

HOUSE FINANCE COMMITTEE
February 20, 2002
1:42 P.M.

TAPE HFC 02 - 28, Side A
TAPE HFC 02 - 28, Side B
TAPE HFC 02 - 29, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:42 P.M.

MEMBERS PRESENT

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative Eric Croft
Representative John Davies
Representative Richard Foster
Representative John Harris
Representative Bill Hudson
Representative Ken Lancaster
Representative Carl Moses
Representative Jim Whitaker

ALSO PRESENT

Representative Gary Stevens; Tamara Cook, Director, Alaska Legislative Legal and Research Services; Tim Benintendi, Staff, Representative Carl Moses; Kevin Ritchie, Alaska Municipal League, Juneau; Jack Kreinheder, Office of Management and Budget, Office of the Governor; Bill Rolfzen, State Revenue Sharing Municipal Assistance, National Forest Receipts, Fish Tax, Department of Community & Economic Development; Jim Kelly, Director of Communications, Alaska Permanent Fund Corporation.

SUMMARY

HB 20 An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date.

HB 20 was HEARD and HELD in Committee for further consideration.

#HB20

HOUSE BILL NO. 20

An Act relating to state aid to municipalities and certain other recipients, and for the village public safety officer program; relating to municipal dividends; relating to the public safety foundation program; and providing for an effective date.

TIM BENINTENDI, STAFF, REPRESENTATIVE CARL MOSES, explained that the establishment of a Municipal Dividend program would provide Alaskan municipalities with a predictable and reliable source of income with which to address basic community needs. Currently, full funding for essential services is unmet, in part, due to a declining State municipal assistance and revenue sharing general fund allocations. Increases in local property taxes are not always the answer, especially in many communities where there is an insufficient tax base to draw upon.

Mr. Benintendi noted that HB 20 would repeal the current revenue sharing and safe communities programs, thus allowing for a general fund cut of approximately \$51 million. It would fund defined basic services from the surplus earnings of the Permanent Fund at a rate of \$150 per dividend recipient, only after inflation proofing and only after payment of individual dividends. The plan would provide approximately \$89 million dollars to municipalities in the next fiscal year (FY03). It clearly defines the uses to which funding may be applied, and would provide minimum amounts for small municipalities (\$45,000) and unincorporated communities.

Mr. Benintendi added that it would not require a constitutional amendment, nor would it require a vote of the public. Approval of the municipal dividend plan is fully within the authority of the legislature. Within HB 20, annual legislative powers of appropriation remain intact. The bill's impact on an individual dividend check is slight over time, with estimates by the Permanent Fund Corporation at approximately \$20 in nine years. Measuring that against the value of adequate local police, fire, emergency medical technicians (EMT's), health care, and road maintenance services of benefit to individual residents over the same time period.

Mr. Benintendi commented that given the State's inability to substantially cut the operating budget, and given our apprehension for raising new revenues, Alaska needs to look

at using surplus earnings of the permanent fund in some effective way. HB 20 is, in part, what the earnings of the permanent fund were destined for. The municipal dividend program responds to the continued reduction in State funding to municipalities, and would be an effective counter to the popularity of a local tax cap solution. HB 20 is effective, reliable, and accountable. HB 20 is a plausible component of a long-range fiscal plan.

Mr. Benintendi stated that the Community and Regional Affairs version of the legislation changed the original bill by changing the effective date to June 30, 2001. That date needs to be changed for the program to begin this year.

Mr. Benintendi highlighted the bill which will:

- Put new money into the economy instead of taking it out by way of new taxes;
- Stand alone or package component of fiscal reform/long-term plan;
- Retain annual legislative powers of appropriation and program accountability is assured;
- Create \$51 million dollars in general fund reductions because of repeal of Revenue Sharing and Safe Communities programs. More reductions will be possible if other services in the general fund are cut;
- Return considerable decision-making opportunity to local governing entities, including the option for local property tax relief.

Mr. Benintendi listed the program provisions:

- Public Safety foundation
- Road maintenance
- Ice road maintenance
- Fire fighting services
- EMT services
- Police services
- Education supplement
- Health facilities & hospitals
- Village Public Safety Officers (VPSO) services
- Minimum entitlement
- Municipal matching grants

Mr. Benintendi stated that HB 20 would apply to:

- 16 boroughs, 49 munis within boroughs, 96 munis in the unorganized boroughs;
- Approximately 70 unorganized communities in the unorganized borough;
- And if amended, HB 20 could apply to another 65-70 unorganized communities within boroughs.

