

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

March 12, 2003

4:03 p.m.

MEMBERS PRESENT

Representative Tom Anderson, Chair
Representative Bob Lynn, Vice Chair
Representative Nancy Dahlstrom
Representative Carl Gatto
Representative Norman Rokeberg
Representative Harry Crawford

MEMBERS ABSENT

Representative David Guttenberg

COMMITTEE CALENDAR

HOUSE BILL NO. 120

"An Act excluding service contracts from regulation as insurance; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 162

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

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 120

SHORT TITLE: SERVICE CONTRACT SALES ARE NOT INSURANCE

SPONSOR(S): REPRESENTATIVE(S) COGHILL

Jrn-Date	Jrn-Page		Action
02/24/03	0286	(H)	READ THE FIRST TIME - REFERRALS
02/24/03	0286	(H)	L&C
03/05/03		(H)	L&C AT 3:15 PM CAPITOL 17
03/05/03		(H)	Heard & Held
03/05/03		(H)	MINUTE(L&C)
03/12/03		(H)	L&C AT 4:00 PM CAPITOL 17

BILL: HB 162

SHORT TITLE: INCREASE BUSINESS LICENSE FEE

SPONSOR(S): RLS BY REQUEST OF THE GOVERNOR

Jrn-Date	Jrn-Page		Action
03/05/03	0432	(H)	READ THE FIRST TIME - REFERRALS
03/05/03	0432	(H)	L&C, FIN
03/05/03	0433	(H)	FN1: (CED)
03/05/03	0433	(H)	GOVERNOR'S TRANSMITTAL LETTER
03/05/03	0433	(H)	REFERRED TO LABOR & COMMERCE
03/12/03		(H)	L&C AT 4:00 PM CAPITOL 17

WITNESS REGISTER

RYNNIEVA MOSS, Staff
to Representative Jack Coghill
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions about proposed amendments to HB 120 on behalf of the sponsor.

STAN RIDGEWAY, Deputy Director
Division of Insurance
Department of Community and Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 120 about how the Division of Insurance licenses sellers of insurance and collects premium taxes.

EDGAR BLATCHFORD, Commissioner
Department of Community and Economic Development
Anchorage, Alaska

POSITION STATEMENT: Presented HB 162 on behalf of the administration.

RONALD JORDAN, Small Business Owner
Anchorage, Alaska

POSITION STATEMENT: Testified on HB 162, suggesting a graduated fee based on the number of employees in the business.

DAVE JANKA, Owner/operator
Auklet Charter Services
Cordova, Alaska

POSITION STATEMENT: Testified in opposition to HB 162, but spoke in favor of graduated fees such as those used by other organizations and agencies.

RICK URION, Director
Division of Occupational Licensing
Department of Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Answered questions on HB 162 and provided statistics about business licenses.

MIKE WINDRED, Director of Operations
Alaska Travel Adventures, Inc.
Juneau, Alaska

POSITION STATEMENT: Spoke in favor of HB 162 and urged the committee to keep the criteria for the business license fee simple in order to keep the fiscal note low.

KEITH MONTGOMERY, Owner
Montgomery Construction
Juneau, Alaska

POSITION STATEMENT: Opposed the large increase in business license fees in HB 162, explaining how difficult it is for the family's two small businesses to afford the \$800 biennial cost of two licenses.

ACTION NARRATIVE

TAPE 03-20, SIDE A

Number 0001

CHAIR TOM ANDERSON called the House Labor and Commerce Standing Committee meeting to order at 4:03 p.m. Representatives Anderson, Lynn, Dahlstrom, Rokeberg, and Crawford were present at the call to order. Representative Gatto arrived as the meeting was in progress.

HB 120-SERVICE CONTRACT SALES ARE NOT INSURANCE

Number 0041

CHAIR ANDERSON announced that the first order of business would be HOUSE BILL NO. 120, "An Act excluding service contracts from regulation as insurance; and providing for an effective date."

Number 0054

RYNNIEVA MOSS, Staff to Representative Jack Coghill, Alaska State Legislature, sponsor of HB 120, explained that this bill was held over from the March 5 meeting because of concerns expressed by Representatives Rokeberg, Lynn, and Senator Ralph Seekins [about businesses selling home warranties and auto service contracts without an insurance license]. Representative Rokeberg's suggested revision was sent to the bill drafter Mike Ford, Legislative Legal and Research Services. Ms. Moss relayed Mr. Ford's opinion that the language in [Version 23-LS0537\D] removed those types of service contracts from insurance regulation and that additional changes were unnecessary. She distributed a proposed amendment by the Division of Insurance, Department of Community and Economic Development, which set a maximum value on the purchase price of items whose service contracts would be exempted from the insurance code. She said the concerns of the Division of Insurance might best be addressed in separate legislation. Ms. Moss said Representative Coghill wants to pass a bill that legalizes the activities of many honest businessmen.

