

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

April 24, 2003

7:10 a.m.

MEMBERS PRESENT

Representative Mike Hawker, Co-Chair
Representative Jim Whitaker, Co-Chair
Representative Cheryll Heinze
Representative Vic Kohring
Representative Bruce Weyhrauch
Representative Peggy Wilson
Representative Max Gruenberg
Representative Carl Moses

MEMBERS ABSENT

Representative Norman Rokeberg

OTHER LEGISLATORS PRESENT

Representative Carl Gatto
Representative Paul Seaton
Representative Dan Ogg
Representative Ralph Samuels

COMMITTEE CALENDAR

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."

- MOVED CSHB 271(W&M) OUT OF COMMITTEE

HOUSE JOINT RESOLUTION NO. 9

Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit.

- HEARD AND HELD

HOUSE JOINT RESOLUTION NO. 26

Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from and inflation-proofing the Alaska permanent fund by establishing a percent of market value spending limit.

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 271

SHORT TITLE: PASSENGER VEHICLE RENTAL TAX

SPONSOR(S): REPRESENTATIVE(S) KOTT

Jrn-Date	Jrn-Page		Action
04/15/03	0986	(H)	READ THE FIRST TIME - REFERRALS
04/15/03	0986	(H)	W&M, FIN
04/15/03	0986	(H)	REFERRED TO WAYS & MEANS
04/22/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/22/03		(H)	Heard & Held MINUTE(W&M)
04/23/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/23/03		(H)	Heard & Held MINUTE(W&M)
04/24/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

BILL: HJR 9

SHORT TITLE: CONST AM: APPROPRIATION/SPENDING LIMIT

SPONSOR(S): REPRESENTATIVE(S) STOLTZE

Jrn-Date	Jrn-Page		Action
01/31/03	0102	(H)	READ THE FIRST TIME - REFERRALS
01/31/03	0102	(H)	STA, JUD, FIN
01/31/03	0102	(H)	REFERRED TO STATE AFFAIRS
02/11/03		(H)	STA AT 8:00 AM CAPITOL 102
02/11/03		(H)	Heard & Held MINUTE(STA)
03/28/03	0687	(H)	COSPONSOR(S): ROKEBERG
04/04/03	0797	(H)	W&M REFERRAL ADDED BEFORE STA
04/04/03	0797	(H)	REMOVED FROM STA REFERRED TO W&M
04/09/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/09/03		(H)	Heard & Held MINUTE(W&M)
04/17/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

04/17/03 (H) Heard & Held
 MINUTE(W&M)
 04/24/03 (H) W&M AT 7:00 AM HOUSE FINANCE
 519

BILL: HJR 26

SHORT TITLE:CONST. AM: PF APPROPS/INFLATION-PROOFING
 SPONSOR(S): RLS BY REQUEST OF LEG BUDGET & AUDIT BY REQUEST

Jrn-Date	Jrn-Page		Action
04/17/03	1025	(H)	READ THE FIRST TIME - REFERRALS
04/17/03	1025	(H)	W&M, JUD, FIN
04/17/03	1025	(H)	REFERRED TO WAYS & MEANS
04/22/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
04/22/03		(H)	Heard & Held MINUTE(W&M)
04/24/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

WITNESS REGISTER

ARLISS STURGULEWSKI, Trustee
 University of Alaska Foundation
 Anchorage, Alaska
 POSITION STATEMENT: Testified in support of HJR 26.

MARY GRISWOLD
 Homer, Alaska
 POSITION STATEMENT: Testified in support of HJR 26.

EDWARD MARTIN, SR.
 Soldotna, Alaska
 POSITION STATEMENT: Testified in opposition to HJR 26.

JAMES PRICE
 Nikiski, Alaska
 POSITION STATEMENT: Testified in opposition to HJR 26.

LAURIE CHURCHILL
 Nikiski, Alaska
 POSITION: Testified in opposition to HJR 26.

PETRIA FALKENBERG
 Kenai, Alaska
 POSITION STATEMENT: Testified in opposition to HJR 26.

