

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

May 7, 2003

7:10 a.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Mike Hawker, Co-Chair
Representative Cheryll Heinze
Representative Norman Rokeberg

OTHER LEGISLATORS PRESENT

Representative Paul Seaton
Representative Dan Ogg
Representative Kelly Wolf
Representative Sharon Cissna

COMMITTEE CALENDAR

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 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

05/01/03	(H)	519 Heard & Held -- Teleconference -- MINUTE(W&M)
05/06/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519
05/06/03	(H)	Heard & Held MINUTE(W&M)
05/07/03	(H)	W&M AT 7:00 AM HOUSE FINANCE 519

WITNESS REGISTER

WALLY JOHNSON
Kodiak, Alaska
POSITION STATEMENT: Testified in opposition to HB 293 and answered questions.

NELS ANDERSON, JR.
Dillingham, Alaska
POSITION STATEMENT: Testified in opposition to HB 293.

TOM HEALY, City Manager
City of Palmer
Palmer, Alaska
POSITION STATEMENT: Testified in opposition to HB 293.

JIM COOPER, Mayor
City of Palmer
Palmer, Alaska
POSITION STATEMENT: Testified in opposition to HB 293.

TIMOTHY JOYCE, Mayor
City of Cordova
Cordova, Alaska
POSITION STATEMENT: Testified in opposition to HB 293.

MICHAEL RASMUSSEN
Kodiak, Alaska
POSITION STATEMENT: Testified in opposition to HB 293.

JAKE JACOBSON
Kodiak, Alaska
POSITION STATEMENT: Testified in support of HB 293.

TOM MERRIMAN
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

RON PECK, President
Alaska Travel Industry Association
Anchorage, Alaska

POSITION STATEMENT: Testified in favor of HB 293.

KAREN ROGINA, Executive Vice President
Alaska Hotel and Lobbying Association
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 293.

JEFF JABUSCH, Acting City Manager
City of Wrangell
Wrangell, Alaska

POSITION STATEMENT: Testified on HB 293 and suggested changes.

DOROTHY ANDERSON
Dillingham, Alaska

POSITION STATEMENT: Testified on HB 293.

MICHAEL O'LEARY
Cordova, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

DEBORAH REFIOR, Owner
Kodiak Motors, Inc.
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

ANN KALCIC
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

JOHN BUTLER, Owner
John's Heating Service Company
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 293.

SCOTT BRANT BRANDT-ERICHSEN, Borough Attorney
Ketchikan Gateway Borough
Ketchikan, Alaska

POSITION STATEMENT: Testified on HB 293 and answered questions.

KEVIN RITCHIE, Executive Director
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Testified on HB 293.

ACTION NARRATIVE

TAPE 03-23, 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 Whitaker, Kohring, Weyhrauch, and Moses were present at the call to order. Representatives Wilson and Gruenberg arrived as the meeting was in progress. Representatives Seaton, Ogg, Wolf, and Cissna were also present.

HB 293-STATE SALES AND USE TAX

CO-CHAIR WHITAKER announced that the only 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 0114

WALLY JOHNSON testified in opposition to HB 293. He said in looking at the state's fiscal problems he agrees that the state does need more funds which can only come from the permanent fund, a sales tax, or an income tax. He shared his personal experience of being born in 1929, shortly before the Depression, and the traumatic situations [that those of his generation faced]. Mr. Johnson told the members that the Depression and war lasted until 1945 when World War II ended. He said he will never forget when his father cried because he was out of work with no money. Mr. Johnson spoke to the effect this [sales tax] will have on seniors. The longevity bonus is being taken away to save \$47 million; the tax burden will be raised by 8 percent; and there is no time or opportunity in a senior's lifetime to recover, he said. Mr. Johnson pointed out that in Kodiak individuals who are 65 years old or older do not have to pay sales tax; however, if this bill passes seniors will have to pay a sales tax on food, rent, services, and medicine. He told the committee he presently takes medicine for various conditions, and his wife was diagnosed with has cancer in 1999. His hearing and vision are slowly going, and there is not enough time for him to work to overcome [these proposed changes in the law]. Mr. Johnson summarized his comments by saying that this bill will be an economic disaster for seniors.

Number 0614

CO-CHAIR WHITAKER told Mr. Johnson that the current proposal before the committee is 3 percent, not 8 percent.