Number 0181

REPRESENTATIVE ROKEBERG summarized the testimony from last week's meeting. He said that there are special provisions for automobile service contracts in current law. Home warranties that are sold by realtors and homebuilders fall under the purview of the insurance law. He asked if that was Ms. Moss's understanding of the current law.

MS. MOSS replied that Mr. Ford said that the use of the word "property" in [Version D] of the bill would probably cover those concerns [by removing home warranties and auto service contracts from oversight by the Division of Insurance].

REPRESENTATIVE ROKEBERG asked to make clear for the record that automobiles and home warranties would be excluded from the purview of insurance under HB 120.

MS. MOSS replied that Mr. Ford had said yes, they would be excluded.

Number 0266

REPRESENTATIVE LYNN questioned what had changed since the last hearing in which the committee was told that realtors who sold home warranties were violating the insurance law.

MS. MOSS replied that the bill drafter and the administration interpret the current law differently.

REPRESENTATIVE LYNN asked which agency is going to interpret the law if he sells someone a home warranty.

MS. MOSS said that is one reason for this legislation; Representative Coghill does not want the law interpreted on a case-by-case basis. She said he believes that service contracts should be excluded from the insurance title.

Number 0326

REPRESENTATIVE ROKEBERG suggested getting a letter from Mr. Ford that states that the sellers of auto service contracts and home warranties are covered by this bill and thereby exempt from the insurance statute. He added that Mr. Ford should be asked whether any amendments to HB 120 are necessary.

Number 0365

STAN RIDGEWAY, Deputy Director, Division of Insurance, Department of Community and Economic Development, addressed the questions raised by Representatives Rokeberg and Lynn. He agreed that HB 120 does exempt homeowner warranties and automobile service contracts. He said when he testified last week, he made a misstatement when he said the division does not regulate service contracts at this time. He explained that he should have said that the division does not regulate the aspect of a service contract that requires someone to have a license. This is because the only way the division knows if someone is selling insurance without a license is when a customer files a complaint against the seller. He said that most of the auto and homeowner contracts sold are above board.

Number 0455

MR. RIDGEWAY explained that the division has rate and form filings from all the companies that sell home owner warranties and auto contracts; they all pay premium taxes to the State of Alaska. Some 24 insurance companies sell home owner warranties (which are listed as "other than auto type" warranties), and another 34 insurance companies sell mechanical breakdown insurance, for example, covering problems with home heating systems. The division lists 45 companies that sell vehicle service contracts, and 17 companies sell contracts specifically related to autos. He said that's 62 insurance companies (with

some duplication between the two lists) that pay premium tax on auto-related products. He said if these products were exempted from the insurance code, HB 120 would have a significant financial impact because the Division of Insurance would lose these premium taxes. Mr. Ridgeway said he also researched automobile companies that have licenses to sell automobile insurance, a type of credit insurance. He has a 10-page list of new and used auto dealers that have filed for insurance licenses to sell credit and/or property insurance. He said some of those auto dealers have an appropriate license and some do not.

Number 0584

MR. RIDGEWAY explained that after the legislature passed the Omnibus Insurance Bill last year, the division changed the licensing process and added a limited lines license that covers credit insurance. He suggested that the division add a new limited lines license that would cover service warranties, assuring that these were regulated by the state. This would allow people selling service contracts to register for a small fee.

Number 0610

MR. RIDGEWAY described the division's proposed amendment to HB 120, which read:

(e) This title does not apply to a service contract offered, issued for delivery, delivered, or renewed in this state where the tangible property has a purchase price of \$8,000.00 or less, exclusive of sales tax. In this subsection, "tangible property" means household consumer goods; "service contract" means a contract or agreement to provide for the repair, replacement, or maintenance of property over a definite period of time in exchange for a fixed amount of money.

MR. RIDGEWAY explained that the division's proposed amendment would classify tangible property that has a purchase price of \$8,000 or less, exclusive of sales tax, and would define it as household consumer goods. This amendment would exempt service contracts on household consumer goods but would leave service contracts for homes, autos, ambulance services, and many other products currently interpreted as insurance under the Division of Insurance.

Number 0669

REPRESENTATIVE LYNN asked Mr. Ridgeway about a realtor's liability for a customer's complaint about a home warranty.

MR. RIDGEWAY replied that normally the dispute is between the company settling the claim and the customer, not necessarily the seller of the insurance. Under the current law, a realtor should have a license to sell that product; under HB 120, a realtor would be exempt from having to have a license to sell a home warranty.

