

**ALASKA STATE LEGISLATURE**  
**HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

February 25, 2004

7:00 a.m.

**MEMBERS PRESENT**

Representative Mike Hawker, Chair  
Representative Bruce Weyhrauch, Vice Chair  
Representative Vic Kohring  
Representative Dan Ogg  
Representative Norman Rokeberg  
Representative Ralph Samuels  
Representative Peggy Wilson  
Representative Max Gruenberg  
Representative Carl Moses

**MEMBERS ABSENT**

All members present

**OTHER LEGISLATORS PRESENT**

Representative Paul Seaton

**COMMITTEE CALENDAR**

HOUSE BILL NO. 493

"An Act relating to adoption and revision of a long-term fiscal plan for the State of Alaska."

**PREVIOUS COMMITTEE ACTION**

BILL: HB 493

SHORT TITLE: LONG TERM FISCAL PLAN

SPONSOR(S): REPRESENTATIVE(S) HARRIS

02/16/04	(H)	READ THE FIRST TIME - REFERRALS
02/16/04	(H)	W&M, FIN
02/25/04	(H)	W&M AT 7:00 AM HOUSE FINANCE 519

**WITNESS REGISTER**

DAVID TEAL, Director  
Legislative Finance Division  
Juneau, Alaska

POSITION STATEMENT: Provided comments during the discussion of HB 493 and answered questions.

DAN DICKINSON, Director  
Tax Division  
Department of Revenue (DOR)  
Anchorage, Alaska

POSITION STATEMENT: Provided comments during the discussion of HB 493 and answered questions.

**ACTION NARRATIVE**

**TAPE 04-7, SIDE A**

Number 0001

**CHAIR MIKE HAWKER** called the House Special Committee on Ways and Means meeting to order at 7:00 a.m. Representatives Hawker, Samuels, Kohring, Weyhrauch, Wilson, Gruenberg, Moses, and Ogg were present at the call to order. Representative Rokeberg arrived as the meeting was in progress.

HB 493-LONG TERM FISCAL PLAN

Number 0217

CHAIR HAWKER announced that the first order of business would be HOUSE BILL NO. 493, "An Act relating to adoption and revision of a long-term fiscal plan for the State of Alaska."

CHAIR HAWKER listed the documents in the committee members' packets. He spoke of a bar chart that showed three different scenarios projected last year by the Department of Revenue (DOR) comparing dividend splits of [percent of market value] (POMV) proceeds and the resulting consequence on the constitutional budget reserve fund (CBRF) balance. He said the graph depicting the budget at \$7.5 billion "in the hole" shows the reason behind needing a long-term fiscal plan.

Number 0334

REPRESENTATIVE WEYHRAUCH asked if the chart reflected any growth in the size of the CBRF, even if there is no additional appropriation and there are increases only through investment income.

CHAIR HAWKER said yes, there would be no additional investments. "The charts indicate a consistent budget deficit for the next few years without material additional revenues," he added.

Number 0408

REPRESENTATIVE OGG asked if it was possible to put more charts together to have a realistic picture that shows if government is kept at the size it is right now, what the cost would be [through FY 2012].

CHAIR HAWKER said that the committee is headed in the direction of Representative Ogg's suggestion. He noted that the second chart showed a 2 percent increase.

REPRESENTATIVE WEYHRAUCH related:

The out years, say 2010, when the amount of the CBRF falls below zero, realistically, it wouldn't show that sort of significant decline. What that's trying to reflect is the amount of money we would have to obtain from other sources, bonding, or taxes, or other revenues, in order to fill that margin between the negative and the zero.

CHAIR HAWKER agreed. "We are not constitutionally allowed to deficit spend," he said. He noted that when Representative Weyhrauch cross-referenced the year 2010, that was presuming \$300 million a year in additional revenues. He emphasized that [the charts] were benchmark models from last year's files.

CHAIR HAWKER announced the arrival of Representatives Gruenberg and Seaton.

Number 0616

REPRESENTATIVE WEYHRAUCH moved to adopt HB 493 for discussion purposes.

CHAIR HAWKER noted Version 23-LS1765\D [the original bill] was before the committee.

REPRESENTATIVE GRUENBERG, speaking as cosponsor, introduced HB 493 as a vehicle requiring the state to adopt, now, and in the future, a long-term, medium-range fiscal plan. He said it is a simple bill, favored by a large number of people, that provides a benchmark from which to work, a goal for which to strive, and

a series of road marks, missions, and measures in the fiscal area. He expressed surprise that there is no statutory requirement, already, to have a fiscal plan. He noted that future legislation can't be bound, but could be directed to [have a fiscal plan].