MR. JOHNSON responded that Kodiak resident now pay a 6 percent local tax. If the legislature puts a cap on the sales tax at 8 percent, the city will get 5 percent and the state will get 3 percent. Presently, since he is a senior, he does not have to pay a local sales tax. This proposed sales tax will mean that small communities will [die] and Alaska will consist of three large areas where all residents will live. This tax will lead to the destruction of the economic infrastructure in small communities. He suggested that the legislature use the permanent fund [to compensate for the fiscal gap].

Number 0859

REPRESENTATIVE OGG told the members that Mr. Johnson is the former mayor of the City of Kodiak and owner of a car dealership. He asked Mr. Johnson to speak to the impact of a sales tax on car dealers in outlying communities.

MR. JOHNSON replied that if an individual wanted to save money, he/she could go to Washington State and purchase a vehicle at a savings of about \$8,000. If the new tax were implemented, an individual buying a car in Kodiak would have to pay 8 percent; however, the tax in Anchorage would only be 3 percent. He added that there is a \$500 cap in Kodiak.

Number 1121

NELS ANDERSON, JR. testified in opposition to HB 293. He told the members that he is a former state Representative and Senator, who has watched Bristol Bay's vibrant economy deteriorate to an economic disaster. He said he cannot support a [statewide] sales tax because Bristol Bay and other small communities across the state cannot absorb new taxes. He explained that Dillingham already has a 6 percent sales tax while Anchorage has none. If this tax were to be fair, the new legislation should mandate all communities that have a population over 1,500 to adopt a sales tax, so that everybody pays a sales tax in the state.

MR. ANDERSON told the members that in addition to the 6 percent sales tax, he pays a personal property tax and boat launch tax. He related his belief that areas identified as an economic

disaster should be exempt from the [statewide] sales tax. He said Bristol Bay is doing everything it can to revitalize the salmon industry; however, it does not look like salmon prices will be very much higher than last year. Mr. Anderson said he does not see how it will be possible to diversify the economy while increasing the tax burden.

MR. ANDERSON suggested that the legislature perform a socio-economic impact study to see what the high cost of living is doing to rural Alaska. He said he believes [this sales tax] would vacate every village into a larger community. Another issue the legislature needs to look at is whether Anchorage, Fairbanks, and Juneau can absorb an additional 75,000-80,000 people moving in.

MR. ANDERSON said this particular tax hurts low-income people more than anyone else. It is especially hard on retirees or those who live on fixed incomes. He asked that the committee hold this legislation, conduct more hearings, and look for other sources of income. He pointed out that there is a great desire to give the oil and gas industry tax breaks when the state needs more revenue. He reiterated his hope that this committee holds this bill in committee because of the negative impact it will have on rural communities.

Number 1540

TOM HEALY, City Manager, City of Palmer, testified in opposition to HB 293 because the passage of this legislation will fundamentally change the ability of many local governments to control local sales tax revenues and municipal finances. For more than 90 local governments sales tax revenues are essential to the local governments' ability to provide basic services that have been impacted by state budget cuts.

MR. HEALY commented that there are serious concerns about the potential impacts of HB 293. Although he acknowledged that the state must look in that direction to bring its budget into balance, the state's administration of local sales taxes has the potential to decrease local tax revenue and knock the foundation out from under many local governments' finances. Mr. Healy pointed out that HB 293 will essentially repeal everything in the local sales ordinances except the local tax rate, and shift the administration of taxes to the state. He explained that their primary revenue source will be subject to absentee oversight, to rules on taxable sales or exemptions not of the community's choosing, and to payment schedules that could

seriously upset the city's cash flow. This will result in the loss of control that has sustained the community for a long time, he said. For years, sales tax, as granted by the state, has been in the local government domain and essentially free from state interference. Mr. Healy told the committee that local governments have crafted sales tax programs that work in their communities. He added that there are probably no two sales ordinances alike in Alaska. The City of Palmer's sales tax was established in 1951 and today the sales tax revenues are 55 percent of the general fund revenue. Mr. Healy explained that these revenues are very important to the city's budget and these finances could be easily upset by changes in exemptions under a statewide sales tax such as HB 293. For example, it has been suggested that grocery sales be exempted to reduce the burden on paying sales tax on essential items. However, the City of Palmer presently taxes grocery sales and if HB 293 is adopted and the legislature decides to exempt grocery sales from the sales tax, Palmer will lose one-quarter of its sales tax revenues or 12 percent of its entire general fund revenue. To replace those lost revenues, the City of Palmer would either have to raise its sales tax rate or increase its property tax mills from 3 mills to 7.5 mills. This is one example of the potential serious effects the sales tax would have on local finances by a relatively small change in this legislation, Mr. Healy said.