Number 0766

MR. RIDGEWAY, answering a question from Chair Anderson, said the department prepared an indeterminate fiscal note with the hope that the committee would accept the division's amendment. If it is not accepted, the department would have to research the cost of the legislation. The resulting fiscal note would be an estimate because companies combine their insurance products to calculate their premium taxes.

REPRESENTATIVE ROKEBERG commented that Mr. Ridgeway has identified automobile businesses that are covered under AS 45.25.620 [Service contracts] as having to file with the Division of Insurance.

MR. RIDGEWAY replied that according to the department's assistant attorney general, AS 45.25.620 requires a disclosure document if the business sells automobile service contracts. He said the statute does not exempt service contracts from the insurance code.

REPRESENTATIVE ROKEBERG clarified that he was saying that it sounds as if most automobile companies are complying with the division's regulations.

Number 0872

MR. RIDGEWAY replied that 90 percent of those businesses have a license to sell credit insurance, and a few have a license to sell property insurance. He said in that sense, the businesses are not complying with the insurance law when they sell service contracts.

REPRESENTATIVE ROKEBERG asked the difference between credit insurance and property insurance as they relate to service contracts.

MR. RIDGEWAY replied that credit insurance covers a loss if a person dies while they have and are paying a contract; it is a hybrid type of life insurance. He added that service contracts fall under the property and casualty insurance. He confirmed that credit insurance would not be affected by HB 120.

Number 0929

MR. RIDGEWAY, upon questioning by Representative Rokeberg, explained that a few automobile dealers have licenses to sell service contracts.

REPRESENTATIVE ROKEBERG asked why there would be a large fiscal note if most of the companies referred to earlier sell credit insurance and their payment of fees would not be affected by this bill.

MR. RIDGEWAY replied that the fiscal note would be tied to exempting service contracts from the insurance code. The insurance companies that pay premium taxes - a percentage on the gross premiums sold in the state - would no longer have to pay those premium taxes. So the impact would be the loss of thousands and thousands of dollars.

Number 1003

REPRESENTATIVE ROKEBERG replied that the committee would like to know the amount of that loss. He asked if there's only a few firms selling property insurance now, if they're registered and paying premium taxes, then how much premium tax would the division lose? Many firms aren't registered with the division [and therefore are not paying premium taxes].

Number 1019

MR. RIDGEWAY explained that there are two kinds of taxes: premium taxes and licensing fees. The people who sell the product for the auto dealers have to have a license; to get a license, they pay a fee. The insurance company that files forms with the division to sell products in Alaska pays the premium tax, not the auto dealer who sells the insurance policy. The insurance company pays a flat percentage on gross sales. For example, the individual State Farm insurance agent who sells a

customer an auto policy does not pay premium taxes; State Farm pays those taxes.

REPRESENTATIVE ROKEBERG said Mr. Ridgeway testified that there are very few people who are covered by this bill who are registered with the department. Why is the division going to lose a lot of premium tax?

Number 1079

MR. RIDGEWAY explained that if service contracts are exempted, the insurance companies servicing them will no longer pay premium taxes. Every insurance company that files to sell a product in the state is paying the premium tax; the agent and the auto salesperson do not pay the premium tax. For every automobile service contract or home warranty that is sold, the division receives a premium tax. Even though the person selling the contract might not have a license to sell it, the division gets the premium tax on the contract.

REPRESENTATIVE ROKEBERG repeated Mr. Ridgeway's testimony that the insurance company paying the premium tax is registered with the department. He asked why the division would have difficulty identifying the amount of lost premiums. He asked whether it is because the companies sell multiple products, making it hard to determine which line would be affected.

Number 1135

MR. RIDGEWAY used State Farm to illustrate the difficulty in separating out [lost premium taxes on service contracts.] He said State Farm might sell service contract policies; the company also sells auto policies. When State Farm pays its premium taxes, the amount is calculated on gross premiums times 3 percent. If the companies broke those products out, a simple computer run could determine the amount of lost premiums. As it is, the division will have to estimate the premiums currently paid on service contracts.

REPRESENTATIVE ROKEBERG asked about using the division's proposed amendment but leaving the auto service contracts intact and including home warranties in the bill. He asked if Mr. Ridgeway knew the dollar amount represented by the home warranty policies.

Number 1193

MR. RIDGEWAY responded that he did not know the dollar amount of [home warranty premiums paid], but he said he does have information on the number of companies - roughly 60 - that have filed to sell those products and how many the division has approved. Some 34 companies sell contracts for mechanical breakdowns [on homes], and 24 companies sell contracts for insurance other than auto, which is home warranties. He confirmed that a mechanical breakdown could include an item such as a boiler.