Co-Chair Williams advised that it was not his intent to move the bill from Committee at this time.

Vice-Chair Bunde inquired about the use of the term "entitlement" throughout the bill. He asked if there was another word that could be used that would be equally descriptive.

Mr. Benintendi acknowledged that consideration had surfaced in discussion. He noted that there would be no objection using a synonym for entitlement.

Vice-Chair Bunde asked if the money being moved into education could likely become a property tax relief.

Mr. Benintendi responded that any option was possible. The intent is for there to be a little "assist" on the local level. The local assembly would determine the impact on local property taxes.

Vice-Chair Bunde asked if the sponsor was willing to give a more firm direction that the money be used for education and not property tax exemption.

Representative Moses explained that the intent was that the decisions be made on the local level.

Vice-Chair Bunde referenced federal guidelines regarding local contributions. He asked how funding would be handled in areas that have both VPSO's and local police.

Mr. Benintendi explained that the communities would be eligible for the allocation from the police components of the bill and the VPSO program.

Representative Davies referenced the spreadsheet and asked for a general overview of that information. [Copy on File].

Mr. Benintendi explained that those numbers are estimates and might not quite meet the \$89 million dollars.

Representative Davies inquired if the subsections might total more than the draw.

Mr. Benintendi did not think so. He added that it was possible that it could be less. He thought it would be close either way.

Representative Davies referenced Page 8 & 9, and the phrase "each individual would receive a service". He recommended that terminology be narrowed.

Representative Lancaster inquired if an allocation would be raised on the local level.

Mr. Benintendi replied that it could. He stressed that local option would be made by local determination.

Representative Hudson referenced the flow of the money into the new Municipal Dividend Fund managed by the Department of Community & Economic Development. He asked if they would be responsible to establish the regulatory processes.

Mr. Benintendi replied that they would. Many of the existing provisions would remain in place. The bill has not been designed to adjust the operational procedures in any of the programs. The Department of Community & Economic Development would have the authority to write regulations. He pointed out the two zero fiscal notes. He thought that there would be some minor adjustments to accommodate the program. Whatever is in the budget will be sufficient for the Department to manage the program.

Representative Whitaker questioned if the intention was that the funding source would replace any general fund expenditures.

Representative Croft referenced the revenue sharing amount of \$29 million dollars. He asked if there was another source of money that could increase it to \$51 million dollars.

Mr. Benintendi requested that the Department clarify that information. He elaborated that revenue sharing totals approximately \$30 million dollars, the VPSO amount is \$7.5 million dollars, and the municipal capital-matching grant is approximately \$15 million dollars.

Vice-Chair Bunde asked if the Department of Community & Economic Development would be administering the grant. He foresaw each entity competing for the funds, and questioned how the determination would be made regarding who gets the money.

Mr. Benintendi replied that the municipality would make that determination within the organized communities. In the unorganized communities, the Department would recognize a local council or other entity. There would only be one choice in each community. He reiterated that the Department would make the determination when a municipality does not exist.

Representative Davies noticed that \$15 million dollars was listed as capital matching grants. He was surprised that money was included, as he thought it was not being funded.

Mr. Benintendi understood that program would be funded with what was remaining after the other two had been funded. The amount would not be fixed from one year to the next.

Mr. Benintendi added that there could be years when money available in the program would not be allocated as outlined in the bill, as it would be determined on a prorating basis.

Co-Chair Mulder clarified that through the proposed program, by using alternative means, the Municipal Assistance and Safe Communities would fund municipal assistance and capital matching grants. He pointed out that those two components currently compromise about \$67 million dollars in the State's budget. Last year, that amount was \$51 million dollars. That amount would be funded through the earnings reserve fund and not the general fund.

Representative Croft asked the correct amounts for State revenue sharing and safe communities.

BILL ROLFZEN, STATE REVENUE SHARING MUNICIPAL ASSISTANCE, NATIONAL FOREST RECEIPTS, FISH TAX, DEPARTMENT OF COMMUNITY & ECONOMIC DEVELOPMENT, advised that the revenue sharing contribution for FY02 was \$12.855 million and the safe communities appropriation was \$16.775 million, a total of \$29.603 million.

Representative Whitaker noted that there had been indication from previous testimony that the earnings reserve was unable to pay out, in any given year, the amount formulated.

