

HOUSE FINANCE COMMITTEE
April 25, 2003
2:53 PM

TAPE HFC 03 - 65, Side A
TAPE HFC 03 - 65, Side B
TAPE HFC 03 - 66, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 2:53 PM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Mike Chenault
Representative Eric Croft
Representative Richard Foster
Representative Mike Hawker
Representative Carl Moses
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

Representative Pete Kott; Representative Peggy Wilson; Rick Urion, Director Occupational Licensing, Department of Community and Economic Development; Edgar Blatchford, Commissioner, Department of Community and Economic Development; Tom Lawson, Director, Administrative Services, Department of Community and Economic Development; Diane Barrans, Executive Director, Postsecondary Education Commission, Department of Education; Rhonda Richtsmeier, Assist Chief, Section of Public Health Nursing; Linda Fink, Alaska State Hospital and Nursing Home Association; Tom Irwin, Commissioner, Department of Natural Resources; Ernesta Ballard, Commissioner, Department of Environmental Conservation; Larry Persily, Deputy Commissioner, Department of Revenue; Gary Zimmerman, Vice President, AVIS; Jerry Burnett, Commissioner, Department of Corrections; Fred Coven, Alaska State Employees Association.

PRESENT VIA TELECONFERENCE

John Robertson, Medical Director, Department of Corrections;
Dick LeFebvre, Acting Deputy Commissioner, Department of

Natural Resources; Cameron Leonard, Assistant Attorney General, Department of Law; Andrew Halcro, AVIS.

SUMMARY

HB 162 "An Act increasing the fee for a state business license; and providing for an effective date."

CSHB 162 (FIN) was heard and HELD in Committee for further consideration.

HB 192 "An Act designating the Department of Natural Resources as lead agency for resource development projects; making conforming amendments; and providing for an effective date."

HB 192 was REPORTED out of Committee with a "do pass" recommendation and two zero fiscal notes: #1 from Department of Natural Resources and #2 from Department of Environmental Conservation.

HB 211 "An Act relating to a student loan repayment program for nurses, and amending the duties of the Board of Nursing that relate to this program; and providing for an effective date."

HB 211 was heard and HELD in Committee for further consideration.

HB229 "An Act relating to special medical parole and to prisoners who are severely medically and cognitively disabled."

HB 229 was heard and HELD in Committee for further consideration.

HB 271 "An Act levying and providing for the collection and administration of an excise tax on passenger vehicle rentals; and providing for an effective date."

HB 271 was heard and HELD in Committee for further consideration.

SB 115 "An Act allowing expenses of the correctional industries program that may be financed from the correctional industries fund to include the salaries and benefits of state employees."

HCS SB 115 (FIN) was REPORTED out of Committee with a "do pass" recommendation and one previously public fiscal impact note from the Department of Corrections.

#hb192

HOUSE BILL NO. 192

"An Act designating the Department of Natural Resources as lead agency for resource development projects; making conforming amendments; and providing for an effective date."

TOM IRWIN, COMMISSIONER, DEPARTMENT OF NATURAL RESOURCES testified in support of the bill and provided information. He stressed his support of the Governor's priority to develop natural resources. He highlighted the intention of the legislation to lead and coordinate the operations only, and not to take authority away from the other Departments. He read from prepared testimony as follows:

The purpose of this bill is to help facilitate and expedite resource development in Alaska. This bill would specifically provide the Commissioner of the Department of Natural Resources with statutory authority under AS 38.05.020(b) to lead and coordinate all matters relating to the state's review and authorization of resource development projects.

As the state focuses more on development of its resources the department needs clear and explicit authority to carry out its role to lead and coordinate the state's review and authorization of resource development projects. Even though the department has and will continue to serve as lead for mining projects, the department's authority to serve as lead agency for other resource development projects is not as explicit. This bill will provide the necessary clarity as the state moves forward in the development of its resources.