Number 0901

REPRESENTATIVE GRUENBERG explained that Section 1 adds provisions in the uncodified law because it is the statement of the current situation. The codified laws are titled "temporary and special acts," he noted. [Reading through Section 1], he pointed out on page 1, the disparity noted in paragraphs (1), (2), and (3). He said that paragraph (3) doesn't provide the only reason [to develop a fiscal plan], but does point out the urgency. In paragraph (4) he emphasized the words "balance" and "properly planned." He continued to read paragraph (5), and then added that a variety of tools will be needed to achieve a fiscal plan. He said the key in paragraph (5) is that the [fiscal] plan is "balanced and fair to all Alaskans."

REPRESENTATIVE GRUENBERG explained that Section 2 is a new section, entitled "Long-term fiscal plan." He said this public finance section would add a new provision to the Executive Budget Act, immediately after the statement of policy. He read subsection (a) and opined it was the most important part of the bill. He noted that five years seems like a reasonable period of time.

REPRESENTATIVE GRUENBERG read [Section 2, subsection (b)] and pointed out five points the legislative plan should consider. He defined "real economic growth" [in paragraph (1)] as a healthy, growing economy that provides business opportunities, jobs, and the means to support families and the necessary state services. He said "maintains a high quality of life" is probably the most important [point]. He said he did not intend environmental issues to be overlooked, but that the emphasis is on developing natural resources. He noted paragraph (2) sounds like the mission of the House Special Committee on Ways and Means. Representative Gruenberg explained that in paragraph (4), specific means to raise revenues were not noted and were purposely left for the legislature to decide. The language [in paragraph (5)] "prudent minimum balance in the fund" came from the Fairbanks Conference [Conference of Alaskans, February 10-12, 2004], he concluded.

Number 1702

REPRESENTATIVE OGG wondered if the intent of the bill implies that [the state] does not have a balanced budget and is not living within its means.

REPRESENTATIVE GRUENBERG opined that [the state] has a balanced budget in the sense that it is able to fund the appropriations each year, but, in the sense that money has to be drawn from the savings account, there is not a long-term balance because [that money] is going to run out.

REPRESENTATIVE OGG responded that in the last 10 years the legislature has made fairly frugal decisions with the incoming revenues, and has made choices about what to do with those revenues. Over this period of time, there has always been a balanced budget and excess revenues, he said.

REPRESENTATIVE GRUENBERG said the bill is intended to provide for a future set of goals.

REPRESENTATIVE OGG asked if that is the case, what would change at this time.

Number 1850

REPRESENTATIVE GRUENBERG replied that when he looks at whether the budget is balanced, "I'm looking at it, not just whether we have the ability to meet the bills in the current year, but what we're doing in the sense of providing for the future." He called the current situation a "period of transition"; cutting state services and reducing state spending which can't be done indefinitely. He said that Alaska has been traditionally dependant on resources, most notably oil, with a finite life. He stressed that, for stability, a long-term fiscal plan is needed.

Number 2009

REPRESENTATIVE OGG maintained that there was a plan, long before he was elected, which has allowed [the state] to come quite a ways. He said the money has been used in a variety of ways: for a permanent fund, inflation-proofing \$7 billion over a period of time, and for excess earnings available for the general fund. He said the budget is balanced, but that [the state] is looking down the road. He asked Representative Gruenberg what he thought should be changed.

REPRESENTATIVE GRUENBERG suggested producing a publicly debated plan so people in the state, and elsewhere, "would know where we're going and how we're going to get there."

Number 2210

CHAIR HAWKER asked Representative Gruenberg what his vision is for the work product.

REPRESENTATIVE GRUENBERG answered it could be any one of several things: a temporary or special act that would be in effect for five years, something permanent and amended as time went on, or a concurrent resolution. He said he has left it intentionally discretionary in the legislature. He added that Congress, each year, has an omnibus resolution that is passed early in the session, the amount [of money] is generally known, and then individual appropriation bills are worked on.

CHAIR HAWKER asked if Representative Gruenberg's vision interrelated to the missions and measures statutes, and if that might be the place to integrate it.

REPRESENTATIVE HAWKER answered that is possible, but the bill is more of an aspirational statement for the budgeting process. He said the missions and measures legislation reach down to the individual departments, but [HB 493] provides a macro approach. He agreed that the two go together.

Number 2524

REPRESENTATIVE SAMUELS referred to the findings in [Section 1] and said they suggest a significant disparity between available revenues. He stated that is incorrect because the legislature could appropriate the earnings of the permanent fund and there would be plenty of money. He asked if Representative Gruenberg is entertaining corrections or amendments.

REPRESENTATIVE GRUENBERG said he has no problem [accepting amendments] because [the bill] is simple a vehicle for [the legislature] to make policy statements. He said the intent is to keep [the bill] fairly neutral and broad-brushed so it does not become an advocacy statement.