Mr. Benintendi recalled that there is a provision in the bill which addresses pro-ration concerns.

Mr. Rolfzen noted that concern was addressed in Section 11, Page 14, Line 11: "The amount is calculated by multiplying \$150 by the number of permanent fund dividends paid by the Department". That amount would go into the municipal dividend fund from which the Legislature would annually draw money to pay for programs.

Co-Chair Williams directed his question to the Permanent Fund Corporation regarding the Permanent Fund Earnings Reserve. He commented that fund was an "uncomfortable source" for the proposed fund.

JIM KELLY, DIRECTOR OF COMMUNICATIONS, ALASKA PERMANENT FUND CORPORATION, advised that the earnings reserve has dropped in value over the last year due to the fact of the \$1 billion dollar dividend payout, the \$700 million dollar transfer of money to principle for inflation proofing and the \$600 million dollar decline in the market value of the fund due to a negative 3.3% rate of return last year. This year, the negative rate continues. For the last seven months, the fund has had a total return of -1.25%. The

amount of unrealized income is declining as the value of the assets decline. Managers are selling stocks and are taking losses when selling those stocks.

Mr. Kelly pointed out that through January, the statutory net income of the permanent fund has been \$132 million dollars, the same amount through the past seven months. He added that he has seen times when that number was doubled in a one-month period. The statutory net income is the cash money generated from interest on the bonds and the dividends on the stock, the cash flow on the real estate and the net of gains and losses from selling securities. That amount is added to the earnings reserve account that the State had last year of \$3.6 million dollars as of June 30th. From that combined total will come next year's dividend and the inflation proofing, which will draw down the realized earnings close to \$900 million dollars. Based on that, by June 30th, the earnings reserve will be \$2.6 billion dollars, which will be the amount that will be available to the Legislature to appropriate.

Co-Chair Williams asked how long this type of financial environment could last. He understood that the proposed legislation would "eat" \$89 million dollars of that amount per year.

Mr. Kelly advised that he could not make that determination. The best estimate of what the permanent fund will make next year is an 8% earnings. If that amount is earned, the balance will increase next year, which would make the addition of \$56 million dollars of realized gain in the permanent fund. He stated that would be plenty to pay for the municipal dividend.

Representative Whitaker spoke to the possible scenario presented last week by the Permanent Fund Corporation, which indicated a decline in the value of the earnings reserve. He commented that the general fund draws from the capital budget reserve (CBR), in the same manner that the permanent fund draws from the earnings reserve. Given the usage of the CBR by the general fund at the amount which is being drawn, it appears that in FY05, there will be nothing left in the CBR. Another significant funding source would need to be found to replace it.

Mr. Kelly responded that in FY05, the best estimate is that there will be \$4 billion dollars in the earnings reserve account. The Permanent Fund Corporation does not project that account should diminish over the next several years. The dividend will diminish but the earnings reserve account should grow modestly as the fund grows at its 8%. That account is available for appropriation by the Legislature.

Representative Whitaker disagreed, pointing out that since \$1 billion dollars per year is taken from that account, it

would not be sustainable. He thought that consideration should be addressed before contemplating to spend \$89 million dollars per year from that account.

Co-Chair Mulder agreed with the point presented by Representative Whitaker. He asked how the proposal could be a part of the puzzle in relationship to functions that heretofore have been paid for through general funds. Co-Chair Mulder thought that it could be a solution, as those functions for local entities would decide where that money goes. He believed that it would allow more flexibility as it provides for the option of property tax relief. It would put the money back into local communities for local determination.

Co-Chair Williams requested that this discussion remain open including the Permanent Fund Corporation and the Department. He encouraged that the legislator's statements be held until the end of the discussion.

Representative Croft asked how the bare market from the past two years has affected the range of the earnings reserve. That reserve has been much less what the State has been use to receiving. He advised that every dollar removed from the reserve, reduces the cushion of the Permanent Fund.

TAPE HFC 02 - 28, Side B

Mr. Kelly explained that the permanent fund could be expected to earn an 8% rate of return. Mr. Kelly added that if that fund is inflation proofed, the State could count on a 5% payout each year and will be money that is available for any purposes.

Representative Croft interjected that the State is now taking \$90 million per year from the earnings reserve. The impact will have a small effect on the permanent fund. He commented that action would further increase the risk of that fund over a period of time.