The primary responsibility in the Department of Natural Resources for carrying out lead agency coordination functions will rest with the Office of Project Management and Permitting. This new Office within the department includes the project management function and the Alaska Coastal Zone Management program.

Large resource development projects, because of their scope and complexity, are more efficiently reviewed and authorized using a lead agency to coordinate and integrate, to the extent possible, the various permitting processes of the agencies involved using the project team approach. Smaller projects, normally less complex and requiring fewer permits, may benefit from lead agency coordination

for review but may not require the establishment of a project team.

Resource development projects utilizing the lead coordinating agency and project review team approach will go through a three phase process. Phase I focuses on evaluating a proposed project to determine if the lead agency project team approach would best address the review and permitting needs of the project. Phase II results in establishment of the project team, development of an integrated agency review schedule, delineation of information requirements, and completion of any necessary agreements amongst the agencies and applicant. Phase III is the actual project review and authorization process, including public participation, tailored specifically to the requirements for permitting the project.

Additionally, we view this bill as assisting in our efforts to streamline project review and authorization. This bill will help to facilitate:

The state's ability to pull together agencies to address project specific concerns, and to facilitate and expedite the review and authorization process; a more cohesive working relationship amongst agency representatives; better communication, more efficient permitting, consolidated public process where possible, and to assist in integrating the state's process with that of the federal agencies.

Speaking from personal experience, the laws governing resource development have proliferated, and there are now more agencies than ever with permitting authority over resource development projects. Resource development should not be held up by the sheer complexity of government. This bill is intended to help alleviate that problem as this bill would authorize DNR to lead and coordinate the permitting activities of all agencies with jurisdiction over the project.

Commissioner Irwin noted that in effect all operations would be brought into one office to facilitate coordination.

ERNESTA BALLARD, COMMISSIONER, DEPARTMENT OF ENVIRONMENTAL CONSERVATION expressed support of the bill. She referred to her prepared statement:

Governor Murkowski is committed to enhancing Alaska's economy through resource development. He is equally committed to protecting Alaska's environment. A strong economy will generate the revenue base to continue

funding our important regulatory and development projects. Without a strong economy we cannot hope to have a strong government.

I have been before this committee to speak on behalf of other governor's bills and have opened with that same message. It is a fundamental principle to this administration and bears repeating.

In any undertaking, be it your home, your office, a small business or a large complex organization like state government - critical path planning is fundamental; without it time is wasted. This bill, HB 192, is about critical path planning. It directs the Department of Natural Resources to lead and coordinate resource development projects. It directs the permitting agencies to sequence actions and requirements so time lines are met. Armed with sequenced and prioritized project plans we can insure that each of our own department's permitting requirements are met without delay.

The genesis of this bill goes back several years. The resource agencies came together to coordinate permitting issues on large mine projects. They discussed, planned and communicated, and found that the permitting process became more efficient. It was not only more efficient for the agencies; it was more productive for industry. Why? Because, we, the permitting agencies, identified our regulatory requirements in a systematic and sequenced manner insuring that the most critical needs and timelines for the project were established. Because we, DNR, Fish and Game and DEC had identified and articulated the critical points and times in our regulatory processes, industry understood its responsibilities and provided the needed information on time. Additionally by evaluating its regulatory responsibilities as a whole industry can gain what synergies are possible.

Critical path planning provides efficiencies for the departments as well. We hold joint meetings. We use staff resources efficiently. Industry provides information we can all use because we agreed, at the outset, on data standards acceptable to all.

The state's citizens benefit from this approach. In rural communities it is more difficult to track separate agency processes so when agencies hold joint public meetings concerned citizens are given the entire regulatory picture. Without critical path planning, public participation happens based in the public notice requirement of individual permits, which can be months even years apart depending on the project.

