

HOUSE FINANCE COMMITTEE
May 17, 2003
10:38 AM

TAPE HFC 03 - 99, Side A
TAPE HFC 03 - 99, Side B

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 10:38 AM.

MEMBERS PRESENT

Representative John Harris, Co-Chair
Representative Bill Williams, Co-Chair
Representative Kevin Meyer, Vice-Chair
Representative Ethan Berkowitz
Representative Mike Chenault
Representative Richard Foster
Representative Mike Hawker
Representative Beth Kerttula
Representative Carl Moses
Representative Bill Stoltze
Representative Jim Whitaker

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Bill Williams; John MacKinnon, Deputy Commissioner, Department of Transportation and Public Facilities; Annette Skibinski, Staff, Senator Cowdry; Chip Wagoner, Pioneer of Alaska; Marie Darlin, AARP; John Vowell, Director, Longevity Bonus Program.

PRESENT VIA TELECONFERENCE

Kent Hartberg, Anchorage; David Lampert, Fairbanks; Gregory Peterson, Allied Charities of Alaska; Tawny Wright, Pull-Tab Clerk, North Pole; Roger Shannon, Kenai; Brook Miles, Executive Director, Alaska Public Office Commission (APOC); Lenore Joness, Kenai.

SUMMARY

CSSB 100(FIN)(brf sup maj fld)(efd fld)
"An Act making capital appropriations, supplemental appropriations, and reappropriations; capitalizing funds; and making other appropriations."

CSSB 100 (FIN) was heard and HELD in Committee for further consideration.

CSSB 102(L&C) am(efd fld)

"An Act increasing the amount of revenue received by the state from charitable gaming activities, and relating to taxes on pull-tabs."

SB 102 was heard and HELD in Committee for further consideration

CSSB 117(FIN)(EFD FLD)

"An Act relating to the longevity bonus program."

CSSB 117 (FIN) was heard and HELD in Committee for further consideration.

CSSB 119(FIN)(efd fld)

"An Act authorizing the Alaska Public Offices Commission to issue advisory opinions; amending campaign financial disclosure and reporting requirements, campaign contribution limits, provisions related to contributions after elections, and provisions related to unused campaign contributions; providing for expedited consideration of, and modifying procedures for determining, violations of state election campaign laws; amending the time period within which to file an administrative complaint of a violation of state election campaign laws; amending the definitions of 'express communication' and 'political party' for state election campaigns; amending the registration fee for lobbyists; providing for increased use of electronic filing for reports to the Alaska Public Offices Commission; adding a definition of 'commission' in the regulation of lobbying laws; amending the requirements for the reporting of financial interests by public officials; adding a definition of 'domestic partner' in the legislative ethics code and in the public official financial disclosure requirements; allowing classified employees to take an active part in political party management; and making conforming amendments."

CSSB 119 (FIN) was heard and HELD in Committee for further consideration.

CSSB 213(FIN)(EFD FLD)

"An Act establishing the Knik Arm Bridge and Toll Authority and relating to that authority."

CSSB 213(FIN)(EFD FLD) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note: #1.

SB 148 "An Act relating to allowable absences for certain members of the armed forces and their spouses and dependents for purposes of eligibility for permanent fund dividends; and providing for an effective date."

SB 148 was REPORTED out of Committee with individual recommendations and one fiscal impact note, #1 from the Department of Revenue.

#sb100

CS FOR SENATE BILL NO. 100(FIN)(brf sup maj fld)(efd fld)

"An Act making capital appropriations, supplemental appropriations, and reappropriations; capitalizing funds; and making other appropriations."

PETE ECKLUND, STAFF, REPRESENTATIVE BILL WILLIAMS stated that a House Finance Committee Substitute would soon be prepared and made available.

CSSB 100(FIN) (brf sup maj fld) (efd fld) HELD in Committee for further consideration.

#sb213

CS FOR SENATE BILL NO. 213(FIN)(efd fld)

"An Act establishing the Knik Arm Bridge and Toll Authority and relating to that authority."

Representative Foster MOVED to report SB 213 out of Committee with the accompanying fiscal note NO OBJECTION

CSSB 213(FIN)(EFD FLD) was REPORTED out of Committee with a "do pass" recommendation and with previously published fiscal impact note: #1.

#sb148

SENATE BILL NO. 148

"An Act relating to allowable absences for certain members of the armed forces and their spouses and dependents for purposes of eligibility for permanent fund dividends; and providing for an effective date."

