

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

May 6, 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 Dan Ogg
Representative Paul Seaton
Representative John Harris

COMMITTEE CALENDAR

HOUSE BILL NO. 298

"An Act relating to the distribution of appropriations from the Alaska permanent fund under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming amendments; and providing for an effective date."

- HEARD AND HELD

HOUSE BILL NO. 293

"An Act levying and collecting a state sales and use tax; and providing for an effective date."

- HEARD AND HELD

PREVIOUS ACTION

BILL: HB 298

SHORT TITLE: DISTRIBUTIONS OF APPROPS FROM PERM FUND
SPONSOR(S): WAYS & MEANS

Jrn-Date	Jrn-Page		Action
05/05/03	1318	(H)	READ THE FIRST TIME - REFERRALS
05/05/03	1318	(H)	W&M, FIN
05/05/03	1318	(H)	REFERRED TO WAYS & MEANS
05/06/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

BILL: HB 293

SHORT TITLE: STATE SALES AND USE TAX
SPONSOR(S): WAYS & MEANS

Jrn-Date	Jrn-Page		Action
04/30/03	1202	(H)	READ THE FIRST TIME - REFERRALS
04/30/03	1202	(H)	W&M, FIN
04/30/03	1202	(H)	REFERRED TO WAYS & MEANS
05/01/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/01/03		(H)	Heard & Held -- Teleconference -- MINUTE(W&M)
05/06/03		(H)	W&M AT 7:00 AM HOUSE FINANCE 519

WITNESS REGISTER

ROD SWOPE, Manager
City and Borough of Juneau
Juneau, Alaska

POSITION STATEMENT: Expressed concerns with HB 293.

DON ANDERSON

Anchorage, Alaska

POSITION STATEMENT: His testimony in support of a state sales tax was read by his wife, Dana Anderson, during the hearing on HB 293.

LINDA FREED, Manager
City of Kodiak
Kodiak, Alaska

POSITION STATEMENT: Expressed concerns with HB 293.

ROY ECKERT, Manager
Ketchikan Gateway Borough
Ketchikan, Alaska

POSITION STATEMENT: During the hearing on HB 293, opposed a statewide sales tax.

RAY McCARTHY
Wasilla, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified that the state has no right to supercede the local communities that already have a sales tax in place.

TOM BOEDEKER, Manager
City of Soldotna
Soldotna, Alaska

POSITION STATEMENT: Expressed concern with the structure of HB 293 as well as a number of logistical and policy questions

ANDY HARRINGTON
Fairbanks, Alaska

POSITION STATEMENT: Testified that he would reluctantly support the statewide sales tax because he views it as the lesser of two evils.

GEORGE BRIGGS, Director
Dillingham Chamber of Commerce
Dillingham, Alaska

POSITION STATEMENT: During the hearing on HB 293, announced that the Dillingham Chamber of Commerce doesn't support a [state] sales tax.

MICHAEL CATSI, Member
Skagway City Council
Skagway, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified that the City of Skagway shares the same concerns about a state sales tax as other cities and boroughs.

JOE GRIFFITH, President
Commonwealth North
Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified that a [state] sales tax is one part of a long-range fiscal plan.

PAT HOLMES

Kodiak, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified that he is opposed to the sales tax proposal.

BOB WEINSTEIN, Mayor

City of Ketchikan

Ketchikan, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

MARCI SCHMIDT

(No address provided)

POSITION STATEMENT: Expressed concerns with HB 293.

LARRY SEMMONS, Finance Director

City of Kenai

Kenai, Alaska

POSITION STATEMENT: During the hearing on HB 293, expressed concerns with regard to the creation of differential tax rates.

JON BOLLING, Administrator

City of Craig

Craig, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

DR. BOB JOHNSON

Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

ROGER JENKINS

Nikolai, Alaska

POSITION STATEMENT: During the hearing on HB 293, suggested the review of a wholesale tax.

JACK SHAY, Member

Borough Assembly

Ketchikan Gateway Borough

Ketchikan, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified in opposition to a [state] sales tax.

JED WHITTAKER

Anchorage, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified in opposition to a [state] sales tax.