MR. RIDGEWAY said the division wants to preserve the premium tax because it is the third or fourth largest revenue producer for the state. He said the committee's concern about licensing real estate agents and automobile salesman is a issue separate from the state receiving the premium tax. With this proposed legislation, the state exempts all of those companies from a premium tax.

Number 1293

REPRESENTATIVE ROKEBERG explored the solution of specifically exempting businesses from getting an insurance license to sell home warranties. He asked if that would avoid the loss of the premium tax.

MR. RIDGEWAY said that is correct.

REPRESENTATIVE ROKEBERG suggested exempting automobile dealers from the requirement to get a license to sell auto policies and asked Mr. Ridgeway's opinion.

MR. RIDGEWAY confirmed that [automobile dealers] would be excluded from a licensing fee but the insurance companies would still pay the premium tax.

REPRESENTATIVE ROKEBERG asked why the division's proposed amendment included the figure of "\$8,000.00 or less".

Number 1356

MR. RIDGEWAY explained that the amendment was directed at consumer products. He said his understanding of the intent of the bill was to exempt products like TVs, home appliances, and hot tubs from the insurance code. A lot of retail dealers sell service contracts with their products. He said the bill is very broad as written, and the division was not sure whether the sponsor and the committee understood how broad it was.

REPRESENTATIVE CRAWFORD asked Representative Rokeberg if he objects to the division's proposed amendment. He said it gives the division quite a bit of leeway on service contracts, with the \$8,000 ceiling.

REPRESENTATIVE ROKEBERG suggested he address the question to the sponsor of the bill.

Number 1458

CHAIR ANDERSON turned the gavel over to Vice Chair Lynn.

MS. MOSS said there is a philosophical difference here about service contracts versus credit insurance. She said credit insurance is clearly an insurance; it's insuring a risk that somebody's going to die and the person is going to leave the family with the debt of a new vehicle, for example. A service contract, however, is tied directly to property; an auto is property, a house is property. Putting a value limit of \$8,000 would probably exclude some home heating systems in Alaska, most cars in decent running condition, and vacuum systems in a new home. If the bill is amended with a dollar amount, she said \$8,000 is pretty low. And the \$8,000 figure would tie many service contracts back into the insurance provisions.

Number 1546

REPRESENTATIVE CRAWFORD asked whether it was the sponsor's intention to exempt these insurance companies from paying their premium tax.

MS. MOSS replied no, she is not convinced that's going to happen. She said that there's very few auto sales companies in the state that realize that they're supposed to be licensed. She said she doesn't think the revenue lost is going to be that significant. She also said the Division of Insurance is spending a lot of manpower deciding, case by case, whether somebody is supposed to have an insurance license to be selling service contracts. She estimated that [the benefit of] relieving staff from making piece-meal decisions would outweigh any loss of premium tax revenue incurred.

Number 1591

REPRESENTATIVE CRAWFORD asked whether the sponsor favors changes in HB 120 that would exempt these businesses from licensure but

would require the insurance companies to continue paying their premium taxes.

MS. MOSS replied that the sponsor has not discussed this possibility with the bill drafter, but he could do so. She said this bill excludes the premium tax on service contracts, which the division has admitted is insignificant at this point.

Number 1647

REPRESENTATIVE ROKEBERG commented that too many amendments might trigger a fiscal note, which could be a good way of getting the lost premium tax figure from the Division of Insurance. He pondered using the division's suggested amendment but modifying the purchase price to a figure that meets the sponsor's approval. He considered further amending the bill to exclude home warranty sales, which would force the department to determine the true amount of the premium tax loss. He also mentioned excluding automobile companies from the provisions of the bill. He asked Ms. Moss if that's a good approach - triggering a fiscal note and moving the bill on to the House finance committee.

Number 1709

MS. MOSS replied that she thinks that approach would work. She noted that Representative Coghill had discussed a dollar amount of \$20,000, not \$8,000, with the Division of Insurance. She cautioned that \$20,000 limit might buy a decent used car, but there are very few new cars that can be bought for \$20,000. She said \$8,000 is too low a figure.

REPRESENTATIVE ROKEBERG asked Ms. Moss how the sponsor would feel about the committee adding amendments that excluded home warranties and the automobile companies, thereby triggering a fiscal note.

MS. MOSS said Representative Rokeberg has a legitimate suggestion to get the bill to the House finance committee so this issue can be resolved. She said she does not think its going to attract a big fiscal note, but Representative Coghill would be willing to amend it with a larger purchase price than \$8,000 and send it to finance committee to have a discussion on the fiscal impact.

Number 1744

MS. MOSS, in reply to a question from Vice Chair Lynn, said that if a bill triggers a fiscal note, when it is read across the floor, it would be referred to the finance committee where a hearing would be scheduled.

REPRESENTATIVE ROKEBERG suggested using the Division of Insurance's amendment but replacing the \$8,000 with \$20,000.

