

HOUSE FINANCE COMMITTEE
May 07, 2003
9:00 A.M.

TAPE HFC 03 - 80, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 9:00 A.M.

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

Chris Knauss, Staff, Representative Pete Kott; Barbara Bitney, Staff, Representative Bill Stoltze; Larry Persily, Deputy Commissioner, Department of Revenue

PRESENT VIA TELECONFERENCE

Shane Herr, Wolverine Farms, Palmer; River Bean, President, Alaska Organic Association, Palmer; Gerald DeVibiss, Wolverine Farms, Palmer; River Bean, President, Alaska Organic Association, Palmer

SUMMARY

#HB174

HB 174 An Act relating to the state centralized correspondence study program, to funding for educational programs that occur primarily outside school facilities, and to the duties of school boards of borough and city school districts and regional educational attendance areas; and providing for an effective date.

HB 174 was POSTPONED.

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#HB205
HB 205

An Act relating to service in the peace corps as an allowable absence from the state for purposes of eligibility for permanent fund dividends and to the period for filing an application for a permanent fund dividend; authorizing the Department of Revenue to issue administrative orders imposing sanctions for certain misrepresentations or other actions concerning eligibility for a permanent fund dividend and providing for administrative appeal of those orders; and providing for an effective date.

HB 205 was POSTPONED.

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HB 226

An Act relating to the sale, offer for sale, representation, and labeling of food or other agricultural products as organic, and to the state organic certification program; and providing for an effective date.

HB 226 was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Natural Resources.

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.

CS HB 271 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Revenue.

#SB109
SB 109

An Act repealing the statute that sets priorities for the Department of Health and Social Services to apply to administration of the medical assistance program when there are insufficient funds allocated in the state budget for that program; authorizing the department to make cost containment decisions that may include decisions about eligibility of persons and availability of services under the medical assistance program; and providing for an effective date.

SB 109 was POSTPONED.

#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.

Co-Chair Harris MOVED to ADOPT work draft #23-23-LS0936\X, Kurtz, 5/6/03, as the version of the legislation before the Committee. Representative Croft OBJECTED in order to hear the difference between the two versions.

CHRIS KNAUSS, STAFF, REPRESENTATIVE PETE KOTT, explained that the Department of Revenue had requested changes from the Ways and Means Committee version to the House Finance Committee version of the bill.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, classified the changes as mostly technical:

- The original draft of the bill referred to rentals made in the State. The words "made out" were removed.
- The Department wanted to make it clear that the tax must be stated separately on the rental invoice for the consumers and for the business.
- Any rental of a motor vehicle by a State, municipal or federal employee for official business would be exempt from the tax.
- The Finance version clearly spells out that the tax should not be charged on top of other taxes.

Mr. Persily noted that the substance of the bill remains the same and would place a 10% tax on passenger vehicles and pick-up trucks and a 3% tax on recreational vehicles. The bill would take effect on July 1st, 2003. The fiscal note estimates that in FY04, approximately \$4 million dollars would be generated and in the following fiscal years, approximately \$6 million dollars generated revenue.

Representative Croft WITHDREW his OBJECTION. There being NO further OBJECTION, the work draft was adopted.

Representative Croft MOVED to ADOPT Amendment #1, #23-LS0936\U.1, Kurtz, 4/25/01. (Copy on File).

Co-Chair Williams OBJECTED.

Representative Croft explained that essentially the amendment would not place the State tax "on top" of local taxes already in place. Adding the proposed tax to already high taxes makes it prohibitive. Mr. Knauss pointed out that action would cut the State's projected revenue from 50% to 75% since the largest use is in Anchorage and they

already have an 8% tax. Co-Chair Williams agreed with the sponsor that the amendment would not work well.

Co-Chair Harris asked if the intent of the amendment was not to penalize local communities that already impose the rental car tax and instead allow them to keep their current fees. Representative Croft agreed that was the intent.

Discussion followed between Representative Croft and Co-Chair Harris regarding the maximum that a community currently can keep. Representative Croft informed members that there would be a 10% original car tax across the State that might be shared differently between municipalities depending upon their tax rates. Co-Chair Harris commented that under the premise of Amendment #1, it would be to the advantage of a community to place a 10% local community tax, keeping it for themselves. Representative Croft agreed. Co-Chair Harris pointed out that the bill indicates a 10% rental car tax on every rental car in the State.