MIKE MILLIGAN, former assemblyman

Kodiak Island Borough
Kodiak, Alaska

POSITION STATEMENT: During the hearing on HB 293, testified that a flat income tax is the best option.

DOUG WARD, President
Ketchikan Chamber of Commerce
Ward Cove, Alaska

POSITION STATEMENT: During the hearing on HB 293, expressed concerns with regard to regional issues related to the proposed sales tax.

ACTION NARRATIVE

TAPE 03-22, SIDE A
Number 0001

CO-CHAIR JIM WHITAKER called the House Special Committee on Ways and Means meeting to order at 7:10 a.m. Representatives Hawker, Whitaker, Heinze, Kohring, Weyhrauch, Wilson, Gruenberg, and Moses were present at the call to order. Representatives Seaton, Ogg, and Harris were also present.

HB 298-DISTRIBUTIONS OF APPROPS FROM PERM FUND

CO-CHAIR WHITAKER announced that before the committee is HOUSE BILL NO. 298, "An Act relating to the distribution of appropriations from the Alaska permanent fund under art. IX, sec. 15(b), Constitution of the State of Alaska, and making conforming amendments; and providing for an effective date."

CO-CHAIR WHITAKER informed the committee that HB 298 is statutory language relative to HJR 26, which is a constitutional amendment that will institute a percent of market value (POMV) methodology for the permanent fund. This resolution would, if passed by the legislature, be placed before the voters. If the resolution is approved by the voters, HB 298 will prescribe the distribution allocation of funds available.

CO-CHAIR HAWKER moved to adopt HB 298, Version 23-LS1075\A, as the working document. There being no objection, HB 298 was before the committee.

CO-CHAIR WHITAKER announced that HB 298 would be heard in the relatively near future.

[HB 298 was held over.]

HB 293-STATE SALES AND USE TAX

CO-CHAIR WHITAKER announced that the next order of business would be HOUSE BILL NO. 293, "An Act levying and collecting a state sales and use tax; and providing for an effective date."

Number 0447

ROD SWOPE, Manger, City and Borough of Juneau, highlighted that the citizens of Juneau have elected to fund the city's basic services through property taxes as well as a sales tax. Currently, about \$29 million is collected in property taxes and about an equivalent amount in sales tax. The City and Borough of Juneau (CBJ) has a 5 percent sales tax of which 1 percent is permanent, 3 percent is temporary and approved by the voters every five years, and 1 percent is voter-approved bonded indebtedness. The 3 percent funds such things as maintenance and improvements in the areas of roads, water, and sewer. Furthermore, the 3 percent funds youth activities. He noted that some of the 3 percent goes to the budget reserve and some of it supports miscellaneous government services. He explained that the bonded indebtedness goes toward a major project, such as a school or significant harbor improvement. At the time the bond is paid off and the project is completed, that 1 percent tax disappears. Mr. Swope noted that in the past the voters in Juneau have been willing to tax themselves to provide for the basic services. However, in recent years the votes for these taxes have been closer and therein lies part of the concern, he said. Mr. Swope predicted that it's going to be more difficult for voters to approve a 3 percent temporary tax when there is already an additional 3 percent mandatory tax by the state. With regard to the suggestion that if the 3 percent temporary tax isn't approved by the voters the property tax could be increased, Mr. Swope pointed out that CBJ has a cap on the property tax. The CBJ is close to the cap and anything exceeding the cap has to be approved by the voters. Mr. Swope said he believes it's fair to assume that if the voters aren't willing to approve a sales tax increase, then they aren't likely to approve a property tax increase. "So, therein lies the dilemma," he remarked. Furthermore, if the voters didn't approve the 3 percent temporary tax, it would be disastrous and CBJ couldn't function as a city and borough.

MR. SWOPE turned to exemptions and noted that CBJ has a large number of exemptions. From experience, Mr. Swope related that those exemptions were hard-fought and very contentious. In his view, exemptions are and should be a local decision. For example, health care services provided are [tax] exempt because the community believes health care services aren't a luxury. Similarly, CBJ grants a number of exemptions to seniors. Mr. Swope said that he didn't know if there is a way in which to construct HB 293 to address the case-by-case situations for each community. Furthermore, he related his belief that HB 293 would have a severe impact on business. He said he wasn't sure of the critical point at which the tax reaches the level at which there is a disincentive to purchase goods at that location. However, he guessed that 8 percent would be close to that point.