ANNETTE SKIBINSKI, STAFF, SENATOR COWDRY provided information on the bill. She explained that the legislation pertains to permanent fund dividend eligibility of National Guard reserve auxiliary military personnel that are activated. Currently those in the National Guard who are actively on orders are only allowed a 45-day absence from the state, while other residents are allowed an absence of 180 days. The legislation would allow active military

personnel to be absent from the state [while on military leave] for the full 180 days.

Representative Kerttula asked for clarification on the length of the proposed allowable absence. Ms. Skibinski clarified that the 180-day allowable absence would come into play when the individual has been activated for 180 days or more. She noted the case of an individual that served overseas for 10 months. Upon his return he left the state for two months, which was not allowed under the current statute. The current 45-day allowable absence would be extended to 180 days.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, provided information on the legislation. He observed that active duty days do not count against the recipient. The questioned is the amount of time permissible in addition to the allowable absence. Currently those in armed forces are only allowed to be absent [outside of their active service] for 45 days; students are allowed to be absent for up to 120 days [outside of the school year]. Residents are allowed 180 days or military active duty time plus 45 days. Someone called for 90 days of active duty, who took a 60-day vacation [150 total days] would be okay. The bill changes the requirement to military time plus 180-days. Representative Berkowitz concluded that active duty would be like being in the state. Mr. Persily agreed that, as it pertains to eligibility, active time would be like being in the state.

Representative Kerttula asked about the amount of time allowed for illness, and why there were differences in allowable absences. Mr. Persily acknowledged that there were different qualifications in allowable absences. He pointed out that a 120-day absent for students would allow them to remain out-of-state during the summer. A 45-day allowable absence would require them to come back to Alaska even if they had an internship or job on campus. All other allowable absences are plus 45-days.

Representative Foster MOVED to report SB 148 out of Committee with the accompanying fiscal note. There being NO OBJECTIONS it was so ordered.

SB 148 was REPORTED out of Committee with individual recommendations and one fiscal impact note, #1 from the Department of Revenue.

#sb102

CS FOR SENATE BILL NO. 102(L&C) am(efd fld)

"An Act increasing the amount of revenue received by the state from charitable gaming activities, and relating to taxes on pull-tabs."

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE provided information on the legislation. He explained that the Senate version would increase the state tax on the sale of pull-tabs through a change in their calculation. The current state tax on pull-tabs is 3 percent of the net, which is actual gross minus prices. The legislation would increase the state tax on pull-tabs (not bingo or raffle) to 15 percent of idea net, which is the assumption that all of the pull tabs in the game or box are sold. If a game had 1,000 pull-tabs at a dollar each, the ideal gross is \$1,000. If 80 percent were paid out in prizes, the ideal net would be \$200. The legislation would change the state tax to 15 percent of this amount. He added that Section 5, page 2, would prohibit a municipality that has a sales tax from collecting sales tax on charitable gaming. There is no effective date, which would reduce the FY 04 revenue amount [since it would not go into effect by July 1. He estimated that the tax change would take effect in the middle of the year.

KENT HARTBERG, ANCHORAGE, testified via teleconference in opposition to the bill. He noted that he was a licensed operator and was formerly employed with the Department of Gaming. He discussed the financial difficulties presented by the bill. He emphasized that there will be games that do not realize the ideal net. He also noted that licensed operators are the only ones to have their licenses revoked for failing to meet state minimums. He encouraged the legislature to closely examine the bill for all of its impacts.

DAVID LAMPERT, FAIRBANKS, testified via teleconference in opposition to the bill. He stated that he is a fundraiser for 17 organizations, and maintained that the bill would put them out of business if it were enacted. He would be forced to layoff 22 employees. He explained that the organizations could not meet the requirements of the legislation. The effective date would be a problem, since many organizations had already based their budgets on the current tax structure. The tax would have to be prepaid. He maintained that there had been no testimony in favor of the bill from the Department of Revenue. He stressed the negative impact of this bill on non-profits.

GREGORY PETERSON, ALLIED CHARITIES OF ALASKA testified via teleconference in opposition to the bill. He stated that the legislation would raise the level of taxes paid by charities by 500 percent, impacting 800 - 1,000 jobs across the state of Alaska, ending programs. He stressed that although the new version of the bill was better than the original, it would still have negative impacts on the needy. He urged the legislators to stop the bill.