Co-Chair Harris asked if there was a "drop dead" date for imposing the tax. Representative Croft responded that the State already shares revenue with the municipal governments. He stressed that an 18% tax is excessive. Co-Chair Williams disagreed.

Vice-Chair Meyer voiced his opposition to Amendment #1. He pointed out that under the amendment, only 2% would be collected from the Anchorage area noting that nearly 60% of the rental cars come from that area. Without the Anchorage revenue, the bill would not generate much assistance for the State general fund. He pointed out that there are ways in which local people can avoid paying the airport fees by renting their cars in town or anywhere away from the airport.

Representative Stoltze acknowledged that he understood the intent of the amendment, however, that he would oppose it.

Representative Hawker stated that in other states throughout the nation, he was accustomed to paying a 25% to 30% tax on car rentals and maintained that the legislation would bring Alaska in line with the average national levels. He stressed that this would be a tax on business corporate users. "Less is not more" when attempting to balance the overall budget. He stated that he would oppose Amendment #1.

Co-Chair Harris clarified that the bill does not allow charges to State employees. Mr. Persily advised that the House Finance version exempts State, municipal and federal employees when on official business.

Representative Croft referenced the charts provided by the Department of Revenue. He noted that it combines the State and local taxes with the rental car rates. Without the amendment in place, Alaska would be ranked #5 for the highest paying state in the Nation. Right now, incorporating the tax would raise the tax to a 29% tax fee at the Anchorage Airport. He noted that at present time, there is no sales tax but eventually that would also be added to the tax base.

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

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

Representative Joule was not present for the vote.

The MOTION FAILED (2-8).

Representative Croft MOVED to ADOPT Amendment #2, #23-LS0936\U.2, Kurtz, 4/25/03.

Co-Chair Williams OBJECTED.

Representative Croft explained that part of the justification for the bill was that it is needed for tourism marketing funding. Amendment #2 stipulates that if the appropriate level of \$10 million dollars has not been met then the tax could be collected, otherwise it could not be.

Mr. Knauss referenced Page 2, Lines 22-26, noting that the sponsor's intent was to establish an account in the general fund for tourism and marketing, but not a dedicated account.

Representative Hawker discussed his concerns regarding designating funds. He noted that there would be an arbitrary \$10 million dollar general fund money appropriated. The purpose of the bill results from concerns regarding Alaska's fiscal issues. To place a provision in the bill which makes it automatically a net loss to the general fund "does not fly" with the intent. He stated that he opposed the amendment.

A roll call vote was taken on the motion.

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

Representative Joule was not present for the vote.

The MOTION FAILED (1-9).

Co-Chair Harris MOVED to report CS HB 271 (FIN) out of Committee with individual recommendations and with the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

CS HB 271 (FIN) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Revenue.

#HB226

HOUSE BILL NO. 226

An Act relating to the sale, offer for sale, representation, and labeling of food or other agricultural products as organic, and to the state organic certification program; and providing for an effective date.

Representative Stoltze introduced the bill noting that Co-Chair Harris staff had done a lot of work on this issue during the past two legislative sessions.

BARBARA BITNEY, STAFF, REPRESENTATIVE BILL STOLTZE, stated that HB 226 was a measure to bring Alaska in line with the federal definition of "organic". In 2001, the final rule for the federal definition of "organic" was adopted; the law allowed for a transition period from mid-2001 to October, 2002, giving states 14 months to come into line with the federal definition of organic. HB 432 was introduced in April 2002 with the language needed to make the change. It did not pass before the 22nd Legislative session adjourned.

HB 226 is back this year, making it a very simple measure to bring the State of Alaska's definition of organic agricultural products in line with the federal definition. It will create an Alaska organic certification program providing in-state certification for organic agricultural producers, processors and handlers.

At this time, operators are paying to fly certification specialists to Alaska whose fees may be as high as \$1,500 to \$3,000 dollars to verify Alaskan operations comply with the federal organic standards. With passage of HB 226, qualified inspectors would complete the inspection process, with the final certification process being performed by a designated State official.

Representative Stoltze voiced concern with the fiscal note. He was not sure that the amount was justified. He noted that there is a large presence of United States Drug Administration (USDA) officials, whom the State should be able to rely upon for technical assistance. Whatever the

decision of the Committee regarding the note, Representative Stoltze indicated that he wanted to get the bill through the House. He added that Senator Green was in support of the bill on the Senate side and that it was her intent to "trim" the note.