Number 1221

DON ANDERSON had his testimony read by his wife, Dana Anderson. She read his testimony as follows:

This is a statement in support of a state sales tax in preference to a state income tax. The headline in Monday's Anchorage Daily News (ADN) proclaimed, "Sales tax would fall hardest on the poor, experts say." This is false, but to see why we need to examine "expert" analyst with their simple-minded calculations go wrong. First, they confuse the incidence of a tax with its impact. For example, in the ADN article they claim the higher percentage of income paid by the poorer of the poor represents the impact of this tax. It does not. This is only the initial incidence of the tax and does not begin to trace its impact on all the players in our highly complex economy. In fact, the poor pay taxes on 123 percent of their income in the ADN example. Any change in the form or rate of taxation sets off a complex series of adjustments in the economy that are too elaborate to model. In short, unless we know how each person's situation changes with respect to jobs, work time, income, and retirement as well as taxation, we cannot claim that a sales tax impacts the poor more than an income tax. Only long-term empirical studies can provide any guidance. In fact, empirical evidence suggests just the opposite.

Second, income tax proponents ignore the effect on the economy. Taxation does not occur in isolation. Federal and state income and sales taxes affect where they live, where they set up business, who and how many they employ, when they work, when they retire, and a host of other economy-affecting decisions. A strong economy can employ a very high percentage of available workers. As an economy weakens as the result of increased inappropriate taxation, the marginal workers are often laid off first. Losing 100 percent of your income is a pretty high rate and it is visited not as the incidence of taxation for none is paid by the victim. Rather, it is the ugly impact of perverse incentives fostered [by] high or inappropriate taxation. A grim example of ignoring the effects of taxation is the federal government's continued use of "static scoring" to predict revenue changes when they change the tax rate. They continue to use this model in spite of the fact that it has been wrong every time it was applied to tax rates. For example, it is predicted a revenue loss when the capital gains rate is lower. They are now wrong eight for eight since 1913, and still failing. By comparison, the Alaska Legislature looks like descendants of Einstein. A little thought might show income tax proponents that their incentive schedule is all wrong. They are discouraging productive behavior. Long experience has shown that removing incentives for productive behavior make us all poorer, rich and poor alike. In their eagerness to flatten apparent income, they end up ... driving a steamroller over the poor.

Now let's examine the empirical results of comparisons between the growth in sales tax base and income tax base. There is a wealth of evidence from other states to demonstrate that growth is suppressed by any income tax. Evidence also demonstrates that an income tax reduces per capita income. Income ... adjusted per capita has increased 89 percent, since 1970, across the U.S. However, the eight states without an income tax, Alaska excluded, has increases averaging 96 percent compared to 81 in the eight highest tax states. Over a longer period, since 1948, income in zero income tax states grew faster than high tax states by 29 percent. High-income states, as a group,

have a (indisc.) per capita wage decline to 91 percent of the national average. Meanwhile, non income tax states have increased income from well below the national average. Nine states that recently implemented an income tax showed slower growth than other states. A (indisc.) comparison of states that are demographically similar shows that in each case an income state has less personal income growth than a no income tax state: Tennessee beats Kentucky; Texas beats Oklahoma; Florida beats California; New Hampshire beats Vermont; and South Dakota beats North Dakota. Forget the usual catch phrases of "regressive" or "progressive." These are merely advertising slogans dreamed up by income tax proponents to demonize other taxes. Look at the underlying reality, they have defined regressive to mean taxing people according to what they consume - what they take out of the economy for their own benefit. Progressive means taxing people according to the value of what they produce, what they do for other people. I'll take regressive tax any day; I want to encourage people to work, save, invest, and create wealth not punish them for their socially beneficial activity. Proponents of an income tax complain that the rich won't pay enough under the sales tax. (Indisc.) the sales tax system to be built to assuage someone's feelings of envy. I would prefer a solid plan to obtain revenue with the least expense, time waste, and economic damage. Someone who will accept an inferior tax because it punishes "the rich" must also accept my contempt. Remember, some people are looking at the incidence of an income tax rather than its impact. If modeled on the federal law, the incidence of the income tax is primarily on the upper half of the income earners - with this group paying about 95 percent of the tax. However, the impact of this tax is felt most strongly at lower incomes where it leads to higher unemployment. This and other attempts at shifting the wealth from more economically capable to less economically capable hands fail because the resulting damage for both groups. Jobs disappear when "the wealthy" are unable to invest and they often take their talents and depart to more tax hospitable climes. I've never been offered a job by a "poor" person.