I have also talked with many of you about how we are reviewing our regulations and statutes to ensure they are meaningful and not a victim of mission creep. As part of that process, we are deleting 46.35 Permit Coordination and Extension. This statute was enacted in 1977. That same year the legislature established the Coastal Management Program, which became the permit coordinator. AS 46.35 has become a relict. However there is one small section of AS 46.35 that is being relocated. Sections 2 and 3 of this bill move the Department of Environmental Conservation's authority to use our appeals process to other sections of law.

The DEC process is easier to use and well laid out in understandable regulations.

It is also important to understand what HB 192 does not do. HB 192 bill does not change the protective standards that the state has developed and fine-tuned over the last decade. It does not change the Department of Environmental Conservation's permitting requirements, its regulatory discretion, enforcement or appeal process. This bill simply insures critical path planning.

Commissioner Ballard summarized that the bill provided the opportunity to be more organized. She noted that, as the permitting agency, DEC benefited from identifying at the outset key data requirements needed to produce permits in a timely fashion. She stressed that having clear legislative language provides the agency with a clear mandate in the permitting project.

Ms. Ballard emphasized the importance of critical path planning. By moving permits and the project forward in a coordinated way, the department is able to effectively use resources and to present to the public the entire project as it moves forward. Otherwise, the public may only view portions of the projects and may not be able to understand its impact on their community. She noted her commitment to both resource development and resource conservation and her belief that they are compatible. She also noted her determination to identify instances of "mission creep".

Ms. Ballard explained that, resulting from a review of statutes and in conjunction with HB 192, the Department is deleting AS 46.35, "permit coordination and extension". She stated that the statute had never been used since its enactment in 1977, the same year that the legislature established the Coastal Management Program, which became the permit coordinator. She noted that they had proposed a relocation of a small segment of the statute: Section 2 &

3, which would move DEC's authority to use the appeals process to other sections of law.

Ms. Ballard expressed her enthusiasm for this type of coordination, and reiterated the importance of coordinating the permitting process to provide a clear path for resource development.

Representative Croft asked if AS 46.35 had ever been used. Ms. Ballard confirmed that it had never been used. She noted that they retained the authority to use their own appeals process.

CAMERON LEONARDS, ASSISTANT ATTORNEY GENERAL, DEPARTMENT OF LAW, in response to a question by Representative Croft, explained that two provisions of 46.35 would remain in statute following the proposed bill, one of which would be relocated from 46.35.090 (e). The relocated language clarifies that procedures to review DEC permit decisions need not conform to the Administrative Procedure Act (APA). He explained that sections 2 and 3 of the bill simply transplanted this existing provision to two chapters of Title 46 that govern DEC permitting decisions.

Representative Croft asked which provisions did not need to conform to APA and why. Mr. Leonard noted that the procedures governing adjudication hearings were already covered comprehensively in DEC regulations and by existing law were not subject to the APA. He confirmed that this paralleled APA procedures.

Representative Foster MOVED to report HB 192 out of Committee with the accompanying fiscal note. There being NO OBJECTION it was so ordered.

HB 192 was REPORTED out of Committee with a "do pass" recommendation and two zero fiscal notes: #1 from Department of Natural Resources and #2 from Department of Environmental Conservation.

#hb229

HOUSE BILL NO. 229

"An Act relating to special medical parole and to prisoners who are severely medically and cognitively disabled."

TOM WRIGHT, STAFF, REPRESENTATIVE JOHN HARRIS, deferred to the Departments of Corrections and Health and Social Services to answer questions about the new fiscal notes.

JERRY BURNETT, DIRECTOR ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS addressed the new fiscal note. He deferred to Dr. John Robertson to answer questions.

JOHN ROBERTSON, MEDICAL DIRECTOR, DEPARTMENT OF CORRECTIONS, observed that the new note more accurately takes into account the life expectancy of the paroled inmates, as well as reflecting the resources available to them and its impact on potential savings. He added that the new note also reflected the cost of a correctional officer in relation to patient care. He expressed confidence in the new figures.

