in the building for the public. He added that the bill would not cause any fiscal impact, as it would be an "internal transfer" of authority to Legislative Council. He pointed out the fiscal note submitted by Department of Administration. Mr. Stancliff stated that the fiscal note is not appropriate since the bill does not cause any expenditure to occur at present time.

Representative Davies noted that the purpose of the bill is to create more room in the Capitol Building. He asked if the intent really was not to "do anything", and if so, why should the Committee be considering it and why should the bill be passed. Mr. Stancliff responded that the bill would create a step that would allow the Legislative Council to address these concerns. He pointed out that Representative Ogan, in the House State Affairs Committee, indicated that it was not his intent to move the current Administration. He noted that he would hope that an orderly transition would create a more appropriate time to discuss the matter.

Representative Croft inquired what "Move It or Loss It" means. Mr. Stancliff replied that the capitol move issue ties in with how well served the public feels with the space of the Capitol Building and how efficiently the Legislature operates. The theory is that the better off in both process and accommodation of the public, the less apt Juneau would be to loose the capital.

JIM DUNCAN, COMMISSIONER, DEPARTMENT OF ADMINISTRATION, stated that the Governor and the Administration does not view a relocation of the offices as a priority of the use of State dollars at this time. Until other spending priorities are addressed, the concern should not be considered.

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Commissioner Duncan added that if the bill should pass, it would cost money to make the changes. He stressed that the cost must be determined for that relocation. To relocate one office, the Governor's office, other offices would have to be relocated to compensate for that change. The Department of Administration fiscal note reflects cost of relocation of all agencies involved and includes capital costs for renovation and improvements.

Commissioner Duncan noted that the capital costs would be approximately \$8.8 million dollars to renovate and upgrade the 11th floor of the State Office Building (SOB). Included in that cost would be new construction costs for the Court Plaza Building to make it suitable to relocate a major department. In addition, certain parts of the agencies such as the Lt. Governor's offices could not fit into the 11th floor of the SOB, so space would have to be leased to cover costs of those business that would no longer fit.

Commissioner Duncan ascertained that there would be an ongoing lease space cost of approximately \$1 million dollars per year. The fiscal note adequately reflects those costs. Commissioner Duncan stated that the Governor does believe that there are higher priorities for the use of those monies at this time. It is imperative that the Legislature understands that there are costs associated with the proposed legislation.

Representative Davies pointed out that Mr. Stancliff stated that the intent was to "perhaps" wait until the next Administration. He questioned if the Administration had concerns that Legislative Council would be in charge of the space currently occupied.

Commissioner Duncan reiterated that it is important and the Administration wants the Legislature to understand the full costs associated with the move. He stressed that it is not possible to relocate offices without substantial renovations. He reiterated that the Administration does not believe that this is a priority.

Representative Davies asked what would happen if the bill was passed without a fiscal note and the entire State Capitol would be under the control of the Legislative Council. Commissioner Duncan acknowledged that would be a huge problem and that is imperative that the fiscal note accompanies the legislation.

Representative Hudson questioned how long the Legislature and Governor has shared the current building. Commissioner

Duncan stated that it has been since 1906. He spoke in support of financing the move of the third floor if the Legislature allocated the \$8.8 million dollars.

Representative Hudson maintained that the legislation is an attempt to appropriate control. He stated that it was not good public policy. He maintained that the building should be co-managed until an alternative is found.

Representative Hudson suggested that the legislation is a "power grab". He reiterated that he would support the move if the funding was forthcoming.

Representative Hudson MOVED to TABLE HB 95.

HB 95 was HEARD and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 2:45 P.M.