

HOUSE FINANCE COMMITTEE
March 20, 2002
2:04 PM

TAPE HFC 02 - 56, Side A
TAPE HFC 02 - 56, Side B
TAPE HFC 02 - 57, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 2:04 PM.

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

MEMBERS ABSENT

None

ALSO PRESENT

Representative Lisa Murkowski; Representative Peggy Wilson; Representative Ethan Berkowitz; Representative Charles Chenault; Representative Peggy Wilson; Representative Fred Dyson; Mike Tibbles, Staff, Representative Williams; Bob Weinstein, Chair, Southeast Conference of Mayors; Patti Swenson, Staff, Vice-Chair Bunde; Bill Rolfzen, State Revenue Sharing, Department of Community and Economic Development; Kevin Ritchie, Alaska Municipal League; Tim Benintendi, Staff, Representative Carl Moses.

PRESENT VIA TELECONFERENCE

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.

HB 303 An Act relating to the levy and collection of a sales tax; and providing for an effective date.

HB 303 was appointed to a subcommittee existing of: Mulder, chair, Whitaker, and Moses.

#hb303

HOUSE BILL NO. 303

"An Act relating to the levy and collection of a sales tax; and providing for an effective date."

Representative Whitaker, sponsor, spoke in support of HB 303, relating to the levy and collection of a sales tax. He pointed out that a majority of states in the Union have state and municipal sales taxes and disagreed that a sales tax would be a regressive tax. He maintained that under an income tax a small percentage would pay 100 percent of the tax. Every person that purchases non-exempt items in Alaska would contribute to the cost of governance and the provision of services through a sales tax. He addressed concerns raised by the Administration:

The Department of Revenue believes the only way for a state sales tax to operate efficiently, and to avoid placing undue burdens on businesses would be for the state to take over collection and administration of all municipal sales taxes in Alaska.

Representative Whitaker disagreed with the above statement and felt that it should be a matter of municipal choice. The bill allows municipalities to make the determination.

Although this legislation allows individual municipalities to opt in and have the state collect their local sales and use tax, it makes no provision for municipal taxes outside of the general sales tax, such as hotel bed tax, rental car tax, fish taxes and retail alcohol tax. Is it the intent of the legislature that the state should also take over those municipal taxes?

Representative Whitaker clarified that it is not the intent of the legislature that the state take over municipal taxes.

The bill should contain some provisions governing joint enforcement and collection of municipal and state sales taxes. What if a community is dissatisfied with the state's enforcement and audits efforts allocated to the municipal sales tax?

Representative Whitaker maintained that local enforcement issues should be the concern of local municipalities. If a municipality is not satisfied with the way the state is collecting the municipal tax it can be addressed through their agreement with the state. Municipalities can opt to collect their own taxes.

The language in Section 1, Lines 10 and 11, requiring that a municipal sales tax must be "consistent with AS 43.44" should refer to all of Title 43 in order to include all administrative provisions including rates of penalty and interest.

Representative Whitaker noted that he had not been aware of the issue but that it was not insurmountable. Title 43 refers to provisions for permanent fund dividends, oil and gas production taxes and coin-operated devices.

The "reasonable fee" provision for what the state may charge municipalities for collecting the sales tax could become a point of dispute.

Representative Whitaker agreed and stressed that disputes are worked out through negotiation.

The legislation should better define services and the point of taxation for services, is it where the service is performed, or the location of the individual or business ordering the service? The bill also needs to provide rules for services delivered in interstate commerce.

Representative Whitaker pointed out that the legislation addresses a retail sales tax, which would be levied where the product or service is delivered. If the service is provided within the state of Alaska it is consumed there and will be taxed (assuming it is allowable under federal law). This relates to Internet and other mail order sales.

What about services between related parties? Do we want to tax services provided by BP PLC to BP Exploration Alaska?

Representative Whitaker clarified that tax on tax services provided by BP PLC to BP Exploration Alaska are exempted.

Although the legislation allows the state to administer and collect a municipal use tax, there is no provision for a state use tax. This encourages importing products into the state to avoid the sales tax on goods purchased in Alaska.