Mr. Kelly explained that given the outside limits proposed by Representative Croft, there is a 25% likelihood that could happen; however, there is a 50% likelihood that it would be higher than that number. He acknowledged that anything was possible.

Representative Croft asked what level of annual withdrawal from the earnings reserve could the permanent fund secure for an adequate cushion.

Mr. Kelly responded that given the existing requirements in law for the use of earnings, the bottom would not be seen

for the next couple years even if the market stayed as low as it currently is. He reiterated that the withdrawal limit risk must be determined by the Legislature. He advised that the State has a \$2.6 billion dollar earnings reserve account and a \$21 billion dollar principle.

Vice-Chair Bunde understood that the money is available to be appropriated through the hold harmless clause and then placing it back into the corpus. He asked if the Permanent Fund Corporation would take a position on the proposed legislation and if they were comfortable spending those reserves.

Mr. Kelly emphasized that the Permanent Fund Corporation is on record stating that the State can count of \$1 billion dollars every year or the State can spend that much money every year. To keep things the way they are, the State can spend another \$175 to \$300 million dollars and the comfort of the Corporation would be fine. The State could comfortably take that amount every year. He added that \$1.2 billion dollars per year, over a 20-year time period, provides twice as much money as the State will receive from oil.

Representative Hudson commented that the earnings reserve account is a composite of realized and unrealized gains. The unrealized gains are the difference of the value of the portfolio within the corpus of the fund when bought and the value at this time. If nothing changes by 2004, he questioned how much would remain.

Mr. Kelly expected that there could be \$2 billion dollars in each portion of the earnings reserve account.

Representative Hudson noted to receive that would require selling off stock to get at the corpus of the fund. In committing \$100 million dollars a year for the needs of the bill, would reduce the realized side of the portfolio.

Mr. Kelly responded that realized income comes from lending permanent fund dollars to the U.S. government corporations as they pay interest. It also comes from investing stocks, receiving dividends and from investments in real estate throughout the country, which generates a real estate cash flow. When the permanent fund dividends are paid each year, mostly realized earnings are used.

Representative Hudson understood that the bill assumes that there is a certain amount of money in the portfolio. A decision for the legislators is whether the \$90 million dollars will be drawn from the Permanent Fund Earnings Reserve Account. He stated that this was a major policy issue.

Vice-Chair Bunde spoke to the frustration of the municipalities with unfunded mandates. He asked if there was anything in the bill that would prevent or allow municipalities to use monies to fund their senior property taxes.

Mr. Benintendi stated that he did not believe so. There are no prohibitions, noting that there is the flexibility to do accomplish something like that.

KEVIN RITCHIE, ALASKA MUNICIPAL LEAGUE, ALASKA CONFERENCE OF MAYORS, JUNEAU, voiced his appreciation to the Committee for asking questions about the fiscal future of the State of Alaska. Mr. Ritchie acknowledged that securing a plan for the fiscal future of the State is the number one priority for the Alaska Conference of Mayors. He agreed that HB 20 is a part of a fiscal puzzle. HB 20 could create a partnership between the State and municipalities to provide the basic functions that people in communities need and want. HB 20 is truly a second dividend program.

Mr. Ritchie commented that HB 20 does not create a new system of distributing money. It is an accountable system used prior to 1979. That system allowed for greater accountability.

Co-Chair Mulder asked if the Alaska Municipal League (AML) had been somewhat involved in the construction of the bill. He wondered if the complicated formula would tie some of the community's hands.

Mr. Ritchie acknowledged that they had helped with the bill. He added that the municipalities would like to have the money without the strings being attached. The way in which the formula works is that the communities that provide specific services will receive revenue sharing to help them provide those services. It is an encouragement for them to provide high quality police and fire services, etc. There is a fair amount of flexibility in the bill in that if a community wants to lower taxes, the bill will allow them that flexibility. That has been one of the goals of revenue sharing in the past. The bill also allows the flexibility to move funding between education and funding for other core services.

Co-Chair Mulder asked if it would "tie the communities hands". He asked if it would be better to include line items in the community and then fund them through the earnings reserve.

Mr. Ritchie acknowledged that the communities would like to have fewer obligations. Essentially revenue sharing is an encouragement to provide high quality. There is flexibility to allow the communities to lower taxes, which was one the goals of revenue sharing in the past. It

allows the communities the flexibility to move money into community education.