Co-Chair Harris observed that the projected potential savings of general funds in FY 09 was \$805 thousand, offset by a projected general funds cost of \$234 thousand for the Department of Corrections, and calculated that the overall savings vs. costs, including the Department of Health and Social Services, for that year would be \$500 thousand projected.

Representative Hawker noted material changes in the new fiscal notes and expressed disappointment in the quality of information provided by the new notes.

Representative Foster MOVED to report HB 229 out of Committee with individual recommendations and the accompanying fiscal note.

Representative Hawker OBJECTED. He reiterated his belief that the fiscal information was inadequate to make a decision.

Representative Whitaker also OBJECTED on that same basis.

A roll call vote was taken on the motion.

IN FAVOR: Chenault; Foster; Meyer; Harris; Williams
OPPOSED: Croft; Hawker; Moses; Stoltze; Whitaker

The vote was tied at 5 to 5.

HB 229 was HEARD and HELD in Committee for further consideration.

#sb115

SENATE BILL NO. 115(efd fld)

"An Act allowing expenses of the correctional industries program that may be financed from the correctional industries fund to include the salaries and benefits of state employees."

Vice-Chair Meyer MOVED to ADOPT the Committee Substitute 23-GS1104\D (4/25). There being NO OBJECTION the Committee Substitute was ADOPTED.

Vice-Chair Meyer pointed out the changes in the Committee Substitute. He noted that the changes were to incorporate comments made during the previous Committee hearing, and

made reference to Co-Chair Harris' concerns about competing with private industry. He also noted concerns raised by the Public Employees Union, and stated that these parties were now in agreement on the bill.

JERRY BURNETT, DIRECTOR OF ADMINISTRATIVE SERVICES, DEPARTMENT OF CORRECTIONS spoke to the changes contained in the Committee Substitute. He noted that the Committee Substitute provides intent to keep the correctional industries program operating if it fails to produce sufficient income. He referred to Section 3, b 2, stating that the correctional institute may sell products to other companies as approved by the Correctional Industries Commission. The section deletes: "have minimal negative impact on existing private industry or labor force" and inserts: "will be of benefit to". The purpose of the change is to encourage correctional institutions to work with private industry.

Co-Chair Harris asked who determines the benefit. Mr. Barnett indicated that the Correctional Industries Commission, appointed by the Governor and meeting quarterly, determines the benefit. In response to a question by Co-Chair Harris, Mr. Burnett explained that the Commission made findings and held public hearings.

FRED COVEN, ALASKA STATE EMPLOYEES ASSOCIATION, expressed his support for the Committee Substitute. He added that the effective date gave the correctional industry the time needed to plan for budgetary changes.

Public testimony concluded.

Representative Foster MOVED to report HCS SB 115 (FIN) out of Committee with the accompanying fiscal note. There being NO OBJECTION it was so ordered.

HCS SB 115 (FIN) was REPORTED out of Committee with a "do pass" recommendation and one previously public fiscal impact note from the Department of Corrections.

Vice-Chair Meyer MOVED to Introduce a House Concurrent Resolution for a title change: work draft 23-LS1047\A (4/24/03) on the House Floor. There being NO OBJECTION, it was so ordered.

#hb211

HOUSE BILL NO. 211

"An Act relating to a student loan repayment program for nurses, and amending the duties of the Board of Nursing that relate to this program; and providing for an effective date."

REPRESENTATIVE PEGGY WILSON, SPONSOR, provided information about the legislation. She emphasized the nursing shortage in the state of Alaska. She noted that the vacancy rate was 11.5 percent. Traveling nurses from other states were being used to fill these vacancies. The bill would create an incentive in assisting nurses in repaying their school loans. To qualify for the loan reimbursement program an individual would have to be hired as a nurse in Alaska after July 1 of 2003, be licensed in the state, work in Alaska and have an outstanding school loan from a recognized institution. The program would reimburse \$2 thousand per year, up to a total of \$10 thousand. She noted that this amount would not cover a nurse's entire education expense, but would serve as a tool in recruitment. She explained that the State Board of Nursing would adopt the criteria guidelines for the loan program in consultation with the Alaska Commission on Post-secondary Education. She added that it would be appropriated from the student loan corporation dividend.