Number 2704

REPRESENTATIVE WILSON said she is trying to envision what kind of process this bill would involve. She indicated that in other

states there are two strong standing committees, one that would do the appropriating, and the other that would look at the financial status of the state. She said in Alaska there is a strong finance committee that decides how the money will be spent. There is not a standing committee that looks at the finances of the state, the income, and makes adjustment decisions. She asked Representative Gruenberg if he is intending to make a change in the structure of the way things are currently run.

REPRESENTATIVE GRUENBERG said absolutely, and that he is glad Representative Wilson asked the question. He posited that the creation of the [House Special Committee on Ways and Means] is an extremely important step, and that there needs to be a standing ways and means committee to look at planning and ways to raise revenue. He said that over 30 states have such committees. He remarked that he has plans to draft a resolution which ensures continuance of the current committee as well as a second standing ways and means committee.

REPRESENTATIVE WILSON thanked Representative Gruenberg for his answer and stated that she has strong feeling about the issue.

Number 3033

REPRESENTATIVE OGG referred to page 2, line 11, and asked what the intention of "the means" is, and how it differs from the powers the legislature presently has.

REPRESENTATIVE GRUENBERG replied that it is within the legislature's powers and does not intend to give the legislature new powers. He said "the means" is policy, suggestions, legislation, appropriations, or anything that would assist the economy.

REPRESENTATIVE OGG paraphrased, "the plan must include the following: the means." He said his understanding of the means is "the authority" or "the power." He asked for further clarification.

REPRESENTATIVE GRUENBERG replied that he is leaving [the wording] intentionally vague. [The legislature] can pass statutes, appropriations, taxing legislation, interstate contracts, or any other traditional legislative tools, he said.

REPRESENTATIVE OGG responded that he heard Representative Gruenberg saying something different than his own understanding

of "the means." He said the legislature already has the power, or the means. He said he heard Representative Gruenberg say [the legislature should] go one step farther and "identify those tools and focus them on fostering a stable economy that encourages economic growth." He asked if the plan was to have the legislature address funds or direction to agencies to accomplish these goals.

Number 3354

REPRESENTATIVE GRUENBERG said that might be one way, but it is not only "direction to agencies." For example, it could be taxes or permanent fund dividends, which deal directly with the people themselves. He said it could also be a joint resolution or a request to Congress - anything that might be appropriate at the time.

CHAIR HAWKER suggested the word "means" might be replaced with the word "ways."

REPRESENTATIVE GRUENBERG said absolutely, he has no problem with any of the suggestions.

REPRESENTATIVE OGG agreed with Representative Hawker.

REPRESENTATIVE OGG asked for clarity on line 17, paragraph (3), where it says [paraphrasing], "policies that protect the principal of the Permanent Fund while using the earnings." He remarked that there presently is a mechanism in place that does exactly that. He requested a concrete explanation of what [those lines] mean.

Number 3611

REPRESENTATIVE GRUENBERG replied that these are the issues that the legislature should continue to examine. He did not mean to say, in every case, that the legislature's not doing them now. He said he is suggesting a formal and continuing process, not just an ad hoc process. He added he is not saying there has to be changes in any given example, or in the collective process.

REPRESENTATIVE OGG said he didn't find much "concrete" in Representative Gruenberg's answer, and remarked that the committee has been having this kind of discussion for the past year and a half. He said he didn't want to hear, "We have to keep working on that issue."

Number 3707

REPRESENTATIVE GRUENBERG responded, "That is the essence of the purpose of the bill." He said Representative Wilson pointed out one aspect of the bill, that there needs to be a committee structure that allows and encourages [work] to be done as part of the fiscal policy basis, the revenue raising basis, and looking at ways to stabilize and grow the state. He said the bill is not attempting to point a finger to say the legislature is doing things wrong at the present time, it is to ensure that the process continues in an established framework on a regular basis. He opined that subsection (a), page 2, lines 7-9, is the heart of the bill.

CHAIR HAWKER clarified procedures for the remainder of the meeting.

Number 3905

REPRESENTATIVE SEATON said the biggest question mark in the budget is the price of oil. He said he is trying to figure out how "fuzzier and fuzzier projections going out year after year for a 5-year oil projection gets us to a more finite fiscal plan."

REPRESENTATIVE GRUENBERG replied that the 5-year figure is only a suggestion, and he isn't wedded to it. He stated his own views on oil fluctuations and suggested more planning be done.

REPRESENTATIVE SEATON referred to the extreme fluctuations in oil price and said the range of the 5-year plan cannot be nebulous.

REPRESENTATIVE GRUENBERG agreed and listed other variables that could affect the plan.

CHAIR HAWKER pointed out that the next two speakers would be talking about those variables.

REPRESENTATIVE GRUENBERG thanked the committee for the discussion of the bill.