Mr. Ritchie added that the public likes to know where the money goes.

Representative Croft asked how much the senior property tax exemption costs.

Mr. Ritchie remembered that it was in the \$24 million dollar range. In response to queries by Representative Croft regarding community jails, he stated that the FY02 cost was about \$5 million dollars. There are probably other topics of consideration that balance how big the program could be and what services should be included.

Vice-Chair Bunde asked if the funding procedures would encourage some of the unorganized communities to organize.

Mr. Ritchie responded that a strong revenue sharing program would encourage municipalities to organize.

Co-Chair Mulder commented that functions are being funded, however, the limitation in the funding is somewhat formula driven. Right now, there is \$150 per person put into the formula. To put a lid on that funding could encourage ineffective utilization. He mentioned the unintended consequences.

Mr. Ritchie acknowledged that the cap would be \$150 dollars. It is important to know that the money would be used as an incentive and that it would help to off set and encourage a municipality to provide more service.

Co-Chair Mulder asked if it the amount was scaled down to \$100 dollars per person, what effect would that have.

Mr. Ritchie explained that the manner in which the bill is set up, the use of the money is a public safety foundation. The balance of the funding in the account would be used for capital matching grants. There is not a pro-ration program that prorates money equally between the three programs.

Co-Chair Mulder commented that to change the amount, would change the formula in order to allow for a similar distribution of municipal assistance and revenue sharing.

Vice-Chair Bunde asked about the idea of AML to help to market the bill throughout Alaska.

Mr. Ritchie replied that the "marketing" is very much on the minds of all the municipalities. The municipalities are truly subdivisions of the State and if the State does not do well, then the municipalities do not do well. The municipalities are interested in working with the

Legislature in carrying on a dialogue with the public regarding the needs of the future.

Representative Whitaker asked if municipal assistance had decreased since 1990.

Mr. Ritchie replied that it has. The general impact of that is that there is less money and less service. Sustainability is important to any plan.

Representative Moses stated that the question of "marketing" is discretionary. He thought that an additional \$150 dollars should be put in. The communities might want to start another permanent fund on a local level. Those types of concerns suggest that spending should be discretionary.

JACK KREINHEDER, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, commented that at this time, the Administration has taken a "neutral" position on the bill.

He stated that the bill should be looked at in the context of solving the State's fiscal gap. He added that the Governor has expressed a preference to using broad base taxes.

Mr. Kreinheder asked if the State decides to turn to permanent fund earnings, would municipal aid and local tax relief be the highest priority use relative to education.

Mr. Kreinheder noted that regarding the subject of tax relief, the questioned asked if it should be a local option. Given the tough times that the State is facing, is that the direction that the State wants to move toward. He referenced SJR 23, the spending limit bill proposed by Senate Finance Committee. If that amendment was enacted, it provides a restrictive spending limit of 2% per year in State spending growth. If HB 20 moves forward, about 1/2 of the allowable growth would be taken up by the increased spending under HB 20.

Mr. Kreinheder spoke to the findings section of the bill, which mentions that the municipal dividend would be paid surplus earnings of the permanent fund. He pointed out that there were no surplus earnings in the permanent fund in 2001 or 2002. He acknowledged that they are expected to come back over time; however, there is no guarantee that there will be surplus earnings.

Mr. Kreinheder added that there might be confusion in what HB 20 will save in general fund spending, about \$51 million dollars versus what will be spent under HB 20, approximately \$76 million dollars.

Vice-Chair Bunde commented that there is a difference between the permanent fund dividend and the excess earnings.

Mr. Kreinheder responded that the projections indicate that the bill would not have a significant impact on the dividends. Mr. Kreinheder stated that the Governor's position is that any change in the use of the permanent fund dividend should have a vote of the people.

Representative Croft thought that the spending cap should protect the dividends.

Representative Moses asked if the Administration's position would require a vote of the people for any use of the dividend.

Mr. Kreinheder suggested that his testimony should be characterized as things to keep in mind. He reiterated that there is an Administrative preference for the usage of broad base taxes.

Co-Chair Mulder understood that the formula was limited by the amount of money per person. The bill prescribes \$150 dollars per person. The formula cannot grow if the Legislature does not raise it.

Mr. Kreinheder agreed and noted that the distinction is in comparing what we spend today on the programs which totals about \$51 million dollars as compared to what the State would be spending with the bill.