MR. HEALY agreed that there is no question that the state faces a serious budget imbalance, and to correct this will require fundamental changes in state fiscal policy on both the expense and revenue sides of the budget. However, it appears to be a questionable policy to adopt measures such as HB 293 that have a positive revenue result for the state, but a negative result for local governments. If the state is looking for more revenue, he suggested the legislature might look at potential revenue sources not used by local governments before venturing into the complexities of a sales tax. For example, other revenue sources might include a gasoline tax, an income tax, use of the permanent fund, taxes on natural resources, and user fees, he said. Mr. Healy summarized his comments by saying that if a statewide sales tax is inevitable, local governments must retain the ability to set their own rules to define taxable and exempt sales, and to monitor local tax collection. He told the member that a sales tax measure must not take away local control or local sales tax programs.

Number 2023

MAYOR COOPER, Mayor, City of Palmer, testified in opposition to HB 293. He told the members that nobody likes taxes; however, it is time that all Alaskans help shoulder this burden. He commented that there are as many opinions on sales and income taxes as there are people in the state. He urged the committee to deal with facts, not emotions; and emphasized that only communities that deal with sales taxes on a daily basis truly understand the impact sales taxes have on local municipalities. The way the bill is written creates more questions than answers. Mayor Cooper said that he hopes the legislature will work in partnership with local municipalities to create a solution to this problem.

Number 2153

REPRESENTATIVE GRUENBERG commented that the committee has listened to a lot of testimony around the state and will listen to a lot more. He said he appreciates Mayor Cooper's candor, honesty, and leadership, and asked him to take that message to constituents.

CO-CHAIR WHITAKER announced for the record that Representatives Gruenberg, Wilson, and Cissna had joined the committee.

Number 2229

TIMOTHY JOYCE, Mayor, City of Cordova, testified in opposition to HB 293. He told the committee that the city council unanimously passed a resolution opposing a statewide sales tax in Alaska. One reason for opposition is that a statewide sales tax would tax Cordova residents at a higher rate for the same goods and services than larger cities, such as Anchorage. Because the cost of those goods and services are much higher in Cordova an item that might cost \$2 in Anchorage could cost \$3 in Cordova resulting in one-third higher taxes for the same item. He added that if freight is taxed that cost will increase even more. Mayor Joyce told the committee that the proposed matching grant is not sufficient to cover the loss in revenue from the proposed 7 percent tax. He explained that every 1 percent of sales tax in Cordova generates over \$400,000 in revenue for the city. The current sales tax is 6 percent. This legislation will cost Cordova over \$800,000 in [lost] revenue, while only providing \$400,000 in community self-help matching grants. The self-help matching grant does not have a built-in inflation adjustment or economic development adjustment. He pointed out that as costs increase or economic activity increases, the tax collected will increase. However, the self-help matching grant

will remain fixed. The 7 percent tax limit will require that any increased revenue needs for the city must be replaced solely on the property owners in the form of increased property taxes. Mayor Joyce pointed out that right now the property tax rate is at 13.5 mils, and if this bill passes it would be necessary to raise the property tax to over 18 mils. A sales tax rate over 7 percent will stifle economic activity in Cordova as more residents will look to catalog purchases to avoid this tax or to lower tax areas such as Anchorage. He commented that the self-help matching grant will require more accounting staff time to provide the information required to receive the grant and no provision has been made to reimburse the city for that staff time.

MAYOR JOYCE advised the committee that the City of Cordova currently has a 6 percent sales tax and 6 percent surcharge on car rentals and temporary lodging. He said it appears that an amendment to HB 293 will require the repeal of sales tax surcharges on car rentals and temporary lodging which will again cause a painful reduction in city revenues. Cordova would lose the ability to stimulate economic activity to provide tax exemptions in specific areas of business. For example, Cordova limits its tax to the first \$2,500 of a single sale to avoid driving business to other areas. In closing, Mayor Joyce, encouraged the legislature to look for alternate ways to generate state revenue. He suggested applying the sales tax to cities with populations of over 15,000 people that have road access to the Alaska highway and exempt the rest of the state. He offered other suggestions such as a \$50 tax to every cruise ship passenger, a \$3 airport departure tax for every passenger leaving the state, or a state income tax. Mayor Joyce summarized his comments by saying that [a statewide] sales taxes will do more harm in rural areas than any other tax the legislature could suggest.

Number 2631

MICHAEL RASMUSSEN testified in opposition to HB 293. He said he agrees that the state has a revenue problem and that all people should pay; however, the problem with all people paying through the sales tax is that it is a discriminatory [tax] for individuals who have a different cost of living [such as those who live in small or rural communities]. He told the committee that he has lived in Kodiak for over 40 years and believes it will cause serious problems with local governments that already have sales taxes in place.