ACTION NARRATIVE

TAPE 03-13, SIDE A

Number 0001

CO-CHAIR WHITAKER called the House Special Committee on Ways and Means meeting to order at 7:10 a.m. Representatives Whitaker, Hawker, Heinze, Kohring, Wilson, and Moses were present at the call to order. Representatives Weyhrauch and Gruenberg arrived as the meeting was in progress. Representatives Gatto, Seaton, Ogg, and Samuels were also in attendance.

HB 271-PASSENGER VEHICLE RENTAL TAX

Number 0125

CO-CHAIR WHITAKER announced that the first order of business would be 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."

Number 0152

CO-CHAIR HAWKER moved to adopt the proposed committee substitute for HB 271, Version 23-LS0936\S, Kurtz, 4/23/03, as the working document. There being no objection, Version S was before the committee.

CO-CHAIR HAWKER explained that the proposed committee substitute was drafted in response to public testimony by industry members during yesterday's hearing. The proposed committee substitute has been constructed with the cooperation of the members of the committee and the bill's sponsor [Representative Kott]. This version expands the definition of vehicles subject to the excise tax to include recreational vehicles as well as passenger vehicles. The rate on passenger vehicles has been reduced to 10 percent from the previous bill's 15 percent level because local taxes and access fees created too much of a burden on the industry. The 10 percent [excise tax] is more in line with national standards, he commented. The tax on recreational motor vehicles [RVs] is established at 3 percent with the understanding that RVs will rent on a dollar-per-day basis 3 to 5 times as much as an average passenger vehicle. This keeps the tax levies in a proportional perspective, he said. Co-Chair Hawker told the members that the committee substitute also has administrative provisions that specify that the regulations for the administration of this tax shall be determined by the

[Department of Revenue]. Nothing in this bill in any way prohibits the lessors of the vehicles from collecting the excise tax from the consumers.

Number 0421

CO-CHAIR HAWKER told the members that he is comfortable with the bill with respect to the way it fits into the general revenue system where funds are not dedicated, and where revenues come in from many sources such as oil and gas revenue excise taxes or fees for registration of motor vehicles. The general revenue system has not been looked at for many years, and is no longer consistent with what has become generally accepted across the country in funding of state governments, he commented. Co-Chair Hawker explained that excise taxes on vehicles is a common mechanism and this bill is consistent with what has been found to be a proven component of the general revenue system nationwide. He told the members he believes [this tax] fits into a comprehensive fiscal structure for the state of Alaska that makes sense and is appropriate at this time.

Number 0541

REPRESENTATIVE WILSON asked what the estimated revenues for this [excise tax] would be.

CO-CHAIR HAWKER replied that the fiscal note on the first version of HB 271 showed approximately \$7.5 million [in revenue]. He pointed out that fiscal note was predicated on all vehicles, including recreational vehicles, being taxed at the 15 percent level. A fiscal note reflecting the changes in the committee substitute is not yet available; however, he said he believes there will be a proportional reduction in relation to the tax base.

CO-CHAIR WHITAKER added that he estimates the fiscal note will be around \$7 million. A revised fiscal note for this committee substitute will be provided to the committee soon.

Number 0639

REPRESENTATIVE SEATON commented that he believes the reduced rate on RVs makes sense especially since individuals renting RVs are not only getting a vehicle, but accommodations or lodging. He said the committee talked about the applicability of a municipal tax on vehicles or a bed tax that could be instituted

by a municipality. He stated he believes there should be clarification in the bill on this point.

CO-CHAIR HAWKER responded that bed taxes are usually justified as a means to promote economic development and tourism, as well as a means of accommodating the costs that municipalities incur as a result of having tourists in their midst. He pointed out that from the standpoint of additional burden on the community, the motor vehicle renter also pays taxes through motor fuel taxes and dumping fees that are associated with RVs. He told the members he does not see the need to equate the [excise tax] to a bed tax or apply it in addition to a bed tax. That would be very difficult to do, he commented. Co-Chair Hawker said he does not see this excise tax as a conflict with a bed tax imposed by communities since they are two different tax structures.

REPRESENTATIVE SEATON explained that he is only interested in clarifying the language as to whether [a bed tax] is acceptable or not acceptable [with a RV rental] because he believes the question will come up.