Representative Whitaker pointed out that the Department of Revenue has indicated that it is nearly impossible to

enforce a use tax on items other than automobiles. The legislation does not attempt to create an unenforceable tax. He understood that there would be some leakage.

If the legislature wants to include a state use tax in this bill, it would make sense to amend state law to require the payment of the use tax on motor vehicles purchased outside Alaska. This would serve to eliminate the price advantage out-of-state car and truck dealers might have over Alaska businesses that would be required to collect the sales tax.

Representative Whitaker reiterated that the bill does not create a use tax and added that the maximum allowable sales tax on a single item is \$60 dollars. He did not think it would be worthwhile to go out of state for purchases.

Every state that imposes a statewide sales tax also has a use tax. In general, a use tax is a tax on the initial use, storage or consumption of tangible personal property in the state. Enforcing use taxes is difficult, particularly with the growth of Internet sales. Most states are addressing this and other sales and use tax issues by passing versions of a Model Sales and Use Tax Act.

Representative Whitaker agreed that it is difficult to enforce a use tax. There is no provision for a use tax in the legislation.

The legislation lacks definitions needed for the administration of the tax. For example: What is meant by "educational services" in the legislation's list of tax-exempt purchases and services: College and university tuition?

Representative Whitaker affirmed that college and university tuition would be exempt.

Any class offered by any business or self-proclaimed school, regardless of accreditation, religious affiliation or venue?

Representative Whitaker responded in the negative. Classes would need to be offered by an entity recognized by the state as a school. He expected that the department would use good judgment in implementing the law and that the legislation would be able to deal with any problems that arise.

Would tutoring be exempt?

Representative Whitaker observed that this is an area where there might be some leakage. He noted that educational computer software would not be exempt.

Petroleum products would be exempt under the legislation, but does that include aspirin, Vaseline, products made of carbon fiber and other petroleum or carbon-based products?

Representative Whitaker noted that the intent of the exemption is to affect natural resource development, processing and refining.

Is a commercial operation, such as a salmon bake at an old mine site, considered an "historic site" for tax-exempt status under the legislation?

Representative Whitaker observed that food for consumption and souvenir sales are not exempt but admission to historical sites would be, as determined by a appropriate historical register.

Are club dues taxable?

Representative Whitaker affirmed that club dues are taxable.

Under this legislation, Girl Scout cookies would be taxable, as would any other sale by a nonprofit organization for fund-raising purposes.

Representative Whitaker agreed that sales of Girl Scout cookies would be taxable.

Representative Whitaker quoted Bill Wood, President of the University of Alaska: "It doesn't matter how much you pay, as long as you pay. The poorest person in the town or village has to understand that their government belongs to them and if they don't invest in it, it no longer belongs to them; it belongs to those that have made the investment."

It's also possible that under this legislation the state would have collected sales tax on the sale of Arco's assets to Phillips.

Representative Whitaker agreed; they would have paid \$60 dollars.

Is the sales tax on a vehicle lease due up front, or strung out based on the stream of lease payments?

Representative Whitaker concluded that the sales tax would be applied on the total lease contract and would be applied up front: \$60 dollars.

Representative Whitaker noted that barterers are not subject to sales tax because it would be impractical.

Representative Whitaker explained that the legislation doesn't understand concerns regarding resale. He noted that wholesale exemptions apply if the resale is to occur outside the state. Packaging would not be exempt.

Representative Whitaker observed that if you purchase a new home in the state of Alaska you would pay \$60 dollars.

If a lawyer submits interim bills under \$2,000 each for a large, ongoing case, would all of the bills be fully taxable under this legislation

Representative Whitaker observed that the total single purchase rule would apply: \$60 dollars. The same would apply to furniture and large appliance purchases.

The Department of Revenue noted in its fiscal note that businesses nationwide and other states are working hard to win nationwide adoption of a Streamlined Sales and Use Tax Agreement. Representative Whitaker stated that Alaska should be part of the Uniform Multi-state Tax Agreement, but observed that there is nothing to be part of at the present time. He acknowledged that there would be problems in regards to uniformity, which would have to be dealt with if Alaska becomes part of the agreement. He acknowledged that it could affect municipalities in the future.