MR. RASMUSSEN told the members it is time to use the permanent fund, which was designed to be there for a rainy day. That day has come, he commented. Mr. Rasmussen said he believes that a lot of people pay a portion of their dividend to the IRS and if a portion of that dividend were taken, the IRS would get less and those funds would remain in Alaska.

MR. RASMUSSEN pointed out that the average Alaskans receives no benefit from cruise ship passengers. Last year there were over 780,000 individuals coming through the Inside Passage, a \$120 [head] tax [on tourists] would raise \$100 million annually. An annual school tax might be another way to raise funds, he commented. Mr. Rasmussen summarized his comments by saying that the statewide sales tax is a bad idea and suggested the members look elsewhere for revenue.

Number 3001

JAKE JACOBSEN testified in support of a sales tax. He commented that the precepts of equal rights and responsibility should be shared equally. However, the most popular taxes are those that are paid by others. He told the committee that he recently read that 45 percent of the United States' population pays no income tax. In 2000 only 242,000 Alaskans out of 600,000 paid any income tax at all. Mr. Jacobsen said he believes that taxes that fall on everyone equally will have better scrutiny and investigation by more people and the level of public participation in government would increase dramatically. Instead of an income tax, he said he favors a sales tax because it falls equally on 100 percent of the population. Personal or real property tax is an unfair tax, he opined. Mr. Jacobsen told the committee he favors exempting all prescription drugs, medical and dental care, basic foodstuffs, such as fresh fruits and vegetables, dairy products, meat and fish, and senior exemptions.

MR. JACOBSEN commented that the cost of administering a sales tax program would be minimal. He added that he also supports a lottery and an entry fee for every nonresident coming to Alaska. Mr. Jacobsen said that an Anchorage Daily News article said that [Alaska's] bond rating will go down without a sales tax which will have a negative impact [on the state's finances]. He expressed hope that the legislature is successful in implementing a statewide 3 percent sales tax. Mr. Jacobsen commented that he supports Mr. Anderson's suggestion that that communities that do not have a sales tax be mandated to have one to ensure that a statewide sales tax is equitable.

Number 3422

TOM MERRIMAN testified in opposition to HB 293. He told the members he has been a small business owner in Kodiak for over 20 years and one of the big concerns he has is the impact an additional tax will have on sales in struggling times. The fishing industry propels Kodiak's economy and it has been a tough situation for some time now, he commented. He opined that taxes should be on a level playing field; however, that does not seem to be happening. Because of Kodiak's existing tax, [an additional 3 percent sales tax is huge]. Mr. Merriman said that an increase will definitely drive sales off the island. He told the members that Kodiak is completely inundated with sales promotions from outside the area. Mr. Merriman asked the members to look at other sources [of revenue before implementing a statewide sales tax]. For example, there are a lot of people who work in Alaska, but do not pay any taxes, especially those who work on the North Slope. Cruise ships or fishing vessels that are ported outside of Alaska might be another source of revenue. Mr. Merriman urged the members to find ways to tighten up spending and look to other revenue-producing opportunities. He told the members that he believes the statewide sales tax is a bad idea.

Number 3731

RON PECK, President, Alaska Travel Industry Association (ATIA), testified in favor of HB 293. He told the members that the Alaska Travel Industry Association has a membership of 1,000 tourist and travel-related businesses in the state. Mr. Peck explained that 50 percent of these businesses are small businesses with 5 employees or less.

MR. PECK told the committee he would like to address some of the comments that have been made about the cruise ship industry and their contribution or lack there of. Presently, the Alaska Travel Industry Association has a contract with the State of Alaska and has an annualized budget of \$10 million, of which \$4 million is a contribution from the state and \$6 million is from private contributions. Of the \$6 million [from private contributions], \$2.5 million comes directly from contributions from the cruise industry and various marketing and advertising programs. In addition, the cruise industry pays a substantial amount of money for port and docking fees to various municipalities throughout the state. Mr. Peck emphasized that the [cruise ship industry] is a contributor. He recalled an

earlier statement that there were 780,000 visitors who came to Alaska through the cruise ship industry and said the number is closer to 720,000 people. He told the members that ATIA has been opposed to targeted taxes on the visitor industry. Any tax should be broad based, fair, and equitable for all sectors. Mr. Peck said the ATIA recognizes the fiscal challenges facing the state. Most of ATIA's marketing revenues are derived from its membership, he said, and imposition of any statewide sales tax should result in increased revenues to support the tourism-marketing program.