CO-CHAIR WHITAKER noted for the record, that Representatives Weyhrauch and Samuels had joined the meeting.

Number 0909

CO-CHAIR HAWKER proposed a technical amendment to Version S as follows:

On page 2, line 15
After the words "passenger vehicle"
Insert the words "or recreational vehicle"

CO-CHAIR HAWKER pointed out that this change is important since there has been a separation in definitions of passenger vehicles and recreational vehicles in the bill. There being no objection, the technical amendment was adopted.

The committee took an at-ease from 7:18 a.m. to 7:22 a.m.

Number 1048

REPRESENTATIVE HEINZE moved to report CSHB 271, Version 23-LS0936\S, Kurtz, 4/23/03, out of committee with individual recommendations and the accompanying fiscal notes.

Number 1123

REPRESENTATIVE KOHRING objected and said he is not convinced that a tax of this nature is something that will be beneficial to the economy. Representative Kohring explained that he has not heard a compelling argument as to why this tax is needed other than the fact that it is another revenue source. He recalled comments that the industry needs to contribute to the state in terms of what it consumes in the wear and tear on roads and public facilities; however, he said he has not heard that this industry has been a detriment to the infrastructure. Representative Kohring added that the industry does pay gas taxes, business license fees, vehicle registration fees, airport taxes, and other [taxes and fees] of that nature. He said he believes the industry has already made a sizeable contribution to the state. Representative Kohring summarized his comments by saying that he does not believe this is a prudent action at a time when encouraging economic development in the state and encouraging small businesses, which are the backbone of a good strong economy, is essential.

Number 1326

A roll call vote was taken. Representatives Moses, Gruenberg, Wilson, Weyhrauch, Heinze, Whitaker, and Hawker voted in favor of reporting CSHB 271, Version S, from committee. Representative Kohring voted against it. Therefore, CSHB 271(W&M) was reported out of the House Special Committee on Ways and Means by a vote of 7-1.

HJR 9-CONST AM: APPROPRIATION/SPENDING LIMIT

Number 1420

CO-CHAIR WHITAKER announced that the next order of business would be HOUSE JOINT RESOLUTION NO. 9, Proposing amendments to the Constitution of the State of Alaska relating to an appropriation limit and a spending limit.

CO-CHAIR WHITAKER determined that no one in the room or on-line wanted to testify.

CO-CHAIR WHITAKER noted for the record that Representative Gruenberg had joined the meeting.

Number 1444

CO-CHAIR HAWKER commented that since the committee last discussed HJR 9, he has had many conversations about the structure of the resolution. He said that if this resolution results in a constitutional amendment, it will be one of the legislature's most significant accomplishments. The [Alaska] Constitution is truly the backbone of the way the state operates. The budget is how the government satisfies the needs and priorities of the people of Alaska.

CO-CHAIR HAWKER pointed out that the original version of HJR 9 was particularly restrictive. It provided a flat basis for all future appropriations with no escalating provision. Each year, the legislature could raise the amount spent over the base year by 2 percent with a three-quarters vote of the legislature. But then, the next year the legislature would have to go back to the base line and perhaps could increase it 2 percent that year. Under the [original] HJR 9 the legislature could have a 2 percent increase over a base year. The base year would be the current budget, which would be in effect for the next 10 years. Given the inflationary pressures and the desire for economic growth, the original resolution might be too constrictive to maintain a budget, even at the current level.

Number 1710

CO-CHAIR HAWKER added that he will not offer specific changes today, but that he and others have considered various means of making HJR 9 more flexible as it caps expenditures. He suggested the committee consider some increments such as: 1 percent increase with a simple majority vote, an additional 2 percent with a two-thirds vote, and perhaps an another 2 percent increase with a three-quarters vote, for a potential total increase of five percent. A three-quarters vote is a huge hurdle, he acknowledged. The stair step concept would retain a very rigid commitment to the people to control expenditures, but it would allow for a reasonable growth of government, particularly in response to things the legislature does not always control. For example, the education budget is formula driven, and the legislature does not have the ability to cut 15 percent across the board. That would not be good policy, he stated. There are other formula programs, such as Medicaid, that the legislature wants to constrain, but it is a billion dollars, and the state has no control over it. He concluded his comments by encouraging the committee to add flexibility to HJR 9 or whatever mechanism is used.