REPRESENTATIVE CRAWFORD pointed out that the \$8,000 amount served the purpose of limiting the bill to service contracts that cover consumer goods; he said he didn't think that the bill was intended to include automobiles and other high figure items.

MS. MOSS said HB 120 is intended to separate service contracts on property from insurance; the sponsor views them as two different things, regardless of the value of the property. She said Representative Coghill is compromising because he perceives a policy on an automobile to be a service contract on a piece of property, regardless of whether the property costs \$20,000 or \$50,000. With a service contract, there is no real risk tied to a financial disaster; something on the piece of property becomes dysfunctional for some reason and the seller of the service contract agrees to replace it or repair it.

Number 1850

REPRESENTATIVE ROKEBERG moved to adopt Conceptual Amendment 1, which read,

Page 1, line 6, after "state"
Insert "where the tangible property has a purchase price of \$20,000 or less, exclusive of sales tax. In this subsection, 'tangible property' means household consumer goods."

There being no objection, it was so ordered.

Number 1866

REPRESENTATIVE ROKEBERG moved Conceptual Amendment 2, which read,

Page 1, line 5, after "service contract"
Insert: ", or home warranties"

REPRESENTATIVE ROKEBERG explained the purpose of the amendment was to exclude the sale of home warranties from the purview of

the Department of Community and Economic Development. He said according to Mr. Ridgeway's testimony, such an amendment would require the department to describe any cuts to premium taxes, thereby tripping a fiscal note which would require a referral to the House finance committee.

Number 1930

CHAIR LYNN asked whether there was any objection to adopting Conceptual Amendment 2. There being none, it was so ordered.

REPRESENTATIVE ROKEBERG discussed another possible amendment that would exclude motor vehicle sales activity from the bill, leaving it under the purview of the division.

MS. MOSS replied that she couldn't answer for Representative Coghill because it was a new concept. She added that the Senate intends to exempt motor vehicle [service contracts from insurance regulation].

REPRESENTATIVE ROKEBERG said in his proposed third conceptual amendment, the motor vehicle activities would be exempt from the provisions of HB 120. He said he doesn't intend to delete subsection (e) but wants to add a new subsection (f).

Number 2029

MS. MOSS proposed revising the language drafted by the Division of Insurance. On line [5], a period would be placed after the words "means household consumer goods". She suggested adding the words "In this subsection, 'service contract' means" and then continue with the rest of the language in HB 120's subsection (e). She repeated her wording at the request of Vice Chair Lynn and Representative Rokeberg. She explained that all the language in HB 120 would consist of subsection (e).

Number 2105

REPRESENTATIVE ROKEBERG moved to adopt Conceptual Amendment 3, as follows:

Page 1, line 8, after "money."
Add: "Motor vehicle sales and activities are excluded from this subsection."

MS. MOSS asked for clarification. She said that if motor vehicle activities and sales are excluded from subsection (e) of the bill, that puts them back within Title 21, Insurance.

REPRESENTATIVE ROKEBERG confirmed that's what the committee wants to do because that's the status quo.

MS. MOSS said that the language leaving motor vehicle service contracts out of the bill would probably be amended in the Senate. She said if the committee excludes motor vehicle contracts, then they would remain under the regulation of insurance statutes. She said it's a matter of opinion [about whether motor vehicle service contracts are regulated by the Division of Insurance], and it's part of the reason for this legislation.

Number 2185

REPRESENTATIVE ROKEBERG said he still wanted to exclude the motor vehicle sales from this legislation.

MS. MOSS asked for clarification about whether Representative Rokeberg would exclude motor vehicles over the value of \$20,000.

REPRESENTATIVE ROKEBERG said the intention of Conceptual Amendment 3 is to maintain the current status [with motor vehicle sales of any amount] so there is oversight by the Division of Insurance, with the hopes of diminishing the size of the fiscal note. He said motor vehicles appear to be the largest area of premium tax impact. He suggested that automobile dealers would like to maintain the status quo.

Number 2222

REPRESENTATIVE DAHLSTROM asked for clarification on where home warranties fall [in terms of regulation and consumer protection].

MS. MOSS said that a list of statutes that cover state contract law was included in the bill packet last week.

Number 2240

REPRESENTATIVE GATTO said he was too confused to vote on this amendment. He suggested that the amendment or the bill be rewritten so that the language is clearer.

MS. MOSS suggested that the committee adopt Conceptual Amendment 3 and then hear the committee's next bill. Staff could write up the three conceptual amendments so the committee could see [later this afternoon] the bill's exact language.

Number 2290

VICE CHAIR LYNN, asked if there were any objections to adopting Conceptual Amendment 3. There being no objection, it was so ordered.