MR. PECK said that ATIA estimates that 30,000 people are employed in the tourism industry and of those, 78 percent are local hire. He told the committee that \$1.8 billion is contributed to the state's economy, and under HB 293 \$54 million in revenue will be generated directly from the visitor industry. He explained that if the legislature were to increase the funding to ATIA's private match program, then it would be able to drastically improve the size, scope, and impact of their marketing efforts. This would increase the number of visitors to Alaska, contribute to the health of small independent businesses, and employ more Alaskan residents.

MR. PECK read the following resolution passed by ATIA:

ALASKA TRAVEL INDUSTRY ASSOCIATION, INCORPORATED
BOARD OF DIRECTORS
RESOLUTION 03-6

WHEREAS, the Legislature has introduced HB 293, a statewide sales and user tax, to generate revenue for the general fund, and

WHEREAS, the intent of HB 293 appears to be a broad-based, fair and equitable revenue generating mechanism, and

WHEREAS, a substantial amount of the monies collected from this tax will come from visitors whose travel to Alaska is the result of marketing done by ATIA, and

WHEREAS, tourism is an important contributor to the overall economic vitality to the state of Alaska, having an excellent record of employing Alaska state residents as evidenced by a 78% local hire rate, and

WHEREAS, the Alaska Tourism Industry continues to decline due to a lack of sustainable funding for destination marketing, and

WHEREAS, ATIA has identified a long-stated need to increase its statewide tourism marketing efforts to reverse the decline in this vital economic engine for Alaska, and

WHEREAS, ATIA believes the funds generated from tourism businesses in Alaska should be appropriated annually to fund a long-term sustainable tourism-marketing program to reverse the decline and to grow Alaska's second largest private industry.

THEREFORE BE IT RESOLVED THAT the ATIA Board of Directors supports the intent of HB 293, provided that a significant portion of those revenues generated thereby shall be used to increase the states contribution to statewide tourism marketing efforts.
[original punctuation provided]

MR. PECK closed his comments by saying that tourists are accustomed to paying sales taxes, whether it's in Disneyland or Las Vegas.

Number 4318

KAREN ROGINA, Executive Vice President, Alaska Hotel and Lodging Association, testified in support of HB 293. She told the committee that the Alaska Hotel and Lodging Association represents over 80 percent of lodging rooms in Alaska and employs over 6,000 individuals. Ms. Rogina said the hospitality industry recognizes that the state is faced with economic challenges and that the lodging industry is a major contributor to state and local economies through taxation and fees. She pointed out that a big part of the industry includes hotels that are occupied by cruise ship travelers. The industry has long supported a broad-based taxation solution and believes that this solution must be linked to the sustainability of Alaska's tourism and hospitality industry. In this way the industry will continue to grow and contribute to the state's economy. In summary, Ms. Rogina said the industry supports HB 293 as long as a portion of the revenues generated is accompanied with a commensurate appropriation to tourism marketing.

Number 4518

JEFF JABUCH, Acting City Manager, City of Wrangell, testified in opposition to the statewide sales tax, and offered suggested revisions which would include a sales tax cap of 8 percent, [vehicle sales cap of \$5,000], and changes to the self-help grants. Mr. Jabuch read the following statement into the record:

Limiting the overall sales tax rate to 8 percent, with 3 percent going to the state, would cost the City of Wrangell between \$500,000 and \$535,000 per year or approximately 16 percent of our current general fund budget. The provision that may grant up to \$50 per capita to communities that are currently at 6 percent or higher would not come close to compensating the City of Wrangell for the lost revenue. Fifty percent per capita would generate \$107,200. The State of Alaska's history with that kind of wording does not give our city a lot of confidence. Senior exemptions are mandated and at one time the communities were reimbursed at 100 percent.

TAPE 03-23, SIDE B

[Due to technical difficulties part of Mr. Jabuch's testimony was not recorded.]

MR. JABUCH continued:

...from the State and the program costs us about \$150,000 per year or 15 percent of total property tax. This will be no different. Promise of community self-help matching grants are currently offered to make it acceptable for passage, but several years down the road it will not be fully funded and it will take the same path as the senior exemptions did.