Representative Whitaker continued his response to remarks by the Administration:

There is no authority under this legislation for the department to use sampling in its audits of taxpayers. Sampling would make the audit process easier for the department and the taxpayer.

Representative Whitaker agreed that the authority for sampling should be given.

There is no requirement for sellers to register with the state. Without such a provision, the state would be unable to track businesses responsible to collect and remit the sales tax -making it easier for businesses, particularly at-home or part-time businesses to avoid the tax.

Representative Whitaker observed that the state currently licenses retail businesses; the business license is a registration. This could be incorporated into enforcement of a sales tax.

Representative Whitaker pointed out that the legislation uses the Department of Revenue's estimates.

Co-Chair Williams appointed HB 303 to a subcommittee existing of: Mulder, chair, Whitaker, and Moses.

Representative John Davies requested that the subcommittee clarify assumptions and calculations regarding the amount of revenues, which would be raised and who would pay the tax: resident versus non-resident.

Representative Croft asked the subcommittee to look at whether municipalities would have to have identical exemptions. Representative Whitaker noted that if the municipality enters into negotiation with the state to collect the tax then it would have to comply with the state's rules. If municipalities do not opt in they could operate under an additional set of rules.

HB 303 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."

MIKE TIBBLES, STAFF, REPRESENTATIVE WILLIAMS summarized that proposed committee substitute: work draft 22-LS0008\J, 2/22/02 was adopted. The committee substitute established a \$100 dollar per capita transfer to the Municipal Dividend Fund. The legislature would be allowed to appropriate money from the Fund to Municipal Assistance, Safe Communities, Capital Matching Grants and Community Jails. The \$100 dollar per capita would total \$60 million dollars.

Mr. Tibbles referred to the fiscal note. There is \$10 million dollars more in the Municipal Dividend Fund than would have been appropriated in the next year's budget. The municipal assistance would be divided into two programs: Tax Resource Equalization and Municipal Services. The Municipal Services program is derived on a formula in statute, which is derived from the number of public and ice road miles, health facilities, hospitals and volunteer fire departments in unincorporated communities. It has a statutory minimum, which would not be fully funded. There would be a pro rata reduction on each community as it stands.

Mr. Tibbles noted that the Tax Resource Equalization program generates money based on the amount that each community taxes itself in relation to property values and population.

Mr. Tibbles discussed the Revenue Sharing for Safe Communities program. He noted that there were revenues left from the Gross Business Receipts program in 1979. The money is allocated on a per capita level.

Representative Croft asked the FY02 amount. He thought that revenue sharing and the Safe Communities program totaled \$30 million dollars. Co-Chair Mulder explained that capital-matching grants would be funded at \$15.0 million dollars, which is slightly more than FY02. The Community Jails program would be funded at \$5 million dollars. He explained that municipal assistance and the Safe Communities program comprises approximately \$30 million dollars; plus \$15 million for the Capital Matching Grants program and \$5 million dollars for the Community Jails program [for a total of \$50 million dollars]. This \$50 million dollars is being replaced with \$60 million dollars. The additional \$10 million would go to municipal assistance, The Tax Resource Equalization program and the Safe Communities program. Local communities would benefit by an additional \$10 million dollars.

Mr. Tibbles explained that revenue sharing has been allocated over the last 22 years: two-thirds to tax equalization and one-third split to municipal services. The department has indicated that the revenue sharing appropriation would follow the same pattern unless the legislature indicates otherwise.

Representative Davies noted that the [additional] \$10 million dollars would be distributed through the tax fund in the Revenue Sharing program. Mr. Tibbles clarified that if the funding was split between revenue sharing and safe communities that the portion to revenue sharing would be split one-third/two-thirds, but not the portion to safe communities.

BOB WEINSTEIN, MAYOR, KETCHIKAN AND CHAIR, SOUTHEAST CONFERENCE OF MAYORS spoke in support of the legislation. He stressed that the services are critical to cities large and small throughout the state. He noted that funding was eliminated in the operating budget. He asked that unrelated items be placed in other legislation.

Vice-Chair Bunde observed that the bill would significantly change the use of permanent fund earnings. He asked mayors to communicate the need to do so with their constituents.