Representative Wilson pointed out that currently 5,200 nurses are working in Alaska and that the university produced 110 nurses per year. The intent is to double the amount (220 per year). In next seven years, due to growth in health care needs, Alaska will need an additional 1,400 nurses. She maintained that the proposed bill is crucial to meeting that need.

Co-Chair Harris asked whether loan reimbursement programs were being created for any other groups, such as teachers. Representative Wilson stated that a program already existed for teachers, which was used as a model for the proposed program for nurses. Co-Chair Harris asked for an explanation of the repayment program. Representative Wilson explained that if a hospital were attempting to hire a nurse into the state, the reimbursement program would be an additional incentive in providing reimbursement of \$2 thousand per year, up to \$10 thousand, of their outstanding student loans. She also noted that if a new nurse lived in Alaska, they might choose to stay in the state and take advantage of the program.

Co-Chair Harris observed that the student loan program, would incur a cost of \$918,000 in FY 04, up to a possible \$5.1 million in FY 09.

Representative Wilson noted that if the state of Alaska could not recruit nurses, then nurses would be brought in from other states. She emphasized that since the traveling nurses cost nearly double the salary of instate nurses, this would escalate health care costs in the state.

In response to a question by Co-Chair Harris, Representative Wilson noted that nearly every hospital, from small to

large, was paying large amounts for traveling nurses. She speculated that in Southeast Alaska some hospitals pay over \$100 per year just on traveling nurses. She noted that these nurses demanded higher salaries.

Co-Chair Harris asked if there was a provision offering benefits to students who attended school in Alaska. Representative Wilson noted that there was no provision, but added that there were enough vacancies to fill with nurses from any location.

DIANE BARRANS, EXECUTIVE DIRECTOR, POSTSECONDARY EDUCATION COMMISSION, DEPARTMENT OF EDUCATION pointed out a correction in the analysis of the fiscal note that inaccurately totaled the number of nurses (2,525).

Representative Croft asked for explanation of the progression in the number of nurses. Ms. Barrans explained that they used projections from the Department of Labor from a report of trends for April 2003. The figures were extracted based on new positions, estimating that they would be most likely to have student loans outstanding.

LINDA FINK, ASSISTANT DIRECTOR, ALASKA STATE HOSPITAL AND NURSING HOME ASSOCIATION testified in support of the legislation. She stated that they had worked closely with the University of Alaska to double the number of nurses, but emphasized that this would not meet projected needs. She also noted their work to develop distance delivery programs and other training programs. They also work with advance training programs for nurses, K-12 education, and job centers to increase health care opportunities. She observed that the bill presents another avenue to increase retention and recruitment for nurses.

HB 211 was heard and HELD in Committee for further consideration.

#hb162

HOUSE BILL NO. 162

"An Act increasing the fee for a state business license; and providing for an effective date."

RICK URION, DIRECTOR OCCUPATIONAL LICENSING, DEPARTMENT OF COMMUNITY AND ECONOMIC DEVELOPMENT, testified in support of the legislation. He stated that the cost of business licensing had remained at \$25 per year in Alaska since 1949. He noted that a method had been devised [in the House Labor and Commerce Committee] of stepping up the licensing fee depending on the number of employees: \$50 for those with five or less employees, \$100 for those with between 6 and 25 employees, and \$200 for business with more than 25 employees. He stated that the revenue generated from that method was less than desired.

He explained that the bill proposed a new method that depends on the type of business. He noted that sole proprietors would be charged \$100 per year, and corporations \$300 per year. He pointed out that this new method generated \$2.8 million more revenue for the state of Alaska. He maintained that the new method was simple to administer. He noted that the only objections to the proposal have come from small businesses.