If this amendment remains as it is written, it will essentially take 2 percent of Wrangell's current sales tax revenue and transfer it to the state. In addition, it limits the municipality in its ability to use sales taxes as a means to support local services. The self-help grant would put back about 20 percent of this if it is fully funded, but even with it we are losing most of the 2 percent. Wrangell has had a 7 percent sales tax since 1990. We have relied on that revenue and have tried to maintain our services based

on this revenue. This amendment would have a larger negative impact on Wrangell than any other community. We do not think this is a fair way to balance the state budget and strongly urge the state to rethink this amendment. Our proposal would be to cap it at 8 percent, but grandfather in current local sales tax levels rather than administering the self-help program. The state could take the difference between the existing sales tax and 8 percent. The cap of 8 percent, with 7 percent coming to the city and 1 percent to the state would be more tolerable. Alaska only has a handful of communities that have a 6 or 7 percent sales tax rate. The state would get 1 percent from Wrangell, 2 percent from the handful of other communities, and the full 3 percent from other communities. This isn't going to cost the state that much money and it will keep whole those communities that rely on these tax dollars to support local services. You may get some inequity or legal questions, but you are going to get these concerns no matter what you do.

We respectfully requested you consider either the above alternative or others that will leave communities whole and does not force communities to give portions of current sales tax revenues to the state. The self-help matching grants is not a solution to this problem. Making these communities whole is the only solution.

Number 4401

DOROTHY ANDERSON testified on HB 293. She told the committee that she represents only herself and pointed out that Dillingham currently has a 6 percent sales tax. She said with about a \$400 grocery cost per month her family pays about \$288 a year in sales tax; however, if [this legislation passes] residents would be paying a 9 percent sales tax which would bring the tax on groceries [for her family] to \$432 per year. She said she does not see that capping would be of any help, because Dillingham cannot afford to lose the 6 percent sales tax that is in place now. Ms. Anderson explained that the community added a 1 to 2 percent sales tax a couple of years ago to help the school district compensate for reduced state funding. She said she would support a sales tax on all communities [with populations] over 1,500. This tax should be exempted from communities that already pay a local sales tax.

MS. ANDERSON pointed out that communities that face fishing disasters, such as Dillingham, need to be exempted from any sales tax at this point. She urged the committee to look at reinstating the school tax. Forty years ago it was \$10 per year, she said, and thus she suggested making it \$100 per year.

Number 4226

MICHAEL O'LEARY testified in opposition to HB 293. He said he recognizes the state's fiscal crisis and agrees that all residents need to pay their fair share; however, the sales tax falls disproportionately hard on rural Alaska. The goods and services in rural Alaska cost sometimes 70 percent more than in Anchorage; therefore, the tax would be 70 percent higher on the same goods as those that are sold in Anchorage. Mr. O'Leary said that it is just not fair. The people in rural Alaska are struggling and they are the backbone of Alaska's economy. He pointed out that sales taxes do not hit all people equally; for instance, it does not hit the nonresident visitors or nonresident commercial fishermen, construction workers, or oil field workers in the way that it hits year round residents. Mr. O'Leary told the members that he lives and works in Western Alaska, and has seen how nonresident visitor and commercial fishermen come to Alaska and pay almost nothing. The loggers in Western Alaska bring vanloads of food and commercial fishermen do the same thing. He told the members that construction workers live in camps; they come up to Alaska, make a large income, and spend almost nothing here. He added that the same goes for oil workers. These large companies bring everything with them. Sometimes there are barge loads of stuff and [under this bill] they would not be paying any sales tax; whereas, a small family will have to pay a huge amount of sales tax. In closing, Mr. O'Leary said he recognizes that everyone needs to be paying his or her fair share, but a sales tax is not the fair way to go.

Number 4001

DEBORAH REFIOR, Owner, Kodiak Motors, Inc., testified in opposition to HB 293. She told the committee that she owns a local Ford agency in town and has lived in Kodiak for 24 years. Ms. Refior noted that the committee is planning on capping [sales tax on] vehicles at \$5,000. [If this bill passes] there will be a \$400 sales tax [which] would increase the cost [of purchasing a vehicle] such that it would be higher than any other area in Alaska. Ms. Refior pointed out that as fisheries

decline, the increased [sales tax] on individual families would be too much. She said she believes the legislature should be looking at the permanent fund as the first line of defense. Ms. Refior suggested the state work with the Internal Revenue Service in reducing the amount of permanent fund money which is paid to the federal government in taxes.