Representative Lancaster asked if the Conference of Mayors would oppose an education amendment. Mr. Weinstein responded that he would support an amendment if the amendment did not dilute assistance to municipalities.

Representative Whitaker MOVED to ADOPT Amendment 1:

Page 1, line 1:

Delete "municipal dividends"

Insert "dividends for municipalities and education"

Page 1 line 4:

Delete "Municipal dividend fund"

Insert "Dividend fund for municipalities and education"

Page 1, line 5:

Delete "municipal dividend fund consisting of municipal dividends"

Insert "dividend fund for municipalities and education consisting of dividends"

Page 1, line 7:

Delete "municipal dividend"

Page 1, line 11:

Delete "for"

Page 1, following line 11

Insert

"(1) to the University of Alaska to fund an increase in the total amount of appropriations for the university when compared to the total amount of appropriations to the university for fiscal year 2002;

(2) to the Department of Education and Early Development for payment as learning opportunity grants to school districts based on the school district's average daily membership to pay for instructional programs intended to improve student performance; an amount equal to \$115 for each district adjusted ADM as defined in AS 14.17.990 for the immediately preceding fiscal year may be appropriated under this paragraph;"

Renumber the following paragraphs accordingly.

Page 1, line 12, before "capital":

Insert "for"

Page 1, line 13, before "payments":

Insert "for"

Page 2 ,line 2:

Delete "municipal"

Page 2, line3:

Delete "municipal dividend fund"

Insert "dividend fund for municipalities and education"

Page 2, line 4:

Delete "municipal"

Page 2, line 5:

Delete "\$100"

Insert "\$160"

Co-Chairs Mulder and Williams OBJECTED for the purpose of discussion.

Representative Whitaker explained that Amendment 1 would set aside \$25 million dollars for K-12 education and \$10 million dollars for the University of Alaska. He maintained that the amendment would establish a placeholder for K-12 and University of Alaska education funding.

Representative John Davies noted that the amount distributed from the Earnings Reserve Fund would be changed from "100" dollars to "\$160" dollars per capita and questioned if this amount would cover the \$35 million dollar total. Representative Whitaker affirmed.

Co-Chair Mulder clarified that provision (2) of the amendment would amount to \$25 million dollars. Funding for the University would be approximately \$10 million dollars. Representative Whitaker stressed the importance of these two increments to the state of Alaska.

Representative Harris observed that HB 20 is approximately \$10 million dollars more than the FY02 budget without the amendment. The amendment would add another \$25 million dollars for K-12 education and \$10 million dollars for the university resulting in a total increase of \$45 million dollars in new money.

Representative Croft acknowledged the good of the municipal dividend program and additional funding for education, but questioned if they would add up to a plan.

Representative Whitaker reiterated that adoption of the amendment would provide a placeholder in a plan for education and university spending.

Vice-Chair Bunde thought that the amendment would cloud the municipal dividend question and spoke in support of addressing the issue in another bill.

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Vice-Chair Bunde observed that where other states have added another funding stream that there is often a no net gain to education. He argued that the amendment would not create new money.

Representative Harris referred to section 2 and questioned if it were a one-time arrangement. Representative Whitaker affirmed that it would be a one-time opportunity grant.

Representative Harris expressed concern that the general fund obligation would not be reduce.

Representative John Davies questioned if the \$160 dollar draw was only for FY03. He thought that it would be an increment to the base.

Vice-Chair Bunde pointed out that the bill increases spending. The amendment would increase spending in the FY03 budget. He stressed the need to limit state spending before asking for revenue measures.

Representative Carl Moses stated that the original intent of the legislation was to provide for municipal assistance at a \$150 per capita, for a total of \$180 million dollars to municipalities. He pointed out that different municipalities have different needs. A rural area may not prioritize snow removal. He maintained that communities could spend on the local level.

Co-Chair Mulder acknowledged that he was sympathetic toward the areas addressed but spoke against the amendment. He maintained that the focus should be toward closing the fiscal gap. He asserted that the amendment would provide inconsistency and confusion.

Representative Lancaster observed that the amendment is an attempt to inflation proof education.

Representative Harris noted that he supports education and would support the amendment. He hoped that if the amendment passed that it would become part of a plan to close the gap.