TAWNY WRIGHT, PULL-TAB CLERK, NORTH POLE, testified via teleconference in opposition to the bill. She maintained

that the bill would have a negative impact on charities, and stressed that the increase from three to fifteen percent in tax was too steep. She noted that her family of four was supported by her job in the pull-tab industry, because it provided flexibility. She maintained that the bill would negatively impact many of the lower income individuals.

DAVID SANDON, MVP, JUNEAU testified in support of the Committee Substitute. He noted that he works for two Montessori programs that provide early childhood education and Juneau Dance Unlimited. He spoke in favor of the exemption from municipal taxation. He maintained that the Senate Labor and Commerce interim subcommittee should be allowed to review the issue during the interim and suggested the following be reviewed:

1. Use an adequate percentage of the additional revenue the state will be receiving to step up enforcement of gaming regulation.
2. License all management (not just operators) involved in gaming and revoke those licenses if the permits they manage do not return the state mandated minimums.
3. Prevent "ghost charities" those charities that only exist on paper from being allowed gaming permits by strengthening the requirements for qualification.
4. Increase the state mandated returns to the nonprofits.
5. Consider a revenue sharing scheme with the local municipalities based on where the finds are generated.

Mr. Sandon maintained that there is room for increased taxation in the industry as a whole if it is viewed from a statewide perspective. He continued to read from prepared remarks:

"We are currently paying 28% of our ideal net in taxes, 25% to our municipality and 3% to the state. Without the local sales tax prohibition in this legislation we would be under a 40% tax burden. You do the math under a 40% tax burden we will simply be literally taxed into bankruptcy. We would like to note here that in our original testimony through both the Senate and House Labor and Commerce Committees we brought forth a revenue sharing strategy between the state and ~ii local municipalities based on where the proceeds were raised.

This is your opportunity to set some precedence statewide concerning the taxation of gaming as we move

towards our future. We urge you to support this legislation in its current form.

I am certain you are hearing many voices of concern regarding this legislation. We would like to address some questions you might have of us as follows:

Q: Why don't you pass the sales tax along to the customer?

A: This was tried with disastrous results, as the pace and process of pull-tab gaming was frustrated and as a result gross revenues dropped 60%. We had no choice but to absorb the tax.

Imagine if you will every time someone exchanges a playback the oil that runs all gaming (the small winning tickets \$ 1, \$2, \$5, \$10 winners) they had to reach for small change in their pocket or receive small change. These transactions currently take place in seconds. This logistical scenario of passing along a tax to the consumer is frankly impossible.

Believe me if we could pass the sales tax along we would have been doing so since its inception. The City and Borough of Juneau has long since realized this as well; however, they have also been stubbornly aware of the room for taxation in this industry. We can pay a justifiable tax but we cannot pay a combined local and state tax burden of 40%. There can only be one hand in the taxation of this revenue stream. That hand in this case should be the state. The state can then decide whether and on what proportion these tax proceeds should be spent between local and state interests.

Please note, that the City and Borough of Juneau does not seem willing to back down on its rhetoric either. Please do not put us at their mercy for they might by default simply choose to tax local gaming out of existence with out a vote of the local electorate.

Q: Are your expenses higher than other types of business?

A: No in fact I challenge you to find another business in the State that that returns 30.5% profit while absorbing our current 28% tax burden. (25% sales tax 3% state ideal net tax)

Q: How can we create an equitable tax structure on gaming statewide, while making sure we have proper regulation and no profiteering? Thus insuring the permit holders receive the maximum possible return.

GEORGE WRIGHT, OPERATOR 84, JUNEAU ANB, testified in opposition to the bill. He stated that they have 100 employees, working with 52 non-profits. He stressed that the tax is heavy, especially in combination with local sales tax, but that they could live with the current version. He emphasized concern with the effective date and noted more time was needed for implementation. Charities' years go from January 1, to December 31. He asserted that SB 102 would negatively impact charities. He suggested that any work group should include individuals from the industry. He stated that charities in Juneau would be finished without a local prohibition [on municipal taxation] or an effective date. He suggested a later effective date.

ROGER SHANNON, KENAI, testified via teleconference. He discussed the potential negative impacts of the gaming industry.

SB 102 was HELD in Committee for further consideration.