Co-Chair Williams asked the responsibilities associated with the requested position. Ms. Bitney explained that the State would continue to bring outside inspectors to Alaska. The State will need to review all documentation and sign off on the certification for it. It would be a ½ time position. She believed that the fiscal note was minimal.

Co-Chair Harris noted that he would like to zero out the note. He asked if a part time person would be hired or would they be using someone already in the Department. Ms. Bitney responded that it would be someone within the Department.

Co-Chair Harris asked if there was a program within the Department where a fee could be associated with the costs to pay that amount. Ms. Bitney responded that was a possibility that had not yet been explored.

Co-Chair Harris interjected that through regulations, the Department could impose a fee for the users. He proposed that the Committee modify the fiscal note, taking the \$37 thousand dollars from general funds and put it under \$37 thousand dollars from program receipts, which would zero out the general fund draw.

Representative Stoltze commented that it had been difficult to get a "straight answer" from the federal bureaucracy. Co-Chair Williams encouraged that Co-Chair Harris work with Representative Stoltze and the Department on the fiscal note. Co-Chair Harris advised that it would be appropriate to move the bill out with the fiscal note changed and placing the \$37 thousand dollars under general fund program receipts.

Co-Chair Harris MOVED that MOTION. There being NO OBJECTION, the fiscal note was revised.

Representative Hawker inquired if that change would need to be reflected in the bill.

RIVER BEAN, (TESTIFIED VIA TELECONFERENCE), PRESIDENT, ALASKA ORGANIC ASSOCIATION, PALMER, commented that in the past, his company had been certifying organic farms in the State of Alaska. Under the organic program rule, they could no longer do that. The federal government took that over as of October 22, 2002. The State can no longer use the word "organic" without certification, which affects a large number of farmers in the State. These farmers cannot afford

to go to the State of Washington to certify. On behalf of all the organic farmers in the State, Mr. Bean requested support for coming in line with the federal government standards so that Alaska can call their produce "organic". Mr. Bean agreed to pay a user fee to maintain the organic status.

Representative Croft asked about the federal criteria and if each state had to separately meet the criteria. Mr. Bean replied that anyone that applies for accreditation can certify. The Alaska Organic Association cannot afford to be accredited with the federal government. There are over 30 states that have state programs and a number of private companies that are accredited with the federal government. The federal government does not provide the certification but rather the accreditation.

Representative Croft asked if that needed to be done either through private industry or through the government. Mr. Bean stated that was correct. He reiterated that their association couldn't afford to do it on their own.

GERALD DEVILBISS, (TESTIFIED VIA TELECONFERENCE), ALASKA ORGANIC ASSOCIATION, WOLVERINE FARMS, PALMER, encouraged Committee members to pass the bill. He supported implementing a user fee to help cover costs. He mentioned that there is a big part of Alaska agriculture that is getting "swept under the rug". He voiced his appreciation to Representative Stoltze for bringing this issue to the State Legislature's awareness.

SHANE HERR, (TESTIFIED VIA TELECONFERENCE), ALASKA ORGANIC ASSOCIATION, ORGANIC FARMER, WOLVERINE FARMS, PALMER, encouraged passage of the bill. He stressed it would be advantageous to the State of Alaska. Mr. Herr commented that tourism capitalizes on Alaskan grown products. He believed that there could be federal funding available to help the State with the receipts. The farmers cannot support the entire tab but would be supportive of a user fee.

Representative Stoltze voiced his appreciation for those people that testified. He recognized how labor intensive the work they do is.

Representative Stoltze MOVED to report HB 226 out of Committee with individual recommendations and with the new adjusted fiscal note. There being NO OBJECTION, it was so ordered.

HB 226 was reported out of Committee with "do pass" recommendation and with a revised fiscal note by the Department of Natural Resources.

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AT EASE: 9:40 A.M.
RECONVENE: 9:45 A.M.

Co-Chair Harris noted that the Committee would adjourn until the scheduled afternoon meeting. He voiced his concern for House Finance Committee member Representative Joule for a quick and safe recovery.

ADJOURNMENT

The meeting was adjourned at 9:47 A.M.