Representative Croft didn't believe that the amendment would advance the plan or address the larger issue.

Representative John Davies MOVED to AMEND Amendment 1: page 1, line 21 after "an" insert "\$11 million dollars"; and on line 22 after "university" insert ";" and delete "when compared to the total amount of appropriations to the university for fiscal year 2002." He expressed concern that the amendment would not be effective if other funds were available.

Representative Whitaker did not objection to the amendment. There being NO OBJECTION, it was so ordered.

Co-Chair Williams expressed concern with the increase in spending. He noted that the amendment would be tied to the Permanent Fund and people would say: "There they go they've

got their nose under the tent." He observed that it is only a small portion of the revenue plan and cautioned against trying to save all Alaska.

A roll call vote was taken on the motion to adopt Amendment 1.

IN FAVOR: Davies, Harris, Lancaster, Whitaker
OPPOSED: Bunde, Croft, Foster, Hudson, Moses, Mulder, Williams

The MOTION FAILED (4-7).

Vice-Chair Bunde MOVED to ADOPT Amendment 2:

Section 1. AS 29.05.180(a) is amended to read:

(a) To defray the cost of transition to city to for government operations, each city incorporated after June 30, 2002, [DECEMBER 31, 1985] is entitled to [AN] organization grants [GRANT OF \$50,000 FOR THE FIRST FULL OR PARTIAL FISCAL YEAR] after incorporation as follows:

(1) \$100,000 for the city's first full or partial fiscal;

(2) \$50,000 for the city's second fiscal year; and (3) 25,000 for the city's third fiscal year.

* Sec. 2. AS 29.05.180(b) is amended to read:

(b) To defray the cost of reclassification, each second class city in the unorganized borough incorporated before January 1, 1986, that reclassifies as a first class city or adopts a home rule charter after June 30, 2002, [DECEMBER 31, 1985] is entitled to [AN] organization grants [GRANT EQUAL TO \$50,000 FOR THE FIRST FULL OR PARTIAL FISCAL YEAR] after reclassification as follows:

(1) \$200,000 for the city's first full or partial fiscal year;

(2) \$100,000 for the city's second fiscal year;

(3) \$50,000 for the city's third fiscal year.

Co-Chair Williams OBJECTED. Vice-Chair Bunde explained that the amendment would address a "catch 22" that exists in Alaska. There are areas of the state that aren't able to make a local contribution to their services because they have no taxes. They do not have taxes because they are not organized. He maintained that these areas do not want to organize because they don't want to pay taxes. The amendment would provide "a carrot rather than a stick." The amendment would provide money to unorganized areas to encourage organization. There is an indeterminate fiscal note. The amendment would not require an increase in the current budget, but would have the potential of increasing future

budgets, which could be reduced by a reduced demand on state supplied services.

Co-Chair Williams acknowledged the problems with unorganized communities. He pointed out that it takes resources to run a community without taxes.

Co-Chair Mulder stated that he would support the amendment. He observed that the city of Talkeetna is in discussions regarding organization and felt that the amendment would encourage them to do so. He did not know if it would be a large enough enticement to small communities, but thought that it would help larger communities to get over the first hurdle.

Representative Whitaker questioned how much it would cost if Talkeetna became a city and received funding under the legislation.

Vice-Chair Bunde estimated that Talkeetna would receive \$175 thousand dollars spread over a 3 year period in diminishing amounts to assist them in the initial organization: \$100, \$50 and \$25 thousand dollars. He observed that current statutes contain encouragement for city and boroughs to combine in a \$600 thousand dollar stipend over a three-year period. The amendment would duplicate what exists for city and boroughs for unorganized areas. The amendment would not require organization.

Representative Carl Moses stated that he supported the idea but pointed out that there has been a history of cutting revenue sharing. He questioned what would happen when the state takes away all of the benefits for incorporation. Sales taxes are the only revenue sources but the state is moving into that area. He did not want to tie the amendment to the legislation.

Vice-Chair Bunde stressed that the amendment is an attempt to help communities. If the amendment passes it would provide assurance that there would be a constant revenue stream.

Representative Hudson clarified that the amendment is discretionary and that it would be provided on a discretionary basis to organize as part of an organized area.