Number 4444

DAVID TEAL, Director, Legislative Finance Division, said that [revenue projection] models such as those from the Permanent Fund Division Department (PFDD), DOR, and Legislative Finance

Division, typically hold expenditures constant because they are hard to predict. He noted that there were unavoidable expenditures such as Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) cost increases at roughly \$34 million a year in general funds. He said such an increase was not a one-time occurrence, but occurs this year and for the next two years. After that the increase stops, but the expenditure stays, he added.

CHAIR HAWKER surmised that in three years it is a \$100 million increase that year.

MR. TEAL said yes, the increase remains from then on.

Number 4646

MR. TEAL explained that Medicaid is increasing, nationwide, approximately 15 percent per year. He said it was difficult to change how much the state spends on Medicaid, but the state has tried to contain costs and has lower rates than some states. He said Alaska can expect increases in the cost of Medicaid if it follows the national average, which would mean about \$40 million to \$50 million more a year.

CHAIR HAWKER remarked, "That's general funds [increase]."

MR. TEAL replied yes, but even if [the state] was lucky to hold the increase to one-third of the nationwide increase in Medicaid, it would still mean in excess of \$20 million a year in added costs.

**TAPE 04-7, SIDE B**

Number 4618

MR. TEAL discussed education funding and said it is a question of what [the legislature] wants to spend. It is known that PERS and TRS [increases] have affected education very strongly this year in the form of teacher layoffs. The school districts' cost increase is expected to be 5 percent over the next four years in a row. That would be about \$34-5 million, annually, up to \$100 million in three years, which remains from then on.

Number 4509

MR. TEAL explained that the cost for university spending, like education, asks the question, "How much do you want to spend?"

The university would like an increase of \$10-20 million to their budget.

MR. TEAL indicated that, "Those were the main drivers," and would increase [budget spending] to \$300 million over where it is now. He emphasized that [the expenses mentioned so far] do not address the non-formula portion of the budget, which is approximately \$1 billion in general funds. He said to keep up with inflation, "You're looking at another \$20-\$40 million annually."

Number 4406

MR. TEAL cautioned:

When you look at these graphs of the CBR end-of-year balance, and you see that even with POMV in place and the several-hundred million dollars a year that it would generate for state government, assuming that we got a 40 or 50 or 60 percent split, and built into this thing is a \$300-million tax of some sort, whether it is sales or income or any other source of revenue - it doesn't make any difference - there's \$300 million worth of revenue built into this chart, and there is no spending increase built into this chart. You can see that if you want to build in a spending increase, call it \$300 million, by 2008, and you take away the \$300 million in tax revenue that we haven't achieved, ... you can see that that surplus is gone.

MR. TEAL pointed out that in 2006 [in the 2003 hearings document], the bars are close together, but they rapidly spread apart. Change is based only on the dividend split and makes it difficult to see what the fiscal gap is. He emphasized the differences between the various dividend splits. That makes it difficult to add \$300 million of additional spending to this chart, he added.

Number 4131

MR. TEAL said the Legislative Finance Division graph takes the revenue forecast and the flat budget and shows what the fiscal gap is in each of those years. He noted by 2006 there would be an \$800 million fiscal gap, without the approximately \$300 million just mentioned in "unavoidable increases." That comes to a \$1 billion fiscal gap by 2008. The graphs and models

reviewed typically look at flat expenditures and he does not see them as being flat, he concluded.

Number 4012

REPRESENTATIVE WILSON asked how long it would take to get a tax in place and get the revenues back.

MR. TEAL answered that is a question for [DOR], but he guessed one and a half years.

Number 3929

CHAIR HAWKER mentioned that the first statutory mission in the bill that created the [House Special Committee on Ways and Means,] charged the committee with controlling state spending. He asked Mr. Teal to reemphasize the inevitability of the committed obligations which would increase state spending. He asked what it would require, in Mr. Teal's opinion, to achieve a level budget.

MR. TEAL replied that it is a judgment call. He related:

The simple way to do it is to look at inflation alone because then you could say, well, we just keep up with inflation. Doing that is something we haven't done in education. Medicaid, of course, is a different formula. It doesn't depend on inflation. There are parts of the budget that would be affected by inflation, and parts that wouldn't be. I think that's it's safe to say that approximately \$1 billion would be directly affected by inflation. If inflation's 3 percent a year, that's \$60 million a year in what you might call, unavoidable.

Certainly the PERS/TRS cost increases, which are the major drivers for the next several years, are unavoidable. This year the state - of the \$34 million - funded approximately \$20 million. To say they're unavoidable is not exactly true, but I don't know how long state agencies can continue to avoid a 5 percent increase in personal services. The alternative, of course, is that, say in three years, we've got a 15-20 percent increase in personal service costs. You can look at that as, you either reduce personal services expenditures some other way, through union negotiations, or you have fewer people working. In

order to absorb this 20 percent increase in cost, you're talking about laying off one out of five people. So, I don't see how you can avoid that.