TAPE HFC 03 - 65, Side B

Mr. Urion referred to the proposed changes in a Committee Substitute.

Co-Chair Harris observed that under the new system, smaller employers that were incorporated would still pay the higher amount since corporations would typically have a larger cash flow.

Vice-Chair Meyer MOVED to Adopt the Committee Substitute Work Draft 23-Gh1102\I (4/25/03). Representative Croft OBJECTED.

Representative Croft commented that his small business, because it is incorporated, would go from paying \$25 to \$300 per year. He maintained that this was too large an increase. He stated that he preferred the Labor and Commerce Committee Substitute.

A roll call vote was taken on the motion.

IN FAVOR: Foster, Meyer, Stoltze, Williams, Harris
OPPOSED: Croft, Moses

There being NO OBJECTION, the Committee Substitute was ADOPTED.

Representative Moses noted that his small business would now pay the same amount as a large corporation.

Co-Chair Harris asked how many categories now existed; he pointed out that the previous Committee Substitute contained three categories. Mr. Urion noted that there were two categories: sole proprietorships and corporations. He maintained that corporations would be more sophisticated businesses.

In response to a question by Representative Stoltze, Mr. Urion noted that the licenses would now be annual. The cost will be \$190 thousand more per year, as indicated in the fiscal note, due to the need for more personnel. He speculated that the system might be streamlined in the

future when the computer system is updated to allow purchasing of businesses licenses online.

Representative Stoltze asked if businesses could apply for two-year licenses. Mr. Urion conceded that this was possible. He stated that the goal was to have a consistent system.

Representative Croft asked for the reason to begin licensing every year. Mr. Urion noted the rationale that to charge annually minimized the impact on businesses.

Representative Moses asked whether a small family business would be considered a sole proprietorship, even though they have a partnership. Mr. Urion confirmed that such a business would be considered a sole proprietorship.

Co-Chair Harris referred to the fiscal note that listed three full time positions. Mr. Urion stated that the fiscal note referred to the Labor and Commerce proposal that was more difficult to administer. He noted that the new Committee Substitute required only two new positions. Co-Chair Harris observed that no cost was listed on the fiscal note for these two positions. Mr. Urion could not produce the rationale for that figure.

CSHB 162 (FIN) was heard and HELD in Committee for further consideration.

#hb271

HOUSE BILL NO. 271

"An Act levying and providing for the collection and administration of an excise tax on passenger vehicle rentals; and providing for an effective date."

KRIS KNAUSS, STAFF, REPRESENTATIVE KOTT (SPONSOR) provided information regarding the bill. He noted that the bill implements a ten percent tax on rental cars, and a three percent tax on recreational vehicles (RV's), for rentals under 90 days. He highlighted the new fiscal note prepared by the Department of Revenue that indicated revenue of \$6 million annually. He referred to the changes on page 1, line 7 of the bill and noted that the sponsor was happy with these changes. He pointed out that the bill had been changed from a 15% to a 10% tax, and now included RV's. He confirmed that the Sponsor was in agreement with the changes.

Representative Stoltze asked whether this might be detrimental to the tourism industry. Mr. Knauss responded that they would like to see tourists pay their fare share.

Representative Foster referred to the tax authorized by Anchorage of 8 percent, and asked whether the proposed 15

percent would be added to that tax, totaling 23 percent. Mr. Knauss confirmed that this was true, placing Alaska in the top third of states in terms of car rental taxes. He noted other states with higher rates of tax.

Co-Chair Harris asked whether the bill allowed for Alaska residents to be excluded from the rental car tax. Mr. Knauss stated that the only exemption was for governmental employees. In response to a question by Co-Chair Harris, Mr. Knauss confirmed that legislators would not pay the tax when on business trips.

Vice-Chair Meyer reiterated that Anchorage would be in the top third of states with the additional tax. He asked about other communities, such as Fairbanks. Mr. Knauss confirmed that other communities totaled different percentages.