Alaska legislators have done a fine job over the last decade in resisting the usual pressures to expand government to destructive levels. Their job would be more difficult with an income tax. The experience of other states shows that the eight highest income tax states spent 40 percent more per capita than the non income tax states. An Ohio University economist has calculated that personal [income] increases 3.6 percent for every 1 percent reduction in state tax burden. I suspect the converse is also true. An economical government is the best hope for most citizens as taxes damage the economy, in particularly the least capable. The empirical evidence from other states shows that this damage is accentuated by using an income tax rather than a retail sales tax.

Number 2149

LINDA FREED, Manager, City of Kodiak, related that the City of Kodiak is very concerned with regard to the implementation of a statewide sales tax. Ms. Freed said that she wanted to echo all the comments of Mr. Swope because most of his examples are also applicable to the City of Kodiak. She explained that municipalities around the state are built on sales tax and property tax. Depending upon the year, the City of Kodiak, which has a 6 percent sales tax, brings in between 70-80 percent of its general fund revenue by the sales tax. The City of Kodiak's property tax is quite small in order to allow the Kodiak Island Borough to bring a larger portion of its revenue from property tax and to pay for the school education system in the region. With the reduced state funding for municipalities, Kodiak can't afford to reduce the income and revenue it receives from sales tax. She informed the committee that from the sales tax the City of Kodiak funds \$1 million for ports and harbors every year; \$900,000 for capital improvements to roads, and \$100,000 for capital activities with parks and recreations. The balance of the sales tax funding pays for all the other municipal functions, specifically police, fire, and ambulance. In fact, the [city sales tax] subsidizes the community jail that [the city] contracted to operate on behalf of the state.

MS. FREED related the belief that the implementation of a statewide sales tax will reduce revenue to the City of Kodiak in two ways. One, people will shop elsewhere. The current legislation doesn't include a cap on the amount of tax people would have to pay, which is a feature of the City of Kodiak's

sales tax. The aforementioned was done purposefully in order to encourage shopping in the community. Second, the city will lose significant revenue through the implementation and enforcement of the sales tax on the state level. As Mr. Swope discussed, Kodiak has exemptions based on specific community need and desire. Furthermore, there is a \$500 cap on the sales tax. Ms. Freed informed the committee that the City of Kodiak anticipates that it could lose at least 20 percent of the city's sales tax with state administration attached. She emphasized that the City of Kodiak very aggressively enforces the sales tax. She expressed concern with the administration of a sales tax from Anchorage or Juneau because [the city officials] believe that many merchants won't pay the sales tax.

MS. FREED pointed out that the City of Kodiak has had a sales tax system in place for over 30 years. Ms. Freed related that if the legislature feels the absolute need to impose a state sales tax, then municipalities with functioning sales tax systems in place should be allowed to administer and enforce the sales tax in their community on behalf of the state.

Number 2534

ROY ECKERT, Manager, Ketchikan Gateway Borough, announced that the Ketchikan Gateway Borough is opposed to the state sales tax, particularly the administration and collection of the state sales tax by a state agency. He informed the committee that he has worked in municipal government for 26 years. He recalled that when he was the city manager in Orange Beach, Alabama, the city lobbied to get out from under the state collection of sales tax. The first year the city of Orange Beach collected its own sales and use tax, the revenue increased by 70 percent. Every city and county in the State of Alabama that started collecting their own sales and use taxes saw a minimum increase of 30 percent. Therefore, he said he believes the earlier estimate that a city would lose at least 20 percent of the taxes and revenues under state collection to be a conservative estimate.