Number 3822

ANN KALCIC testified in opposition to HB 293. She told the committee that she has lived in Kodiak for 27 years and is an end user, which she explained means that she buys items that have been produced elsewhere. Ms. Kalcic told the members that she and her husband get income from rentals and a boat yard. She said that her husband is a Kodiak salmon fisherman. Currently, the City of Kodiak has a 6 percent sales tax with a cap of \$500, so there is a \$30 [tax] on every sale of goods and services supplied to their customers and on every item that they buy. The new bill will increase the tax an additional 3 percent. Unless there is a restructuring [of HB 293] there would not be a cap of \$500, the city would get 5 percent and the state would get 3 percent. With the exception of a \$5,000 state sales tax exemption for the purchase of a vehicle, an 8 percent sales tax would be charged across the board.

MS. KALCIC pointed out that 95 percent of her sales exceed \$500. She posed an example in which she and her husband sell their fishing boat for \$200,000. Under the current tax scheme they would pay a \$30 sales tax, but under this legislation they would have to pay \$16,000 at 8 percent. If they decided to stay in the fishery they would need to purchase a comparable boat which would cost at least \$650,000. It would be necessary to purchase it in Washington State because fiberglass boats are not made in Alaska. In Washington they would pay a 9 percent sales tax on \$650,000 or \$58,500 and because Alaska would have a state sales tax, they would no longer be exempt from Washington State's sales taxes. She also pointed out that when they register the new boat in Alaska they would pay Kodiak 5 percent and the State of Alaska 3 percent, so they would end up paying another \$52,000. Ms. Kalcic said she sees nothing in the bill that caps items that were purchased elsewhere. She reiterated that if there is no exemption in state sales taxes here, Alaskans would have to pay sales tax in Washington State. Ms. Kalcic gave other examples of the negative impact the sales tax would have on Kodiak fishermen. She told the members that a sales tax will not help her as a fisherman or end user. She asked the members

to please reconsider their revenue sources because a sales tax in the Bush is not a fair tax.

Number 3244

JOHN BUTLER, Owner, John's Heating Service Company, testified in opposition to HB 293. He told the committee he believes it is inevitable some sort of tax will be necessary, but if it is to be a sales tax he said he would like to see some changes to the bill. One suggested change would be to protect seniors and let the city administer or collect the funds. Letting the state collect the funds would hurt the City of Kodiak immensely, he said. Mr. Butler also suggested a tax cap, adding that a tax cap of \$5,000 is way too much [for local people to pay]. The end user is going to slow down for his business, as it will for many others. Customers will take a second look at [the added sales tax] and not make the purchases and thus it will hurt businesses and employees.

Number 3106

SCOTT BRANDT-ERICHSEN, Borough Attorney, Ketchikan Gateway Borough, testified on HB 293. He told the members that the City Manager from Palmer, as did the gentleman from Cordova, made some good points. Most of the municipalities in the state are generally opposed to a state sales tax, he said. Among the concerns of this legislation is the centralized collection [language] that allows for the state to be the entity responsible for all sales taxes. Mr. Brandt-Erichsen said that there is a great concern that [this system] will not be effective or efficient. With the current system there are complaints of businesses evading sales taxes by not reporting or hiding sales through evasive interaction with customers. If there is centralized collection, there is a great concern that there would be more of that going on. He said a secondary concern is the exemption. As was mentioned by a previous speaker, very few, if any, sales tax ordinances around the state are identical. Most have their own unique exemptions and limits on their sales tax, limits that are important to avoid sales leaving the community. Mr. Brandt-Erichsen commented that one exemption that is missing from HB 293 is medical services. It can be very complicated when getting into third party payees and Medicare paid services. He told the members that most communities find it easier to avoid that area. There is also concern with regard to the special taxes that some communities have; for example, hotel/motel taxes are sometimes used to subsidize the local visitors bureaus.

MR. BRANDT-ERICHSEN pointed out that the sales tax as compared to other forms of taxes, are not deductible from federal taxes, so it makes them less desirable. He asked whether there is an amendment to cap the sales tax at 8 percent. He said that is important for cities such as Ketchikan where there is currently a sales tax at 3.5 percent, the borough has a sales tax of 2 percent. A 3 percent state sales tax would make it a total of 8.5 percent. Mr. Brandt-Erichsen said he does not know who would not get .5 percent sales tax revenue between the city and borough if the cumulative total between the sales taxes exceed an 8 percent cap. He said he believes that is an important issue that should be addressed if a cap is considered. In summary, he suggested that if a sales tax is going to be done, one method that might be preferred is passing taxes on to visitors or third parties.