REPRESENTATIVE ROKEBERG clarified that Conceptual Amendment 3 excluded vehicle sales from subsection (e), maintaining the status quo, continuing oversight by the Division of Insurance. Conceptual Amendment 2 excluded home warranties [from oversight by the Division of Insurance]. Conceptual Amendment 1 excluded any service contracts up to \$20,000.

REPRESENTATIVE GATTO said this bill needs to be read and understood by ordinary people. He said his concern is that people will read these exclusions and violate the law unknowingly or get around the law deliberately.

Number 2341

VICE CHAIR LYNN ordered HB 120 held over until the committee could see the rewritten paragraph.

REPRESENTATIVE CRAWFORD confirmed that Conceptual Amendment 3 passed without objection.

HB 162-INCREASE BUSINESS LICENSE FEE

Number 2374

VICE CHAIR LYNN announced that the final order of business would be HOUSE BILL NO. 162, "An Act increasing the fee for a state business license; and providing for an effective date."

TAPE 03-20, SIDE B

Number 2388

EDGAR BLATCHFORD, Commissioner, Department of Community and Economic Development, presented HB 162 on behalf of the governor. He explained that HB 162 represents an effort to balance the budget. The legislation increases the business license fee from \$25 to \$200 per year; the fee is collected on a

biennial basis. He acknowledged that this is an increase, but the cost of a business license has remained the same since 1949. He reviewed Alaska's growth in population since 1940, when the population in the Territory of Alaska was 75,000; in 1950, the population was 138,000, a large percentage of that number being military personnel. By the first full year after statehood, in 1960, the population was 230,000. A business license that cost \$25 in 1950, adjusted for inflation, would cost \$188 in 2003.

COMMISSIONER BLATCHFORD said that with this increase, there would be an estimated \$8.5 million of additional revenue for FY 04. This would provide general fund revenues for a variety of state services, including public safety, road maintenance, and education. He said the department provides technical support to small, medium, and large businesses, technical assistance in international trade, and assistance to businesses exporting Alaska products. The department also provides important Alaska economic information. He testified that the proposed fee is a very important piece of the Governor's plan to bring Alaska's house in order while growing the overall economy. He urged the committee to support HB 162.

Number 2264

REPRESENTATIVE ROKEBERG asked Commissioner Blatchford if he would support changing the word "fee" to "tax" in the bill.

COMMISSIONER BLATCHFORD said no.

REPRESENTATIVE ROKEBERG asked about the past controversy of Alaskan businesses having to send their business license fees to an address outside Alaska. He asked if collections could be done within the state.

COMMISSIONER BLATCHFORD said he didn't know about the controversy but said he would respond in detail before tomorrow.

Number 2170

RONALD JORDAN, Small Business Owner, described himself as an Anchorage resident for the past 30 years. He testified on HB 162, agreeing that the current fee for a business licenses is too low; he said wouldn't object to an increase. He said he faxed a proposal to Representative Rokeberg to stair-step the license fees by the number of employees in the business. In Washington state, for example, a state business license costs \$15, but cities such as Leavenworth have their own business

license fees. He said that if the increase remains as proposed in HB 162, the \$400 up-front biennial fee will stifle the start-up of many small enterprises. He proposed instead a \$100 fee for [a new business in] the first year. The State of Alaska can access the number of employees by checking the business's Quarterly Contribution Reports filed [with the Department of Labor & Workforce Development].

Number 2111

REPRESENTATIVE ROKEBERG noted that there's an amendment from Chair Anderson with a step-up fee based on the number of employees in the business. Representative Rokeberg noted that he had prepared a possible amendment with step increases starting at \$25 a year with gross receipts less than \$25,000, ranging up to \$200 for businesses with gross receipts \$200,000 or more.

Number 2031

REPRESENTATIVE ROKEBERG noted that Mr. Jordan has started a number of successful businesses in Anchorage. He asked if a small business with few employees and small gross receipts would be discouraged from even starting a business.

MR. JORDAN replied that the bigger entities like BP or Alaska Airlines have a bigger business base [and can afford a higher fee]. Alaska is made up of a lot of small businesses, and for a person just starting up, when the first year or two is really tight, \$200 to \$300 can make all the difference.

Number 1917

REPRESENTATIVE ROKEBERG asked Commissioner Blatchford whether he had considered a graduated tax scheme. He also asked him to speak to the concern about small businesses not getting a license because the cost is too high.

COMMISSIONER BLATCHFORD said the \$400 biennial fee appears to be a healthy increase from the \$25 annual fee. He said that his staff will look at a graduated tax if the committee requests it.

COMMISSIONER BLATCHFORD, in response to a question by Representative Lynn, said the administration looked at the most agreeable fee that would be easily applied in an equitable fashion. He said that raising the fee from \$25 to \$200 seemed like a logical step.