Vice-Chair Bunde pointed out that with the adoption of HB 20 they would have an additional incentive toward organization.

Representative Lancaster asked if [communities that organize under the amendment] would be required to perform any services. Vice-Chair Bunde responded that there would be

required services under existing statute, such as fire protection.

PATTI SWENSON, STAFF, VICE-CHAIR BUNDE explained that the amendment would only increase the limits of the existing statute. Statutory requirements would remain the same.

A roll call vote was taken on the motion to adopt Amendment 2.

IN FAVOR: Davies, Foster, Harris, Hudson, Lancaster, Bunde,
Mulder

OPPOSED: Croft, Moses, Whitaker, Williams

The MOTION PASSED (7-4).

Amendment 3 was WITHDRAWN.

Representative John Davies MOVED to ADOPT Amendment 4. He explained that the amendment would tie HB 20 to passage of HB 225. The intent is to tie HB 20 to enactment of a [fiscal] plan.

Representative Carl Moses spoke against tying HB 20 to any other legislation and pointed out that there is no way to know what HB 225 would look like.

Representative Croft spoke in support of the amendment and stressed the need for a plan. He pointed out that his support of HB 20 is conditioned on a plan.

Co-Chair Williams spoke against the amendment.

Representative Hudson pointed out that 11 votes on the other side could untie the binding of any legislation. He thought that the concept and intent was to build toward a fiscal plan and show the nexus between taxes and the use of the earnings of the Permanent Fund.

Representative John Davies observed that the other body is independent and emphasized that the House should not condition their action on what the other body would do. He stressed the need for a plan.

Representative Croft stated that he would work to explain, to his constituent's, actions taken to raise revenues if there is a plan. He stressed that the future is not guaranteed without a plan. The concept is safer as part of a plan. He maintained that it would be harder for the Senate or the Governor to ignore or veto a plan than one independent component.

Representative Lancaster questioned if tying the legislation would interfere with the single subject law. Representative

John Davies clarified that it would not interfere with the single subject law.

Vice-Chair Bunde gave the analogy of one leg of a three-legged stool: use of earnings reserve funds, a new broad-based revenue and assurance for the public that the legislature cannot spend the money faster than it can be taken away.

A roll call vote was taken on the motion to adopt Amendment 4.

IN FAVOR: Hudson, Lancaster, Bunde, Croft, Davies
OPPOSED: Foster, Harris, Moses, Whitaker, Mulder, Williams

The MOTION FAILED (5-6).

Representative John Davies MOVED to ADOPT Amendment 5. He noted that the amendment would increase the amount withdrawn from the earnings reserve of the Permanent Fund in order to include funding to municipalities for the senior property tax exemption. This is currently an unfunded mandate, which is being funded by municipalities. This would free up local property taxes for other uses.

Co-Chair Williams spoke against the amendment and emphasized the need to keep spending down. Representative John Davies argued that it would not increase spending and pointed out that the money is already being spent. The burden would be shifted.

A roll call vote was taken on the motion Amendment 5.

IN FAVOR: Moses, Davies
OPPOSED: Bunde, Davies, Foster, Harris, Hudson, Lancaster, Whitaker, Williams, Mulder

The MOTION FAILED (2-9).

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Representative Lancaster MOVED to ADOPT Amendment 6(new).

TIM BENINTENDI, STAFF, REPRESENTATIVE CARL MOSES, explained that the amendment would extend an entitlement benefit to unorganized communities that are within boroughs; a benefit currently enjoyed by those outside of boroughs. It would not increase costs to the state because the funding would come from within the program. Sixty-five communities would be added to the pool of those eligible. All unincorporated communities would be eligible for a minimum entitlement under the revenue sharing program.

Representative Lancaster noted that his intent would be for the money to flow through a borough to the community.

Co-Chair Mulder clarified that the communities do not currently receive funding through municipal assistance or the Safe Communities program. The Alaska Municipal League supports the amendment. He questioned why the change was not made previously and noted that the pool would be diluted by approximately \$1.6 million dollars.

Mr. Benintendi thought that the impact would be closer to \$300 thousand dollars. He observed that 65 - 70 communities would be affected.