Number 1910

CO-CHAIR WHITAKER noted there will be public testimony on HJR 9 tomorrow and next week. With the support of the majority of the members, he said he intends to move HJR 9 out of committee next week. He invited interested people to bring their concerns and comments forward.

Number 2006

REPRESENTATIVE GRUENBERG stated that for government to function, there must be sufficient flexibility in a spending limit; he said legislators cannot begin to know what will happen [in the future].

[HJR 9 was held in committee.]

HJR 26-CONST. AM: PF APROPOS/INFLATION-PROOFING

Number 2110

CO-CHAIR WHITAKER announced that the final order of business would be HOUSE JOINT RESOLUTION NO. 26, Proposing amendments to the Constitution of the State of Alaska relating to and limiting appropriations from and inflation-proofing the Alaska permanent fund by establishing a percent of market value spending limit.

Number 2118

ARLISS STURGULEWSKI, Trustee, University of Alaska Foundation, congratulated the legislature on having established the House Special Committee on Ways and Means. She told the members that she is very supportive of the constitutional amendment [HJR 26]. There are a number of reasons she believes this is important, she said, but the most important is that it offers stability in year-to-year amounts that are available [for appropriation]. This constitutional amendment would provide some stability in planning, she said.

MS. STURGULEWSKI explained that she serves as a trustee on the University of Alaska Foundation which was formed primarily for scholarships for students. She explained that [the University of Alaska Foundation] uses methods similar to that proposed by this constitutional amendment as do large endowment foundations across the country; this method is a very standard approach.

MS. STURGULEWSKI told the members that when she was in the legislature she carried the bill which inflation proofed the [Permanent] Fund principal, not the earnings reserves. She said

that this constitutional amendment would pull together both. Over time the markets do go up and down and this would assure a steady, real rate of return for the fund and that will protect it. Ms. Sturgulewski summarized her comments by saying that she believes this is an excellent method of protecting the fund, and she will personally commit herself to working to pass this constitutional amendment.

Number 2411

MARY GRISWOLD, testified in support of the proposed constitutional amendment [HJR 26]. She read the following testimony into the record:

I am an enthusiastic supporter of a 5 POMV payout because it constitutionally inflation-proofs the entire permanent fund. Right now, only the principal is inflation-proofed, and that is done by statute, not through the constitution, and only after the dividend program is funded.

The second reason I support 5 POMV is that it sets a spending limit. Under the current distribution methodology, the legislature may appropriate the entire earnings reserve account. Five POMV forces us to resist the temptation to appropriate too much money when the fund is flush, yet makes distributions available in lean years.

Number 2550

Third, an annual payout based on market value is compatible with the fund's diversified portfolio that is managed, in conformance to industry standards, for long-term value over short-term gain. The current distribution method, based on income, was appropriate 20 years ago when the fund was invested primarily in bonds. A 5 percent payout is generally recognized by large fund managers as the highest sustainable payout, beyond which the real value of the fund would diminish over time. This straightforward approach protects the value of the fund and provides a limited, predictable, and sustainable revenue stream.

The permanent fund trustees combined the fund's principal and income in one pot of money to make 5 POMV work effectively. Segregating the principal

interferes with value-management goals by exerting pressure to produce short-term income for dividends or other distributions during periods of poor performance. Segregating the principal also tempts the legislature to provide for a greater than 5 percent payout when the earnings reserve account is flush, as in HJR 1. This is just what POMV is designed to avoid.

How the legislature chooses to divide the payout is an important question. The APFC [Alaska Permanent Fund Corporation] takes no position on the use of the payout. Five POMV is a management tool, not a distribution plan. However, the two are intrinsically linked. The use of the payout should not be set in the constitution because this is an appropriation issue better left to the legislative process. However, the statutes relating to permanent fund income and income distribution must be amended to conform to 5 POMV. I urge you to preserve the current dividend formula when you change these statutes. Five POMV is too valuable to the permanent fund to risk voter rejection by threatening their dividend checks.