MR. BRANDT-ERICHSEN suggested that local individuals be allowed to acquire an exemption card on an annual basis for a fee of \$100 [for an individual] and a different rate for businesses. Anyone could buy an exemption card and not pay the 3 percent sales tax, he said. The benefit of this is that the state would get the revenue from the exemption card sales, and those entities, visitors, or individuals who do not participate with an exemption card would pay the sales tax. He opined that while it may be a little less than the 3 percent across the board [sales tax], it would still be a substantial contribution to the state's revenues.

Number 2609

REPRESENTATIVE GRUENBERG noted that Mr. Brandt-Erichsen and one other testifier suggested annual exemption cards. He asked Mr. Brandt-Erichsen how the state would prevent other people from channeling their sales to the person with the exemption card.

Number 2537

MR. BRANDT-ERICHSEN responded that the way the senior citizen exemption works in Ketchikan is that the merchant records and reports the exemption at the time of purchase. He said he believes the Costco concept could work, where an annual membership fee is paid and then the cardholder gets a discount. A swipe card could minimize the paperwork portion. He said the person would have to present a card with his/her picture and appropriate information to be exempt from the sales tax.

Number 2444

KEVIN RITCHIE, Executive Director, Alaska Municipal League, testified on HB 293. He thanked the members for their leadership in helping state [residents] understand that there is a very significant fiscal problem. He said that his understanding is that on July 1, 2005, the budget will have to reflect a serious drop in revenue. Mr. Ritchie told the committee that the Alaska Municipal League Board of Directors recognizes that as a very serious problem.

MR. RITCHIE told the members that the Alaska Municipal League was involved in the tax cap campaign that happened a couple of years ago. He said that when the campaign started 70 percent of Alaskans thought it was a good idea to cap property taxes. Given that there was an event, good information, and a large number of groups throughout the state that talked to the public and explained the kinds of impacts that would occur if [the cap on property taxes] happens, the final impact was that 70 percent of the people in Alaska thought it would not be a good idea.

MR. RITCHIE suggested that all major civic and business organizations be marshaled to talk to the public about impacts. If the administration and legislature were to make that call, there could be results with broad discussions on economics and impacts of different options. He said he is convinced that there will be significant negative impacts if nothing is done, and he is also convinced that Alaskans are better than anyone in the world at coming together during an emergency.

MR. RITCHIE called attention to the Alaska Municipal League's legislative priorities. The top priority for the last eight years has been to help the state adopt a long-range fiscal plan that would include, among other things, economic development. The Alaska Municipal League is working with the governor's office to setup a regional economic development strategy that will help communities recover from their current ills.

MR. RITCHIE told the members that when the Alaska Municipal League Board of Directors was in town, they passed a resolution supporting all of Governor Murkowski's revenue proposals so far, with the exception of the sales tax. This resolution recognizes the problem, and says the Alaska Municipal League will do anything to help. He pointed out that Mayor Cooper from Palmer is the new president of the Alaska Municipal League. Mr. Ritchie added that [Mayor Cooper] is representative of the board in terms of energy and commitment to carrying-on that

conversation and bringing in other partners to weigh in on the impacts and consequences [of the fiscal issues facing the state].

Number 2051

MR. RITCHIE commented that he was recently talking with a member of the constitutional convention who told him that historically the income tax, which was in place from 1948 to 1980, [addressed revenue needs] and even during times with significant state distress, the sales tax had always been left to municipal governments. The reason that has been the case is due to the complexities and significant differences between communities. Mr. Ritchie provided the members with some research that was done by the Alaska Municipal League in 1999. He added that it may not be necessarily accurate today, but it serves to show different exemptions that existed in different communities. He pointed out that the survey included 72 cities or two-thirds of the cities that have sales taxes; 22 out of the 72 cities have senior sales tax exemptions and 50 do not. If the state did not allow for a senior exemption in the sales tax program, 22 cities would have seniors that would go from paying nothing to paying a very significant sales tax; however, if the state were to allow senior exemptions, the rest of the cities would have a senior exemption and be out significant revenues. He told the members this is an important policy issue as far as having an overall one size fits all state plan. Furthermore, implementing it immediately would be a real problem for [local] economies. Mr. Ritchie told the members that there are a wide range of caps on sales taxes that were all well-thought out to address communities' concern for keeping as equal footing as possible for commerce to continue. He told the members that the Alaska Municipal League is at the legislature's disposal to assist in any way possible, and will work to bring facts and issues out, and offer a variety of options.

Number 1700

CO-CHAIR WHITAKER announced that is the conclusion of public testimony on HB 293.

[HB 293 was held in committee.]

ADJOURNMENT

The House Special Committee on Ways and Means meeting was recessed at 8:30 a.m. to a call of chair. [This meeting never reconvened.]