MR. ECKERT expressed concern with the move toward the nationwide streamlined sales tax project. Twenty states are trying not to opt in. He read from a position paper as follows:

State level tax administration of all state and local sales and use taxes, businesses will no longer file tax returns with each local government within which it conducts business in a state. Each state will provide

a central point of administration for all state and local sales and use taxes in the distribution of the local taxes to the local governments. A state and its local governments will use common tax bases.

Therein lies a problem because he questioned who will know who is paying taxes as it will be an honor system for which there is no way to enforce it. This would especially be true in a tourist area. Other states have run into the problem that there couldn't be enough people to enforce and collect, and furthermore there would be no authority for the local governments to enforce this. Under the uniform audit procedures of the streamlined sales tax it specifies: "Sellers who participate in one of the certified streamlined sales tax system technology models will either not be audited or will have limited scope audits." Therefore, that will drastically decrease the sales and use taxes locally as well as statewide. He further quoted: "Depending on the technology model used, the states may conduct joint audits of large multi-state businesses." However, he questioned who in state government is going to do this [audit]. He related that last year at the State Revenue Officers Convention, Alabama's state comptroller admitted that by allowing the cities and counties to collect their own sales and use taxes and perform their own auditing, the State of Alabama has saved over \$1 billion in administrative costs as well as [eliminated] the need for over 1,500 state tax collector positions. He related another quote, "To reduce the financial burdens on sellers, states will assume responsibility for funding some of the technology models." Therefore, he hoped the State of Alaska would not get involved with this. He pointed out that the Streamlined Sales Tax model says, "The states are also participating in a joint business, government study of the cost of collection on sellers." However, Mr. Eckert submitted that such has already been done by other states that are opting out of the sales tax collection business by allowing local entities to collect and audit their own sales and use tax. Should this legislature go ahead with this, he requested that those cities and boroughs already collecting and auditing their sales and use taxes be allowed to continue. He concluded by urging the committee not to enter into this Streamlined Sales Tax project, but suggested that if the state does enter into this project the cities and boroughs should be allowed to collect and audit their own sales tax users.

Number 3136

RAY McCARTHY related his belief that the state doesn't have the right to supercede the local communities, approximately 97 communities, that already have a sales tax in place. The City of Wasilla has \$22 million in outstanding bonds, of which \$4.5 million is for road projects, \$5 million for water and sewer projects, and \$14.7 million for a multi-purpose sports complex. If Wasilla has to give up part of its sales tax, there is no way these bonds can be paid. Mr. McCarthy said he could see that [this statewide sales tax] could bankrupt some cities.

Number 3334

TOM BOEDEKER, Manager, City of Soldotna, informed the committee that he is also a former borough attorney for the Kenai Peninsula Borough, and therefore has been extensively involved in sales tax administration and enforcement. Mr. Boedeker expressed concern with the structure of HB 293 as well as a number of logistical and policy questions that he doesn't believe have been addressed nor is there time to address before the end of session. He noted that he hasn't had time to review this with the city council or provide adequate notice to meet with citizens on this matter. He questioned when local taxes would be remitted to the local government for their share. He asked if the aforementioned would happen in a timely fashion in order to avoid cash flow problems for the municipalities. This legislation proposes to go into effect next January, which is the middle of the fiscal year for a number of the communities. Mr. Boedeker echoed the comments questioning whether the state tax collection system would be as good as the local systems with which people in the community are familiar. Furthermore, small amounts [of unpaid sales tax] may not be worth pursuing at the state level, although it would be significant at the local level. Mr. Boedeker opined that the proposed staffing for this is totally inadequate to have a vigorous pursuit for collection.

MR. BOEDEKER said there are a number of other issues. For instance, the legislation proposes to tax out-of-state purchases in order to prevent people from going elsewhere. However, no mechanism is provided in the legislation. Mr. Boedeker surmised that there will be regulations and the complexity of those regulations would make it virtually impossible to adopt them by January. Mr. Boedeker questioned why sales by the state or federal government should be exempted, especially because that raises a question with medical services. In general, Mr. Boedeker related his belief that there should be a maximum transaction limit. For instance, in the City of Soldotna there

is a \$500 sale limit. Without this limitation, people would drive to Anchorage to purchase a vehicle because of the \$1,500 price difference. Mr. Boedeker said that there are serious questions that need to be weighed. He asked if the benefits to the state under this proposal would outweigh the detrimental impacts to the communities.