Number 2670

For modeling purposes, we assume an 8 percent total return, 3 percent inflation, and 5 percent real return. Under existing statutes, 50 percent of the income available for distribution, or 4 percent, goes to the dividend program. Inflation proofing then takes 3 percent, leaving 1 percent for the other legislative appropriation, which has never been touched. For this distribution to work under POMV, 80 percent of the 5 percent payout must be allocated to the dividend program to provide the same 4 percent. Inflation-proofing of 3 percent has already been accounted for by establishing a 5 percent payout limit, leaving 20 percent of the payout for other legislative appropriation, which is the same as the 1 percent under the existing distribution statutes. Fifty percent of the money available for distribution after inflation proofing cannot provide the same amount for dividends as 50 percent of the money available for distribution before inflation-proofing.

It is time to move forward on a fiscal plan. This constitutional amendment combined with a change to the statutes securing 80 percent of the annual payout for dividends is critical first step. Please promote a comprehensive package the voters will accept. It is a three-way win. The permanent fund gets a better management framework, the legislature gets a predictable revenue stream, and the people keep their dividend formula. [original punctuation provided]

Number 2747

REPRESENTATIVE GRUENBERG asked Ms. Griswold whom she represents, and if she would provide the members with a written copy of her testimony.

MS. GRISWOLD stated that she is representing only herself. A copy of her written testimony has been provided to the committee.

Number 2819

EDWARD MARTIN, SR., testified in opposition to HJR 26. He told the members that he believes [HJR 26] is a poor way to manage the fund. The state legislature has a very large financial management problem and so does the Permanent Fund Corporation Board of Trustees, he said. They have to use the "so-called" prudent man rule. They have invested 99 percent of the fund outside of our borders which has produced about [\$6 billion]. The sad part [of this policy] is that the [trustees] are continuing the same policy [of investing outside Alaska] while recommending this legislation which takes more from the people of Alaska and lets government have more to waste. He asked the members to remember that the money has no value to Alaska citizens without its use. He told the members that there will be a heavy political price paid when the citizen rule is applied at the ballot box. This legislation does not benefit the citizens of Alaska, only special interests, and the people are not buying it, he warned.

Number 3112

JAMES PRICE, testified in opposition to HJR 26. He told the members he believes that this resolution brings the state one step closer to using the dividend earnings and perhaps the principal to fund the operation of state government. Mr. Price said that he thinks the legislature should find a solution to

the deficient problem before changing any provisions of the Permanent Fund. He said he would like to see the dividend program off the table with respect to legislative appropriations. He said he does not believe this legislation will solve the problem, but will perpetuate it. Mr. Price summarized his comments by saying he opposes HJR 26 and the appropriation of any of the earnings for the funding of state government.

Number 3309

LAURIE CHURCHILL, testified in opposition HJR 26. She told the members that she does not believe there should be a change in the [Alaska] Constitution without a vote of the people. She said she believes there is a serious spending problem with a bloated budget and it needs to be cut drastically. Ms. Churchill noted that many of the legislators who are serving made campaign promises to their constituents that they would leave the PFD [Permanent Fund dividend] alone. This [resolution] is a violation of the constituents' trust.

Number 3429

CO-CHAIR WHITAKER clarified that what is being discussed is a proposed constitutional amendment [HJR 26] which, if passed by the legislature, would require a vote of the people in 2004.

Number 3450

PETRIA FALKENBERG, testified in opposition to HJR 26. She told the members that she is opposed to the resolution because most candidates elected in 2002 promised not to touch the Permanent Fund. She asked if the members were listening to the 83 percent of Alaskan voters. Ms. Falkenberg said she believes that the major problem lies with overspending. She said she does not believe the Permanent Fund should be a source of funding to run the government. She said she opposes the legislature's coming through the back door to rob the PFD with bills of this nature.

Number 3633

REPRESENTATIVE WILSON explained to those individuals who testified and those who are listening that the members have been advised that it is possible that the PFD could disappear at various times; however, with this resolution in place it would be a more stable and more assured dividend for the people of the state.

CO-CHAIR WHITAKER announced that there will be public testimony taken tomorrow, Tuesday, and Wednesday on HJR 9 and HJR 26.

[HJR 9 and HJR 26 were held over.]

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 7:50 a.m.