Co-Chair Mulder stressed that the legislation would have no barring on the spending limit. Mr. Kreinheder understood that the timing of the legislation combined with the spending limit would count under SJR 23.

In response to a question by Representative Hudson, Mr. Kreinheder explained that without an increase in municipal assistance and revenue sharing, it would be a \$51 million/\$51 million dollar split. HB 20 would provide substantially more funding than what the State is currently spending.

Co-Chair Williams interjected that it was his intent to create a committee substitute for HB 20.

Representative Hudson inquired if other pieces of the fiscal policy considerations would be included.

Co-Chair Williams stated that HB 20 was a piece of the puzzle. He understood that the Committee knew the direction that they intended to go and that HB 20 is part of that consideration. He added that it is only one area

of the consideration. Time remains to discuss those concerns.

Representative Davies asked if Co-Chair Williams would be working with the sponsor of the bill to develop the committee substitute.

Co-Chair Mulder concurred that members do have ideas and that they should note their concerns to the Chairman's office.

Co-Chair Williams asked if anyone objected to the bill.

Representative Davies noted that he supported the bill and that he did have suggestions. Moving money to the local level should be discretionary. He emphasized that Alaska is a State in which "one size does not fit all".

Representative J. Davies added that the effective date of the bill has to be contingent on a total tax bill. By doing it piece meal, the Legislature loses control of what the plan should look like. He suggested that tying the effective date with the enactment of all the pieces could provide a good plan. He noted that his support of the bill would be contingent on that.

Co-Chair Williams acknowledged that is the type of discussion which is needed. He acknowledged that he was willing to get the bill "out there".

Representative Croft added that not just the effective date should be tied to the entire package as nothing in isolation will work. He thought that individual bills will fail individually but tied together, they could address fiscal concerns. Filling the gap and assuring for some type of fiscal future will be the "prize" for the State.

TAPE HFC 02 - 29, Side A

Co-Chair Williams agreed that there should be a discussion regarding a "package deal".

Vice-Chair Bunde expressed his support for the concept of the legislation. He thought that it could help the State address the challenges that we face. He hoped that there would be some way, using the proposed mechanism, for the smaller communities to become incorporated.

Representative Lancaster commented that the bill would "do good" as a stand-alone for the communities. It would give the local communities some control over their local funding. The local communities have lost some funding

every year. He noted that he would like to see HB 20 included with other fiscal policy legislation.

Representative Whitaker voiced his concern with the:

- Sustainability;
- Linkage to a more comprehensive package; and
- With the notion that the State would be saving \$51 million dollars while spending \$75 million dollars.

Representative Hudson saw HB 20 in light of the total value of the earnings recorded by the Permanent Fund and how that could be spun off the total value arriving at \$1.1 billion dollars to fill the gap. He asked what is the total amount of money that realistically will be available on annual basis. If the gap is left open, the State will be forced to go back into the CBR. HB 20, the dividend and any future use of the excess earnings will be in jeopardy. He recommended that the Committee give serious thought and consideration to using the whole amount of money for the best combination of purposes.

Representative Harris pointed out that fiscal revenue sharing is not an entitlement program that the State has to do. He pointed out that the two largest communities have chosen not to put on a sales tax. He understood that was not a popular idea, however, it is an issue that is out. If people want local control, they should raise the money locally. He added that he was supportive of the legislation but that if more money is to be given to the local communities, there needs to be flexibility and information, available for the State to look at.

Co-Chair Mulder pointed out that some places have chosen to have high property taxes rather than paying sales tax. He was troubled by the linkage question. He noted that HB 20 has merit on its own and that when creating a fiscal plan too closely intertwined, if one straw should fall, then the entire plan could fall.

Co-Chair Mulder added that he would be satisfied at the end of the day, if progress has been made toward closing the fiscal gap. He reiterated that the Committee should not tie everything so closely together.

Vice-Chair Bunde commented that that the Committee should be aware of the complications with the Internal Revenue Service (IRS) taxation of the Permanent Fund if it is to be used for a public purpose. He thought that the HB 20 use of funds would be considered use for a public purpose.

Co-Chair Williams commented that the fund has been used for public purposes since inception. He noted that a large portion of that money stays in Alaska.

Co-Chair Williams indicated that his office would work with the entire Committee on creating amendments for the committee substitute.

HB 20 was HELD in Committee for further consideration.
#

ADJOURNMENT

The meeting was adjourned at 3:30 P.M.