Co-Chair Mulder questioned if capital-matching grants would be affected.

BILL ROLFZEN, STATE REVENUE SHARING, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT explained that funding for unincorporated communities would come out of the Municipal Services Account within the Revenue Sharing program. This is the same account that pays for road maintenance and health facilities; there is no minimal entitlement. The statute says that each unincorporated community should receive \$25 thousand dollars, but this fluctuates with the appropriation level. Based on this year's funding each unincorporated community would receive \$3,681 dollars per community. He estimated that, with the qualifier in section 2, only 20 or 30 communities would qualify. He noted that they would have to be eligible for the Capital Matching Grant program to receive \$25 thousand dollars per community.

Co-Chair Mulder concluded that the total draw would be about \$1 million dollars.

KEVIN RITCHIE, ALASKA MUNICIPAL LEAGUE, JUNEAU explained that the Alaska Municipal League has not taken an official position on the issue.

Representative Hudson questioned if any of the elements are covered in the existing operating budget. Co-Chair Mulder clarified that the elements were not in the operating budget. Representative Hudson observed that funding would come out of the assets of the Permanent Fund.

Representative Whitaker questioned if the \$59 million dollar appropriation would be increased by a million dollars. Co-Chair Mulder explained that the total amount would not change; funding would be reduced to the communities. He pointed out that the amendment would send an inconsistent message.

A roll call vote was taken on the motion to adopt Amendment 6.

IN FAVOR: Lancaster, Moses, Davies
OPPOSED: Hudson, Whitaker, Bunde, Croft, Davies, Foster,
Harris, Mulder, Williams

The MOTION FAILED (3-8).

Representative Hudson MOVED to ADOPT Amendment 7. Co-Chair Mulder and Co-Chair Williams OBJECTED. Representative Hudson explained that the amendment would reestablish the distribution of the Permanent Fund to a percent of market value and establish a 5 percent payout, which would insure annual inflation proofing of the Permanent Fund at 3 percent. The amendment would statutorily fix a distribution stream of the five percent payout at: 50 percent permanent fund dividends and 50 percent general fund. The General Fund would receive 50 percent minus the payout established in HB 20. He maintained that the amendment would provide a good distribution of the assets of the Permanent Fund across two boundaries. The dividend would continue to find strength and would be difficult to modify without public notice.

Representative Hudson spoke in support of the payout. There would be a 7% distribution of the earnings of the total market value of the Permanent Fund [in FY03], which would provide \$900 million dollars toward the deficit and \$900 million dollars to the dividend. There would be no change to the dividend in 2002. In 2003, under the 7 percent payout, the permanent fund dividend would be approximately \$30 dollars less than the status quo. He acknowledged that the amendment would affect the Permanent Fund dividend, but stressed that dividends would be eliminated if the state continues to drain the Constitutional Budget Reserve.

Representative Hudson noted that he introduced legislation to respond to the constant draw upon the Constitutional Budget Reserve, which is currently at \$2.2 billion dollars. He maintained that the Constitutional Budget Reserve would be come the cash cow for the general fund and result in the elimination of the Permanent Fund dividend. The amendment would modify the title.

Representative Hudson observed that the amendment adds the market value concept with a fixed distribution and fixed sharing, an accommodation of the municipal dividend and makes a significant effort toward filling the revenue gap and preventing the need for onerous taxes or the elimination of the dividend. He urged the Committee to pass Amendment 7.

Co-Chair Williams noted that legislative legal counsel indicated that there could be a constitutional challenge under the "single subject" provision if the amendment were adopted.

Representative Carl Moses noted that he opposed the amendment. He thought it should be a bill in and of itself.

Co-Chair Mulder noted that he supported the intent of the amendment but stressed the need for another vehicle. He offered to work on the concept and thought it was important to the overall [revenue] package.

Representative John Davies clarified that the adoption of Vice-Chair Bunde's amendment would not create a constitutional problem under the "single subject" provision.

Representative Hudson stated that he would WITHDRAW Amendment 7 due to legal concerns and noted that he would work toward another vehicle. There being NO OBJECTION, it was so ordered.

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

#

ADJOURNMENT

The meeting was adjourned at 4:22 PM.