Vice-Chair Meyer asked if the funding would be directed to road maintenance. Representative Kott stated that page 2 of the bill offered intent language, and noted that the revenue would be placed within the General Fund to be appropriated according to the legislature.

Vice-Chair Meyer noted that there is a dedicated bed tax in Anchorage and questioned if that was the intent of the proposed bill. Representative Kott indicated that the intent language tax revenue might be directed toward tourism marketing. He stated that he would like to see some of the tax return to the industry. He pointed out that, even with the 10 percent tax, Alaska would still be several percents less than the amount charged in Seattle. He stressed that the cost of car rentals in Seattle has never kept him from renting a car there.

Vice-Chair Meyer observed that the tourism industry has requested more funding and added that he would like to see more money available.

Representative Croft referred to the state-by-state comparison of rental car taxes and commented that the reason that some of the percentages rose so high was due to additional sales taxes. He noted that with a ten percent state rental tax, Alaska would actually be in the top five in terms of the rental tax alone. Representative Kott confirmed that the addition of local airport tax placed Alaska in the top third of the nation.

Representative Croft compared Alaska's aggregate rental tax with other areas, such as Seattle, and maintained that the new tax would place Anchorage substantially ahead of these areas. Representative Knauss stated that in Illinois, the maximum local tax rate was 18.5 percent. Representative Croft observed that Anchorage paid 19 percent locally,

including airport charges, in addition to the 10 percent proposed by the bill.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE noted that if the version of the bill [House Ways and Means Committee] passed, it would add up to 29 percent in Anchorage, which was the same combined tax and fees as Seattle. He noted that all fees were not reflected in the chart (copy on file).

Representative Croft also asked whether, apart from the airport fees, Anchorage would still be ahead of Seattle. Mr. Persily responded that if one included municipal sales tax in Seattle as well as state sales tax, the rate of tax was the same as Washington.

Representative Stoltze asked if this proposal had been discussed by previous legislatures. Representative Kott noted that a similar bill was introduced in 1999, both in the Senate and House.

Representative Stoltze asked whether prices of rental cars reflected the cost of taxes. Representative Kott observed that the tax would implement approximately a \$4.50 increase in the price of the overall cost of a rental vehicle. Representative Stoltze asked whether they had considered a seasonal tax, effectively exempting Alaskans from rentals during non-tourist season. Representative Kott maintained that a seasonal tax would not be cost effective. He added that the bill would not affect Alaskans since most Alaskans did not need a rental car in the state for extended periods of time, with the exception of state government work, which is exempted.

Mr. Persily added that in Anchorage 75 percent of the vehicle rentals occurred in the second and third quarter of the year. He also pointed out that in footnote #2, there had to be some basis for comparison, since states might have various additional fees. He stated that the comparison was based on a \$50 per day average, but explained that this did not necessarily represent the percent of charge.

Representative Moses asked why recreational vehicles were charged at a different rate. Representative Kott noted that originally the tax was proposed at the same rate. However after speaking with car rental companies, it indicated that a previous tax increase might have caused some companies to go out of business. After reflection, they concluded that the fee was lowered for RV's since their rental fee was already substantially higher and this might discourage business.

Representative Moses speculated that the vast majority of the RV's were rented by non-residents, and proposed that the

fees should not be lower. Representative Kott maintained that it should be kept equitable.

GARY ZIMMERMAN, GENERAL MANAGER-VICE PRESIDENT, AVIS RENT-A-CAR, ANCHORAGE, commented that they have offices statewide. He stated that his industry opposes HB 271. He read from a HR 1 regarding the importance of economic development throughout the State, particularly tourism. He questioned why the bill was introduced to target the rental car industry. He challenged some of the background information contained in the sponsor statement. For example, he maintained that the business climate in Alaska is very different than that of Seattle. He noted the pressures on his industry to increase their inventory during the tourism season, and to decrease inventory during the rest of the year. He pointed out that Seattle has an eleven to twelve month season. There is a tremendous increase in business in Alaska during the summer. He contended that adding additional taxes to a price competitive market would have drastic consequences for Alaskan rental car businesses.