#sb119

CS FOR SENATE BILL NO. 119(FIN)(efd fld)

"An Act authorizing the Alaska Public Offices Commission to issue advisory opinions; amending campaign financial disclosure and reporting requirements, campaign contribution limits, provisions related to contributions after elections, and provisions related to unused campaign contributions; providing for expedited consideration of, and modifying procedures for determining, violations of state election campaign laws; amending the time period within which to file an administrative complaint of a violation of state election campaign laws; amending the definitions of 'express communication' and 'political party' for state election campaigns; amending the registration fee for lobbyists; providing for increased use of electronic filing for reports to the Alaska Public Offices Commission; adding a definition of 'commission' in the regulation of lobbying laws; amending the requirements for the reporting of financial interests by public officials; adding a definition of 'domestic partner' in the legislative ethics code and in the public official financial disclosure requirements; allowing classified employees to take an active part in political party management; and making conforming amendments."

BROOK MILES, EXECUTIVE DIRECTOR, ALASKA PUBLIC OFFICE COMMISSION (APOC), testified via teleconference and provided information on the bill. The bill provides important tools for the Commission in obtaining its mission to ensure accountability of candidates, public officials, and lobbyists to the public. The legislation provides the foundation for mandatory electronic filings under all four

laws administered by the Commission. Section 17, codifies the way the Commission processes complaints. Under the new procedures, most complaints, should reach their final disposition no more than 90 days after the complaint is filed. An expedited complaint process would be initiated. Verified complaints could endanger the results of an election. The bill gives the Commission authority for cease and desist orders and allows the Commission to issue advisory opinions (a process the Commission has practiced since the mid 1980's). The Commission's authority to issue advisory opinions has been in question. This tool provides requestors clarification and allows them to avoid complaints. The legislation increases limits under campaign disclosure, changes reporting under campaign disclosure and increases the reporting threshold under the financial disclosure law. Under the changes, individuals may contribute up to \$1,000 to candidates or political action committees and up to \$10,000 to a political party.

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Ms. Miles added that the bill changes the method of reporting. She discussed current reporting methods, and indicating that the original intent was for total disclosure. Under the current SFIN version, campaigns would report the aggregate figure for those contributors that give less than \$100 dollars. She observed that the original proposal was for full disclosure, with all contributors identified by their names and addresses (regardless of amount), unless the contribution was the result of an exempt fund raising activity. Names and addresses would be reported for contributions over \$100 but under \$250. Contributions of over \$250 would require a detail report: name, address, occupation and employer. The amount for exempt campaigns would change from \$2,500 to \$5,000; fewer people would be required to disclose at the municipal level. The requirement for candidates to file 10-days after the election was deleted. The reporting period for year-end disclosure was expanded. Candidate filings on February 15, the year after the election, would include all campaign costs. Under the current provisions the public must wait another calendar year for this information.

Ms. Miles noted that the legislation removes the restriction, which prevents candidates that are unopposed on the general election from raising money 45-days after the primary election. These candidates would be allowed, as all other candidates, to raise funds until 45-days after the general election ballot. She noted that the current provision proved unworkable. She noted that Section 18 redefined express communication, enabling issue advocacy to be dealt with differently. Issue advocacy that is clearly to support or oppose a candidate would be subject to the campaign disclosure law and would be an important tool for

the Commission. She added that lobbyist registration fees had been increased from \$100 to \$250 per client per year. This is the first increase since they were enacted in 1990. The reporting threshold for legislators and public officials to disclose sources of income was raised from \$1,000 to \$10,000. Disclosing stock holdings is streamlined by exempting stock interest of less than \$10,000 per public or trading company.

ROGER SHANNON, KENAI, testified via teleconference and emphasized the public importance of APOC. He suggested that the APOC should receive proper funding.

AUDREE MCCLOUD, testified via teleconference against raising the contribution limit. She maintained that the increase would limit competition and bar entry, and questioned the need for the increase.

Co-Chair Williams concluded public testimony.

CSSB 119 (FIN) HELD in Committee for further consideration.
#sb117
CS FOR SENATE BILL NO. 117(FIN)

"An Act relating to the longevity bonus program; and providing for an effective date."

JOHN VOWELL, DIRECTOR, LONGEVITY BONUS PROGRAMS, DEPARTMENT OF ADMINISTRATION provided information on the bill. Beginning in 2004, the bill would reduce the longevity bonus by 20 percent each year until 2007, until it is eliminated (2008).