Number 1842

REPRESENTATIVE ROKEBERG reiterated that the committee is considering two possible amendments [using a graduated fee]. He asked the commissioner about the ease of verifying either the number of employees or gross receipts for a business.

COMMISSIONER BLATCHFORD said he would check with staff and respond to the committee by tomorrow afternoon; he could then tell the committee how much information he would have available and how complete it would be.

Number 1770

DAVE JANKA, Owner/operator, Auklet Charter Services, testified that he does not support HB 162 as presently written. He does support a graduated system of fees. He said the \$175 annual increase will make a big difference for an owner-operated business that is seasonal with a part-time employee. All these fees -- the city business license, the Fish and Game registration -- add up for a small business. He described how the fees for the Alaska Travel Industry Association membership and the Department of Fish and Game vessel license are calculated on a graduated basis. He agreed that the business license fee is really a tax. He said that when he receives his business license he would like information that shows what services he gets when he pays his fee. For the small owner/operator, one to five employees, he suggested a \$30 fee. A business with 200 or 300 employees should be paying \$500 to \$700.

Number 1647

REPRESENTATIVE ROKEBERG asked Mr. Janka if he thought that people wouldn't get a license if the fee were too high. Would it be better to have a lower initial rate for a start-up business?

MR. JANKA recalled his past experience starting a part-time photography business, for which he bought the state and city business licenses. If the fee had been \$200, he would have taken pictures and accepted cash without paying for a business license. He estimated that many people would do that.

Number 1591

REPRESENTATIVE GUTTENBERG asked Mr. Janka the difference between a tax and a fee.

MR. JANKA said a tax goes into the general fund for operation of state services; a fee pays for the delivery of a [specific] service.

Number 1547

RICK URION, Director, Division of Occupational Licensing, Department of Community & Economic Development, addressed the question about whether it would be easier to base a graduated license fee on gross sales or the number of employees. He said the number of employees was the far easiest method because every employer in the state is required to file a Quarterly Contribution Report with the Department of Labor & Workforce Development. He said those numbers are available.

Number 1496

REPRESENTATIVE ROKEBERG agreed that it's best to keep the [criteria] simple; he noted that a business's gross and net income depends on its accountant. He asked Mr. Urion if the [Division of Occupational Licensing] collects the business license fee and if he was asked to research the increased business license fee before the legislation was drafted.

MR. URION explained that he was not asked in advance to do research but since the bill has been introduced, he has researched different variables.

REPRESENTATIVE ROKEBERG asked Mr. Urion's opinion about whether a graduated scale would generate more income if it were more affordable for entry-level businesses.

MR. URION said he can only speculate about how many people would not buy the \$200 licenses. He said it's also speculation as to how many people today don't buy the \$25 business license.

REPRESENTATIVE ROKEBERG suggested that this question could be answered using economic analysis. He posited that the state would collect more income from the lower stratum of economic activity if the fee were reasonable.

Number 1362

VICE CHAIR LYNN asked how many businesses might drop out on the top end of a graduated scale.

MR. URION said he learned from the Department of Labor & Workforce Development that about 65,773 licenses, or 90 percent, are for businesses with 0 to 4 employees. About 8 percent of licensed businesses employ 5 to 19 workers; and 2 percent, or 15,062 employers, have 20 or more employees. He estimated that no large employers would drop out because of a \$200 fee.

Number 1273

REPRESENTATIVE DAHLSTROM moved to adopt Amendment A.1 [23-GH1102\A.1, Bannister, 3/12/03], which reads:

Page 1, lines 4 - 5:

Delete all material and insert:

"* **Section. 1.** AS 43.70.030(a) is amended to read:

(a) The license fee for each business [IS \$25] per year is

(1) \$50 if the business had not more than five employees at any time during the preceding calendar year;

(2) \$100 if the business had at least six but not more than 25 employees at any time during the preceding calendar year;

(3) \$200 if the business had more than 25 employees at any time during the preceding calendar year."

VICE CHAIR LYNN described the amendment.

Number 1238

REPRESENTATIVE ROKEBERG objected for purposes of discussion. He said he approved of this approach but was shocked to learn that 90 percent of the businesses in the state have 0 to 4 employees. He suggested that for large corporations with only one employee in Alaska, the license fee should be based on a combination of employees and gross receipts. Most small businesses, with 0-1 employee would be on the low end; the next step up would be 2 employees. He favors the approach using the employee count because it's readily available. He suggested that the committee could adopt the proposed Amendment A.1, then put the bill aside and ask the department to do its research.

Number 1133

REPRESENTATIVE GUTTENBERG asked what kind of a business has zero employees.