Mr. Zimmerman noted that the sponsor statement indicated that extra [rental] vehicles caused road damage. He contended that motor homes cause far more damage in the tourism field than a rental car, since they are a heavier vehicle and create parking problems.

Mr. Zimmerman noted that the amount charged for the lease would place Alaska in the top one or two most expensive market places in the United States. He referred to the earlier mentioned comparative table, and strongly questioned the validity of its information. He pointed out that the table lists local tax as "non applicable", while it had been stated that Anchorage charges an airport tax. He noted that local sales tax "up to 6 percent" was not correct, with a total of 5 percent sales tax plus a 4 percent "vehicle guided facilities fee" in areas like Sitka. He maintained that the current tax rate in Anchorage was currently 19 percent, placing Alaska in the top ten nationwide, and added that the proposed tax would then place Alaska at 29 percent second in the nation.

Mr. Zimmerman concluded that the bill requires more correct information. He listed additional taxes for specific communities in addition to the proposed tax.

TAPE HFC 03 - 66, Side A

Co-Chair Williams encourage Mr. Zimmerman to speak with Representative Kott and Mr. Persly regarding these facts. He suggested that additional testimony could be heard on the bill.

Mr. Zimmerman went on to note that the car rental industry concern over the possibility of a statewide sales tax being eventually added to the fee. He maintained that this would be disastrous to the industry.

Mr. Zimmerman pointed out that just the Fairbanks and Anchorage car rental industry paid the State of Alaska \$4.5 million dollars per year, based on the gross 10 percent fee paid to the state. In addition, he stated that \$1.5 million was paid in fees to the Department of Motor Vehicles. Airport parking totaled \$250 thousand, and customers pay in the area \$500 thousand dollars in state gas tax. He concluded that the industry already paid fees totaling \$6 to \$7 million, in a marketplace which grosses \$45 million. He noted that this therefore represented a fee of 10 percent of gross receipts.

Mr. Zimmerman also stated that the car rental industry is currently struggling. Nationwide, air travel is decreasing; non-cruise passengers have decreased by six percent. The projections for this summer are low and the market is not growing. He also noted that the majority of car rental agencies are locally owned and that some locations have been closed recently.

Mr. Zimmerman stated that HEIA, the marketing branch of the Alaska Tourism Industry Association is against targeted taxes in the visitor industry. He quoted the Sponsor in addition to the Governor as having stated they did not support a cruise ship tax since it "targeted a single sector".

Mr. Zimmerman recommended that the Legislature needs more information on the negative impact of an additional tax on the car rental business before making a decision.

Vice-Chair Meyer asked for a breakdown of car rentals for the business sector and the tourism industry. Mr. Zimmerman responded that the true tourist business comprised 60 percent of the summer business. During the winter, October to late April, the bulk of business is corporate.

Vice-Chair Meyer noted that in Anchorage car rentals had locations outside the airport. He asked if customers could avoid airport tax by using other location. Mr. Zimmerman confirmed that this was true, although they could not divert business. He noted that some hotels had shuttle services from the airport. Vice-Chair Meyer speculated that a customer could avoid airport tax by choosing another location.

Representative Moses noted that the proposed tax could not be avoided.

Representative Whitaker asked whether the car rental industry would support a broad based tax on all goods and services. Mr. Zimmerman confirmed that they would support such a tax.

Representative Croft asked if Mr. Persily's characterization that 75 percent of businesses in the summer comprised three quarters of the yearly business. Mr. Zimmerman observed that Mr. Persily had referred to the second and third quarters. He noted that the summer business spanned June in the second quarter and July and August in the third quarter. He confirmed that in a broad characterization, approximately 50 percent of business was during those three months.

HB 271 was heard and HELD in Committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 4:45 PM