Number 3733

ANDY HARRINGTON remarked that he would reluctantly support the statewide sales tax because he views it as the lesser of two evils. He acknowledged that the incidence and impact of a sales tax falls on the backs of poor Alaskans. He further acknowledged that for those 20 percent of Alaskans who itemize an income tax would be preferable to a sales tax. Furthermore, a sales tax is going to make it even more difficult for the already [struggling] municipalities. Mr. Harrington related his preference for an income tax. He expressed the need to balance the tax on earnings and the tax on consumption. Given that municipalities in the state are allowed to tax consumption, he said he believes it makes sense for the state to tax earnings. However, without doing something the impact on the state's credit ratings will be disastrous. Therefore, he supported the [sales] tax, and with regard to the exemptions, he said they should be geared toward relieving the incidence and impact to the state's poor population. The exemptions should be geared to the needs-based criteria to the maximum extent possible.

Number 3951

GEORGE BRIGGS, Director, Dillingham Chamber of Commerce, announced that the Dillingham Chamber of Commerce doesn't support a [state] sales tax. Over the past few years, Dillingham has been hit hard economically and an implementation of a statewide sales tax would be a further burden. He informed the committee that Dillingham has a 6 percent sales tax in place, and therefore with an additional 3 percent people will start shopping elsewhere. This lose of revenue would possibly bankrupt several businesses in place. If the state chooses a sales tax, Mr. Briggs questioned whether cities such as Dillingham would receive a type of credit. "We feel it's necessary that in some form we have to recoup this money that would be leaving," he said. He indicated the need to exempt the state sales tax on items that are crucial in the economy, such as retail food sales and pharmaceuticals. He noted that the local sales tax is imposed on the retail food sales and

pharmaceuticals because those are the items that are the most purchased in the economy. Dillingham experiences a strong influx of seasonal people who purchase food [and other items] in large quantities, and therefore an additional sales tax may force them to shop elsewhere.

MR. BRIGGS turned to the collection of the tax and opined that the local government is a crucial player in the implementation of a statewide sales tax. Having the state administer and collect the tax leaves open many questions with regard to how fair a statewide sales tax would be.

Number 4254

MICHAEL CATSI, Member, Skagway City Council, said that the City of Skagway shares the same concerns about a state sales tax as does the City and Borough of Juneau, Ketchikan, Kodiak, Dillingham, and Soldotna.

JOE GRIFFITH, President, Commonwealth North, began by applauding the efforts to develop a fiscal plan. Clearly, one leg in the fiscal plan is a taxation plan, and therefore sales taxes have to be considered. Mr. Griffith said that there is a track record in this country that clearly supports the sales tax. He expressed the hope that a [long-range fiscal plan] will be in place that will satisfy the state's needs as well as those of the credit rating agencies.

Number 4518

PAT HOLMES informed the committee that he is opposed to the sales tax proposal. He related his belief that it was inappropriate to have dropped the state income tax because if it was maintained there probably would've been an endowment fund by now. He also related his belief that a sales tax is repressive, punitive, and has serious impacts on local economies. He mentioned that there are already places in the Aleutians where hamburger meat is \$5 per pound and with the implementation of a sales tax, those folks simply aren't going to purchase their food. Furthermore, there will be a serious impact on seniors and retired individuals because the sales tax will be placed on health care and medical services. Mr. Holmes said he strongly disfavored a graduated [tape ends]