You can do some things legislatively to affect your PERS/TRS increases and that may reduce them to - instead of 23 percent - to 17 or 15 percent. But, the way the PERS increases work ... it's going to be 5 percent this year, 5 percent next year, and probably 5 percent the following year .... The actuaries have determined that we're horribly under funded in PERS and we should have a 15-20 percent increase in cost, but we're limited to a 5 percent increase per year. If you manage to reduce the total cost, you will still be facing 5 percent increase for the next several years.

Number 3520

REPRESENTATIVE WILSON asked, whatever fix is in place for this year's [cost increase], if next year [the legislature] would have to find a way to address this year's cost as well as an additional 5 percent.

MR. TEAL said no, it is 5 percent in a year, which is really one out of 20. In TRS, for example, it would be four years of 5 percent increases, or 20 percent, or one out of every 5 teachers. In any one year it is one out of 20.

REPRESENTATIVE WILSON said that is what she meant.

MR. TEAL explained that Medicaid is not a contractual increase, but a formula. He said the regulations are not in place to save money. All of the money the Department of Health and Social Services has saved by having a net zero supplemental is going to Medicaid. He said the bottom line is, "I don't see how you're going to avoid approximately \$300 million in increases in the next three-to-four years." He added that that does not include capital costs; \$70 million to \$100 million in deferred maintenance.

Number 3205

REPRESENTATIVE OGG [looking at the bar graph from Legislative Finance] asked what would be the number added to the bottom of the bar graph for years 2005-2008.

CHAIR HAWKER requested that Mr. Teal provide that information at a later date.

MR. TEAL replied that the [2005 budget] is pretty accurate because it is based on the governor's budget and there are no new revenues built in.

REPRESENTATIVE OGG asked if education is included.

MR. TEAL said it includes the PERS cost, but not bills that would give additional funds to school districts or municipalities. It also assumes that the \$98 million to \$100 million in revenue that the governor expects, has not passed. "The governor shows \$400 million as the projected fiscal gap, and [Legislative Finance] shows \$565 [million]. He explained that increases in funding for school districts have not been included [in the 2005] budget, and he has heard that expense may be up to \$80 million. He said if PERS/TRS costs were to be included, the budget could go up by \$100 million [in 2005]. In 2006 and in 2007 there would be another [\$100 million] added on, he projected. At that point there would no longer be increases in PERS/TRS costs, but there would be \$100 million to \$150 million annually for inflation and for Medicaid, he concluded.

Number 2822

REPRESENTATIVE ROKEBERG said his tallies add up to \$100 million for 2005, and asked if that amount should be added to \$565 million.

MR. TEAL replied yes.

REPRESENTATIVE ROKEBERG continued to figure the costs in 2006 and extended them out to an excess of \$400 million on top of the structural gap. He concluded it is like adding roughly \$130 million to every number. He asked for a one-page projection of high/low ranges for a 10-year forecast. He remarked that the numbers Mr. Teal is talking about are from the real world and no one has faced up to them yet. He concluded that trying to get accurate projections based on the real world is what the committee is trying to do.

CHAIR HAWKER responded, "That absolutely pins the tail on this donkey." He thanked Mr. Teal for his testimony.

Number 2430

DAN DICKINSON, Director, Tax Division, Department of Revenue (DOR), presented information from a packet about oil production in Alaska broken down by the fields involved. He said that today half the number of barrels are being pumped as in 1988. Prudhoe Bay is only producing one-quarter today of what it produced in 1988, he added. None of the new fields are going to compare to what happens when a mature field like Prudhoe Bay declines at 8 percent a year.

MR. DICKINSON explained how page 2 overlays price on volume and tells how much oil revenue the state took in. He said that when the CBRF was passed in 1990, the peaks were chopped off and the volatility was smoothed out. The most that was put back into the CBRF was \$17 million. He pointed out that the "cash cow," Prudhoe Bay, is not going to play the same role that it has played in the past.

Number 2044

CHAIR HAWKER pointed out that the jagged line on the left side of the page, the "Actual," smoothes out on the "Projected" half of the page.

MR. DICKINSON said it was worth reminding everyone that the projected side represents the average.

REPRESENTATIVE GRUENBERG suggested gas revenues be factored in.

MR. DICKINSON noted that page 14 of the packet addresses possible increases from future oil and gas exploration. He said the starting date may move to the right.

Number 1826

REPRESENTATIVE ROKEBERG pointed out that on the last chart [page 14] even the best-case scenario only shows about \$1.9 million [of possible increases in revenue]. He said that still leaves [the state] short of paying the [fiscal] gap in 2016. He characterized that as "scary."

REPRESENTATIVE WILSON characterized it as "a little terrifying."