REPRESENTATIVE ROKEBERG reiterated how a large corporation with zero employees could do millions of dollars of business in the state; he asked whether the legislature wants to exempt this type of business from a higher business license fee. He cautioned that if legislators created a graduated fee structure, they still need to raise \$8.5 million in revenue. For the 90 percent of the business licenses, there clearly has to be some kind of an increase to meet the governor's goal of \$8.5 million in new revenue. Small business is the backbone of the state, he said.

VICE CHAIR LYNN asked Representative Rokeberg if he withdraws his objection for purposes of adopting the amendment.

Number 1055

REPRESENTATIVE ROKEBERG moved to amend proposed Amendment A.1 to change the "five employees" on line 5 to "two employees". He then immediately withdrew his proposed amendment to Amendment A.1.

REPRESENTATIVE ROKEBERG withdrew his objection to adoption of Amendment A.1 and proposed that HB 162 be held over for the administration to use a graduated scale.

Number 0980

VICE CHAIR LYNN asked if there were any objections to adoption of Amendment A.1. There being no objection, it was so ordered.

VICE CHAIR LYNN said HB 162 will be held over.

REPRESENTATIVE ROKEBERG said it's important for the committee to give the administration direction on how to revise HB 162. He asked Mr. Union to give members copies of his report showing breakouts of business licenses by the number of employees. He said there are two ways to [raise the revenue]: try to [retain a single fee amount] or reduce the fee amount [according] to a schedule that makes sense. The committee needs to tie its decision to some data and may need to make some distinctions between small businesses with 0-1 person and businesses with 2 or 3 employees. He said his own business employs 20 people but grosses less than \$1 million; he couldn't afford an \$800 a year

business license in order to help raise the [governor's \$8.5 million goal]. On the other hand, he added, if a business's gross receipts exceeded \$10 million, that business would be at the high end [of the graduated scale].

Number 0872

MR. URION said his division would be happy to provide any research the committee would like. He said his supervisors confirmed that they were not wedded to HB 162 as it is currently written.

Number 0837

MIKE WINDRED, Director of Operations, Alaska Travel Adventures, noted that his company has five business licenses. He spoke in favor of HB 162 and said he favored the simplicity of the bill. If the system becomes complicated - whether its gross receipts or the number of employees - the bill will require a larger fiscal note. Now, everybody pays the same amount for a business license and its very easy for the state to administer. He researched what other states do and noted that most states have an application fee, for example, the State of Washington charges \$15. But in Washington state, the actual business license varies according to the type of business: \$30 for an egg handler and \$700 for a cabaret in Bellevue. Alaska's system is simple and straightforward and he urged the committee to keep it so. He said his company is a member of the Alaska Travel Industry Association, in which 95 percent of the businesses have fewer than 5 employees. He calculated that because 90 percent of businesses in Alaska are small businesses, if the \$200 fee were cut in half [because of businesses refusing to renew their licenses], the state would lose \$3.6 million in revenue. To make up the lost \$3.6 million off [the remaining] 7,500 business licenses, the state would have to charge a very large fee. He urged the committee not to put too big a burden on any one group of businesses.

Number 0702

KEITH MONTGOMERY, Owner, Montgomery Construction, a business license to do small jobs, got a handy man's contractor's license, and paid \$1,000 for a bond. His wife has a business license to do childcare for one child. Both businesses are sole proprietorships. He called HB 162 the labor tax because it taxes working people, one big shot at a time. He said he might work under the table if HB 162 passed, but he wants to be a

responsible citizen and to pay his own way. He would be willing to pay an increased fee, but \$200 a year each is too much for he and his wife. He said he's also taking classes towards an occupational health and safety certification wants to get a license for that work. He suggested a fee of \$50 for businesses with 0 to 2 people. He said he wants to be able to accept work and to give his customers invoices and receipts for their tax purposes.

MR. MONTGOMERY responded to a question from Representative Rokeberg about whether he works another job. He explained that he is a skilled carpenter and completed a four-year apprenticeship; he works for a contractor. He earns \$10,000 a year or less through his handy-man license. He said [his construction business] helps feed four future voters of Alaska.

Number 0424

REPRESENTATIVE ROKEBERG asked Mr. Montgomery how his family would handle buying two business licenses at once for \$800.

MR. MONTGOMERY agreed that the \$800 would be a big hit and might cause him to take his work "underground." He said he loves woodworking and would continue to do it. He said that the [\$200 annual] cost is very steep for [small businesses] that want to do the right thing.

Number 0318

VICE CHAIR LYNN said today's testimony on HB 162 was a good example of how citizens can help the committee do its work. There being no other witnesses, he closed public testimony for the day. He announced again that HB 162 would be held over.

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:35 p.m.