TAPE 03-22, SIDE B

Number 4625

BOB WEINSTEIN, Mayor, City of Ketchikan, announced that on behalf of the City of Ketchikan he is speaking in opposition to HB 293. He echoed the concerns expressed by Mr. Swope. Mr. Weinstein recognized that the state faces a fiscal problem, but he pointed out that it should be addressed by a variety of tools. However, some communities like Ketchikan have fiscal problems and have less tools available to address them. In the last few years, this issue has become exacerbated as the state reduces its support to municipalities. Therefore, it's important for the communities to protect the few tools they do have to address the revenue situation. In Ketchikan most sales are subject to a 5.5 percent tax, which breaks down to 3.5 percent city and 2 percent borough. City residents have voted to pay for public safety, public works, and building improvements for the city-owned hospital. The city has chosen to have a number of exemptions for seniors, health care, and those portions of sales in excess of \$1,000. The proposed legislation doesn't have similar exemptions. He noted that the City of Ketchikan owns and operates the electric, water, and telephone utilities in Ketchikan, and the city has chosen to exempt such utility sales from the local sales tax. The proposed legislation does not, and therefore would represent a 3 percent rate increase for Ketchikan customers.

MR. WEINSTEIN related his understanding that the proposed use tax applies to all property acquired outside of the state for which a similar sales tax wasn't collected. Mr. Weinstein questioned who would know when someone purchases say, a shirt from Nordstrom and doesn't pay tax. Mr. Weinstein also related his understanding that by enacting a moratorium on taxation of Internet sales, the federal government has precluded states from taxing such sales regardless of the language in legislation such as HB 293. There can't be a direct or indirect sales tax such as the proposed use tax for Internet sales. With the proposed tax, citizens in Ketchikan would face an 8.5 percent tax and thus he predicted there would be a diversion of sales to outside the city and state. Mr. Weinstein concluded by expressing the need for an Alaskan solution to the fiscal gap rather than the implementation of a nationwide cookie cutter sales tax project approach. Mr. Weinstein said that if HB 293 is passed, he requested that there be an exemption for sales in communities with a population below 50,000.

Number 4247

MARCI SCHMIDT, a small business owner, informed the committee that the state sales tax would probably run her out of business. She related that her customers would probably go to Anchorage to shop because there isn't a [local] sales tax. Ms. Schmidt said that this [sales tax proposal] is not the way [to deal with Alaska's fiscal problems]. She said that this is merely taxation without proper representation because this should be placed before the voters in Alaska, which should be the case with any tax before it's implemented. Ms. Schmidt said that "we" are still waiting for the government to cut back on some of its spending.

Number 4148

LARRY SEMMONS, Finance Director, City of Kenai, echoed the concerns expressed by other municipalities. The City of Kenai has a 3 percent tax and the borough has a 2 percent tax, and therefore adding this proposed 3 percent state sales tax would bring the tax to 8 percent. The City of Kenai already has extreme revenue problems. One of the problems in the Kenai Peninsula Borough is differential tax rates; that is areas outside of the city are taxed at a 2 percent rate. Therefore, a 3 percent addition on the full amount of the sale will create differential tax zones throughout the state. He predicted that there won't be any automobile dealerships on the Kenai Peninsula if the tax is implemented as it is currently written because the incentive to drive to Anchorage would be great.

MR. SEMMONS recalled his 15 years with the collection side of the enforcement actions and related his view that the state is wildly optimistic in its administrative costs, as reflected in the fiscal notes. Mr. Semmons remarked that he is convinced there is a lack of understanding of what it will actually take to do a good job administering the sales tax. Mr. Semmons concluded by thanking the House for doing all the hard work.

Number 3908

JON BOLLING, Administrator, City of Craig, announced his opposition to HB 293. Like many communities, the City of Craig has tailored specific exemptions that he didn't believe could be accounted for in state legislation. Mr. Bolling pointed out that the state has revenue-generating options not available to municipalities and the state should place its primary focus on those powers. He noted that the City of Craig supports the

comments of other communities, especially those of Ms. Freed. He highlighted that other alternatives for the legislature can be found in HB 11 as well as the possibility of amending HB 293 such that it would exempt communities that already have a sales tax of at least 3 percent.

Number 3801

DR. BOB JOHNSON testified in opposition to HB 293 because he believes that a sales tax is a punitive tax, particularly when it's superimposed on taxes that already exist in a community for the reasons that many of the administrators have stated. He said that what bothers him the most is those in borderline income status who have trouble purchasing enough food at the present [tax levels]. Dr. Johnson opined that HB 293 should be put aside and a graduated income instituted because it is straightforward and fair.