Number 1715

MR. DICKINSON predicted that gas revenues will be more volatile than oil revenues. It is easy to conceive of a gas price lower

than the tariff, he said, or the gas price could be three times the tariff, making for hugely volatile revenues.

MR. DICKINSON referred to [page 3] and showed where the CBRF would eventually close out to zero. He explained that page 4 shows the exhaustion of the CBRF as early as December 2005 and as late as May 2012. He noted that predictions for the CBRF to run out by now were wrong because the annual state budget has decreased, and the \$18 range in state spending is smoothing things out. Spending has gone down, he said.

Number 1303

CHAIR HAWKER asked if there is inflation-adjusted, per-capita general fund spending in this state, which he pointed out "today, in fact, is less than in 1975, when we started the pipeline."

MR. DICKINSON suggested people look at the Legislative Finance website for more information. He continued to explain that page 6 plots two trends from the last 15 years: oil production decreasing, and oil prices increasing. He said, previously, his department was under forecasting the price rise and the amount of revenue. The gross value of those two items is roughly the same, he added. He said people don't believe this trend will continue and that there will be a regression.

Number 0955

MR. DICKINSON talked about the numbers on page 8 which look at the big picture from 2004-2020. There are two assumptions made here: oil is at \$22 a barrel and there are no extraordinary resource developments. He maintained that in the future there will be no new extraordinary resource developments. He continued to explain that there would be a \$1 billion deficit over the next 15-year period.

Number 0826

CHAIR HAWKER asked if that is a \$22-a-barrel projection.

MR. DICKINSON responded, "At an average." He referred to page 9 to show how \$1 billion could be raised. He said any fiscal tool could be mocked, so he used five of the most commonly mentioned revenue tools to see what kind of effect they could have with minimal damage. He opined that an income tax withholding could

be implemented in six months, but that a sales tax would take a little longer.

REPRESENTATIVE WILSON said, "You probably could get something in place in six months, but before we get a full year of revenues, it would be a year and a half total, then."

MR. DICKINSON replied that his department would start on January 1 of the next year, which would produce half of the revenues in that first fiscal year.

REPRESENTATIVE WILSON said it would take a while to be reflected in the budget. She asked what year that would happen.

MR. DICKINSON said he believes it would be 2006, if the legislature were to act now. He said the CBRF could help ease the transition. He discussed an income tax; 1.5 percent flat tax of the adjusted gross income (AGI) as found on page 10 of the packet. He described how that would work, reading from page 10. People with an AGI of more than \$100,000 would carry 33 percent of the tax.

Number 0244

CHAIR HAWKER asked Mr. Dickinson if he has the ability to come up with the same sort of high-level analysis on taxable income as opposed to tax liability or AGI.

MR. DICKINSON replied yes. He said that Mike Williams [Revenue Auditor, Tax Division, Department of Revenue, Anchorage, Alaska] could better answer that question because he has a more sophisticated model. He noted that the information [on page 10] is based on 2002 data, which he continued to explain. He said there are many different ways to generate the \$200 million.

CHAIR HAWKER asked what percent of Alaskan federal taxpayers have an AGI over \$100,000.

MR. DICKINSON said about 10 percent.

Number 0016

REPRESENTATIVE ROKEBERG said the cap tax liability at the amount of dividend was very similar to former-Governor Jay Hammond's fallback plan. He said it looks like the tax falls less on the higher income people than the lower income people.

**TAPE 04-8, SIDE A**

Number 0030

MR. DICKINSON replied that once a person reaches a ceiling, he or she is "capped out."

REPRESENTATIVE WILSON asked Mr. Dickinson what he perceives as the amount of the dividend.

MR. DICKINSON said a flat \$1000.

Number 0100

REPRESENTATIVE GRUENBERG asked what percentage of Alaskan's have incomes over \$100,000.

MR. DICKINSON said he thinks 10 percent have AGI greater than \$100,000.

REPRESENTATIVE ROKEBERG asked for the rationale on the \$650 property tax credit and if that information is readily available.

MR. DICKINSON explained that the amount is "a backed into number based on what it would take if there was a 3 percent AGI and we wanted to raise \$200 million." He suggested Mike Williams could provide more information about it.

Number 0235

REPRESENTATIVE ROKEBERG asked about personal property taxes and said they complicate matters.

MR. DICKINSON said his department uses a document called Taxable Alaska from Department of Community & Economic Development to make some assumptions to carry those number as a credit against the income tax numbers.

REPRESENTATIVE WILSON asked if someone's income level has to be \$600 before needing to file for federal income tax.

MR. DICKINSON said he believes that is correct.

REPRESENTATIVE WILSON asked if it is a double deduction. Property owners would be able to deduct their property tax twice, once at the federal level and once at the state level, she said.