MARIE DARLIN, AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP), JUNEAU TESTIFIED provided information regarding the legislation. She stated that she is a third generation Juneau resident and pointed out the Alaskan seniors provide support to the state's economy. She noted that the Pioneer's of Alaska worked on the current version of the bill. She stated that their preference was to have the program continue, but noted that Section 6 was a proposal arrived at to give people an opportunity to plan for the consequences of an elimination of the longevity bonus program. She noted that the bill provides for adult public assistance as proposed. She stated that if the bill were the best that could be provided for the seniors of Alaska, they would support it. She stressed the need for "safety nets" to help seniors meet their needs. She emphasized that most seniors did not foresee a way to meet their needs, particularly in the medical area. She stated the \$250 per month for seniors 85 years old or older made a major impact. She concluded that this was a proposal at the request of the Governor's office, and that they awaited a response.

CHIP WAGONER, PIONEERS OF ALASKA, testified about the proposed compromise devised by Pioneers and AARP in response to the Governor's original elimination of the longevity bonus program. He noted that the program was being eliminated 24 years earlier than projected. He commended these organizations for taking all state programs into account in crafting a proposal to provide a "soft landing" for seniors. He stated that to immediately eliminate the program would be cruel to seniors. He stated that the average age of a recipient was 78 years old. He stated that the basing the program on assets was not adequate, since seniors faced a variety of medical expenses not related to their income. They do not support a needs based program.

Co-Chair Harris spoke to the history and origination of the program, and its natural phasing out. He asked what services are not provided in Alaska that are provided to seniors in other states. Ms. Darlin referred to public assistance programs, property tax assistance provided to seniors in other states.

Co-Chair Williams referred to potential changes and stated that that the Administration was not supportive of a five-year phase out. He observed that the Governor might agree to a two-year phase out. He stated that the Committee would likely pass [a five year phase out], with the knowledge that the Governor may ultimately zero the program out of the budget.

Co-Chair Williams clarified that a two-year phase out would reduce payments by 50 percent (\$22 million), and then cease payments in the following year. He stated that the payments would continue at some level for FY 04 and FY 05. He reiterated that the Governor would support a two-year phase out.

LENORE JONESS, KENAI, testified via teleconference in opposition to the legislation. She noted that the program could be funded from the tax break that the Governor has proposed for the oil industry. She also opposed changing to a needs based program. She questioned the legislature's concern for seniors in this regard and also in terms of the sales tax. She maintained that the State was taking advantage of seniors since they did not generate income. She noted that senior retirement income and medical payments had an impact on the state's economy. She referred to a study [not cited], which concluded that Alaska seniors are one of the largest single sources of money flowing into the state. Senior retirement income and medical payments have a significant beneficial effect on the state's economy. At the same time more than half of Alaskan seniors live vicariously on the edge of solvency. For some, financial considerations may determine whether they continue to reside in the state. For many others, a combination of financial benefits

available from state and municipal government is critical to their wellbeing. Seniors also provide the equivalent of 2,400 full time jobs as volunteers, worth approximately \$60 million a year. Seniors over 60 provide unpaid care giving services that are the equivalent of 6,300 full time jobs. Seniors over 60 make up 8 percent of the state's population. Seniors are estimated to make up 20 percent of the state's population by 2025.

CSSB 117 (FIN) HELD in Committee for further consideration.
#sb102
CS FOR SENATE BILL NO. 102(L&C) am(efd fld)

"An Act increasing the amount of revenue received by the state from charitable gaming activities, and relating to taxes on pull-tabs."

Vice-Chair Meyer noted that the Senate added an amendment to prohibit municipal taxation: A city that levies and collects sales and use taxes under (a) of this section may not levy and collect a sales or use tax on pull-tabs used in charitable gaming. He questioned if it would be possible to allow communities that currently collect the tax (Juneau, Nome and Bethel) to continue to do so, while prohibiting new communities (Anchorage) from collections.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, provided information on the legislation. In response to the question by Vice-Chair Meyer, he observed that similar exemptions have been allowed under the taxation of alcohol. Vice-Chair Meyer speculated that the amendment was not intended to negatively impact municipalities. Mr. Persily indicated that legislative legal could be consulted about how the provision could be change.

Vice-Chair Meyer speculated that the maker of the senate amendment had intended to exclude Anchorage, but did not intend to adversely affect the communities collecting the tax.

Mr. Persily discussed the fiscal notes accompanying SB 102. He assumed that the bill would be signed in June and take affect in the fall, which would reduce the state's revenue. The Governor's legislation would have also limited the prize payback. He stressed that all of the fiscal notes are based on the assumption that there would be no change in gaming activity in Alaska.

CSSB 102 HELD in Committee for further consideration.

ADJOURNMENT

The meeting was adjourned at 12:21 PM