Number 3617

ROGER JENKINS related his belief that a wholesale tax would be easier to collect. He recalled that when he was in Whittier there was a sales tax and about half of those in business automatically paid their sales tax while the other half [did not]. This proposal would increase the costs in a city like Nikolai. He noted his preference for a lottery.

Number 3401

JACK SHAY, Member, Borough Assembly, Ketchikan Gateway Borough, reiterated earlier opposition to a sales tax. Mr. Shay stated that Ketchikan is in fiscal difficulty and this proposal would create an additional burden. At a recent meeting of the board of directors and the Alaska Conference of Mayors, there was discussion of the sales tax and a revenue tax similar to the former employment tax. During that discussion, there was a suggestion to exempt the person who pays the use tax from the statewide sales tax. Therefore, it would stand the constitutional test of equal protection under the privileges and immunities clause of the constitution. Furthermore, there would be the opportunity to exempt almost all Alaskan citizens who pay the employment tax. The employment tax seems to be a source of revenue that would impact everyone equally and would eliminate the need to review a seasonal sales tax.

Number 3059

JED WHITTAKER pointed out that the War on Iraq is costing the U.S. \$70 billion, which is approximately the total budget shortfall of all 50 states. He said, "It's a question of prioritizing our resources and using them appropriately." Having said that, Mr. Whittaker noted his opposition to a [state] sales tax, which he characterized as regressive. He said it is inappropriate for the legislature to meet behind closed doors and bring this up at the last minute with little time for public comment. Mr. Whittaker urged the committee not to support [HB 293] because there are other alternatives, such as the economic limit factor on the oil companies and adjusting the oil pipeline tariff rates. Mr. Whittaker reminded the committee that the legislators are present to represent the people of the state not the oil companies.

Number 2845

MIKE MILLIGAN, former assemblyman, Kodiak Island Borough, remarked that [HB 293] is the worst idea that has come out of Juneau in the last decade. Mr. Milligan commented that this proposal, the permanent dividend, the Patriot Act, and the No Child Left Behind Act all tend to be questions of power and who is best at administering that power. A sales tax is best administrated by local government. Mr. Milligan said, "What this issue for me is really about isn't so much that the state needs revenues as much as Fairbanks and Anchorage don't have the guts to institute a sales tax." He highlighted that there are 90 communities in Alaska that have chosen a sales tax as a method of generating revenue and those revenues are tailored under Title 29 in order to meet the local needs. For example, in Kodiak there is a \$500 cap which allows car dealers in Kodiak to remain viable.

MR. MILLIGAN recalled 1974 when he worked on the pipeline and lived in Fairbanks. He recalled that people from all over the world came to Alaska because of the recession in the Lower 48. If the Arctic National Wildlife Refuge (ANWR) is developed, he predicted that the checks would be sent to Juneau - the money isn't going to be collected locally. He recalled his time on the borough assembly when a former city manager of Fairbanks in the 1970s was working as a lobbyist for the assembly. This lobbyist claimed that in 1974, when Fairbanks was at its height, the city had \$25 million in extra revenue. Fairbanks chose to get rid of its sales tax and Anchorage has chosen not to have a sales tax. Again, if ANWR is developed and there is a boom

economy in Alaska while there is a recession in the Lower 48, a statewide sales tax will mean that the money is sent to Juneau. Mr. Milligan emphasized his belief that the best idea is a flat income tax.

Number 2412

DOUG WARD, President, Ketchikan Chamber of Commerce, said he would like to highlight some of the regional complications that the committee might not be fully aware. For Ketchikan, the next closest shopping area is Puget Sound. With the additional 3 percent proposed under HB 293, the 8.5 percent total tax begins to approach the cost of shipping goods from Puget Sound to Ketchikan, particularly with large ticket items. In 1996 a Puget Sound Chamber of Commerce study found that Alaska represented a \$7 billion export value to Puget Sound. Therefore, he said he believes an additional 3 percent would contribute to that shopping outside.

CO-CHAIR WHITAKER announced that testimony on HB 293 would continue tomorrow. Therefore, HB 293 was held over.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 8:23 a.m.