MR. DICKINSON explained that the property owner would be able to deduct [property tax] so it would lower the tax that they owed, and then they would be eligible for a credit against that [amount].

Number 0453

MR. DICKINSON continued to explain the packet. Page 11 shows how \$200 million in sales tax could be raised, he said.

CHAIR HAWKER offered, "Sales and use [tax]."

MR. DICKINSON said yes, sales and use, and explained that the tax would become an 1.8 percent add-on to local taxes in communities where they already exist and a stand-alone in communities where there is not already a sales and use tax. He said if food and most services are excluded, the tax rate would raise to 3 percent. He said it would be important to create a single administrative entity, not a state organization, that had both state and local representation. He said it was important to meet the criteria specified in a streamlined sales tax project which would include collecting tax on Internet and mail order sales. He opined that a 1.8 percent addition to the existing sales tax in communities would not be a huge distortion, as compared to higher rates.

Number 0700

REPRESENTATIVE ROKEBERG asked whether Congress had restrictions on states' collecting sales tax on Internet retail sales.

MR. DICKINSON said the words "could move towards," indicate steps need to be taken. Currently, taxing the actual Internet service itself is prohibited. "If the entity you're buying from has nexus in your state, you can require that they collect Internet sales tax." He said it would probably require a federal law change.

REPRESENTATIVE ROKEBERG mentioned collecting taxes from web sales.

MR. DICKINSON cautioned about separate entity rules.

Number 0908

MR. DICKINSON pointed out that page 12 shows how \$200 million could be drawn from the permanent fund. He read from the chart to show 5 percent of \$28 billion is available for distribution, which would equal \$1.4 billion, and 14 percent of that would be \$200 million. Page 13 refers to how \$200 million could be garnered from corporate income taxes, he said. He mentioned a letter from the governor dated February 2, which laid out reforms to the net operating losses (NOL) to capital gain and to federal tax credits. He relayed that, at the moment, foreign cruise ships are exempted from income tax, but domestic cruise ships are not. He suggested several ways to collect revenue from a head tax. Another place changes could be made is to the oil and gas production taxes, he said. The corporate income tax structure could be changed, he opined, as well as S-corps at corporate and at individual-owner levels. All of these are tools or ways of looking at corporate income tax to generate more revenue for the state, he concluded.

Number 1333

REPRESENTATIVE GRUENBERG requested more discussions, such as this one, where menus of revenue-raising ideas are brought up. He suggested handouts be made of the various possibilities.

CHAIR HAWKER noted that there were more such meetings scheduled.

MR. DICKINSON replied that twice a year [DOR] puts out a forecast with "think pieces" to lay out menus such as Representative Gruenberg suggested.

REPRESENTATIVE GRUENBERG specified he was particularly interested in the latest information on [page 13].

MR. DICKINSON said he would try to provide more specific information about [corporate income tax].

CHAIR HAWKER said there would be future in-depth hearings on this topic.

Number 1600

REPRESENTATIVE ROKEBERG wondered if "the 18 states that tax S-corps do a double whammy on those people, and if they have an income tax and a sales tax." He also commented on the cruise ship head tax, saying a new federal law prohibits the money from going into the general fund. He wondered if there was any

research on that topic, and if that was why the governor went to a "bed tax" instead.

MR. DICKINSON said his understanding is that as long as the spending coming from the general fund directly supports the cruise ship industry, it's permissible. He said general taxes can't be applied; only those that go to support [the cruise ship] industry can be applied. He said, "If you had a broad sales tax, which included, as a portion of the use tax, the provision of services on the cruise ship, Department of Law believes that would a belt-and-suspenders approach."

Number 1747

REPRESENTATIVE ROKEBERG said, "I was the author of what's known as the OSG [Office of the Solicitor General] corporate tax case regarding international trade and its impacts on international trade and the treaties with over 175 countries that proscribes or restricts foreign-bottomed vessels, aircraft, railcars, satellites, et cetera, from being taxed by the state." He requested feedback from Mr. Dickinson about a separate corporate tax exception for cruise ships only, thereby abrogating the international treaties and incurring the wrath of the State Department, Department of Commerce, the United Nations, et cetera. He asked what impact a breach of the treaty would mean [to the state].

Number 1918

MR. DICKINSON said he could obtain that information. He said that imposing a [head] tax on passengers may not violate the treaty.

REPRESENTATIVE ROKEBERG replied that most ports around the world have a head tax. Even California and Florida don't have corporate taxes on foreign-bottomed cruise ships because of treaty implications, he said. California has its own tax code, not the United States code.

MR. DICKINSON, in answer to Representative Rokeberg's first question, said all [18 states] have personal income tax and treat [corporations] like C-corps, which are subject to the same double tax.

REPRESENTATIVE ROKEBERG asked if LLCs [limited liability companies] and sole proprietors are treated the same way as S-corps [S corporations].

MR. DICKINSON responded that the research [in the packet] only applies to the S-corps. He pointed out that some are franchise taxes and some are flat taxes.

REPRESENTATIVE ROKEBERG said there was a huge shift in business away from S-corps and LLCs and he wondered if the other states were following suit.

MR. DICKINSON said his predictions were based on a 2002 model, which has not started modeling the changes. He said page 14 has already been discussed, but noted that there may be a gap in time before [future developments] come in.

Number 2246

REPRESENTATIVE ROKEBERG referred to page 4 and asked if a matrix had been done with a \$1 billion floor in the CBRF and what the dates would be.

MR. DICKINSON said he has not done a matrix like that. He pointed to page 3 and said if \$1 billion is subtracted from the last two blue lines, it looks like the "drop-dead" date would be 2010.

REPRESENTATIVE ROKEBERG requested that Mr. Dickinson produce a matrix with a \$1 billion floor.

MR. DICKINSON said he would.

Number 2430

REPRESENTATIVE ROKEBERG said [the legislature] is looking at trigger mechanisms and revenue-enhancement packages and such a matrix would be helpful. He asked if the budget projection chart produced by Mr. Corbus [Commissioner, Department of Revenue] in Fairbanks at the [Conference of Alaskans] could be obtained. He asked how far out revenue projections go.

MR. DICKINSON answered that the [Department of Revenue] has many projections, but the one on the web site goes through 2020.

REPRESENTATIVE ROKEBERG said [that information] is important to future discussions of enshrinement of the dividend. That debate needs to be in the context of revenue projections because the gap is going to be wider and a long-range context will be needed, he said.

Number 2704

MR. DICKINSON said he could find the material from Fairbanks.

REPRESENTATIVE ROKEBERG said the model [on page 7] is a good baseline.

MR. DICKINSON said it is important to focus on what happens with growth and what kind of growth it is.

Number 2814

REPRESENTATIVE KOHRING referred to HB 493 and opined that the contents of the bill are things that can already be done by the legislature and do not need to be formalized and put into statutes. He said he appreciated the intent of the bill, but suggested the sponsors form their own caucus and advocate for the proposed measures rather than formalizing it and going through a time-consuming, expensive process.

REPRESENTATIVE KOHRING spoke about the issue of expected future deficits and the fear mentioned [by the committee] about where the money will come from. He said [the committee] should look at the positive side and use the deficit as an incentive to engage in further reform measures and further efficiency measures. He said he believes that what the governor outlined in Plan B ought to be looked at seriously, such as the mergers and consolidations of government agencies. He suggested further exploration of greater efficiencies in the bureaucracy. He repeated that the deficit may be an opportunity for [the legislature] to look at restructuring the bureaucracy.

Number 3045

REPRESENTATIVE GRUENBERG said he appreciates Representative Kohring's comments, and said he is right in that the legislatures of the future could do the planning that is suggested in HB 493. He said [the bill] will make sure that it is done and provides direction, "marrying the voluntary participation concept with the concept that there are things that we could do even today for greater efficiencies." He offered Representative Kohring a challenge to form a subcommittee with himself and one other member of the committee.

REPRESENTATIVE KOHRING said, "No, on setting up a subcommittee, and, yes, I'd be happy to work with you." He said he has been

working on his own to come up with legislation, but that he would be happy to work with Representative Gruenberg. He said he doesn't think a formal subcommittee is necessary.

REPRESENTATIVE GRUENBERG said, "If you'd be willing to be on it, I'm willing to be on it. Let's see if we can get a third person, and let's do it."

CHAIR HAWKER said he would continue to take [that suggestion] under advisement.

Number 3409

REPRESENTATIVE ROKEBERG said it is interesting to note the testimony of this morning in the context of Plan B presented by [Office of Management & Budget] to the Conference of Alaskans in Fairbanks. He said [Plan B] is a very shocking plan and it came about because of a request by the conferees to the administration. It wasn't done to shock people, he said. He said the amount of cuts totaled \$420 million, and it is shocking to see the impact on state government. He noted that Representative Kohring has said, in the past, that even more cuts should be made. He emphasized that it is frightening to see the actual cuts. He said that what he has heard this morning is, even if Plan B is implemented with all the structural increases because of TRS/PERS, inflation and the other issues, in three years the \$400 million in savings would be burned up. "We're going nowhere. That's how frightening it is when you look at it," he concluded.

Number 3630

REPRESENTATIVE MOSES said he has enjoyed listening to the wake-up call. He said he hopes those who campaigned on "no taxes, no touching the dividend, just cut the budget," feel a little guilty.

Number 3737

[HB 493 was held over.]

ADJOURNMENT

There being no further business before the committee, the \*House Special Committee on Ways and Means meeting was adjourned at 9:17 a.m.