

MINUTES
SENATE FINANCE COMMITTEE
May 14, 2003
4:52 PM

TAPES

SFC-03 # 97, Side A
SFC 03 # 97, Side B
SFC 03 # 98, Side A

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 4:52 PM.

PRESENT

Senator Gary Wilken, Co-Chair
Senator Lyda Green, Co-Chair
Senator Con Bunde, Vice-Chair
Senator Ben Stevens
Senator Robin Taylor
Senator Lyman Hoffman
Senator Donny Olson

Also Attending: JOE SONNEMAN; JOHN BITNEY, Representative, Alaska State Homebuilders Association, RON PECK, President, Alaska Travel Industry Association; JUDY BRADY, Executive Director, Alaska Oil & Gas Association; KEVIN RITCHIE, Executive Director, Alaska Municipal League; JIM CROWE, Member, Mat-Su Assembly

Attending via Teleconference: From Anchorage: MARY HUGUES, Representative, The Alaska Club; BRAD PHILLIPS, Owner, Phillips Cruises & Tours; RICHARD BLOCK, Representative, Christian Science Committee on Publications for Alaska; BROOKS CHANDLER, City Attorney for Nome, Dillingham, Unalaska, Soldotna and Sand Point; CHRIS HLADICK, City Manager, City of Unalaska; From Cordova: DENNY KAY WEATHERS; KENNY SIMPSON; TIM JOYCE, Mayor, City of Cordova; NANCY BIRD, Member, Cordova City Council; GARY GRAHAM, Member, Cordova City Council; From Fairbanks: MERRICK PEIRCE; CLIFF BERGLIN; From Ketchikan: JACK SHAY, Member, Ketchikan Gateway Borough Assembly and Immediate Past President, Alaska Municipal League; MICHAEL SALAZAR, Mayor, Ketchikan Gateway Borough; ROY ECKERT, City Manager, Ketchikan Gateway Borough; LEN LAURANCE, Tourism Business Owner; DOUG WARD, President, Ketchikan Chamber of Commerce; From Kodiak: LINDA FREED, City Manager, City of Kodiak; JAKE JACOBSON; From Mat-Su: MARCI SCHMIDT, Small Business Owner;

MARY KVALHEIM, Member, Mat-Su Borough Assembly; From Petersburg: JULIE HURSEY; MICHAEL LOPEZ, President, Petersburg Indian Association; TOM LAURENT; NANCY BERG, Vice President, Petersburg Chamber of Commerce and Tourism Business Owner; From Seward: STEVE CONN, Representative, Alaska Public Interest Research Group; From Sitka: ROB ALLEN, President, Allen Marine Tours and Vice President, Allen Marine; From Valdez: STAN STEPHENS, Owner, Stan Stephens Tours; From Wrangell: ROBERT PRUNELLA, Mayor, City of Wrangell; From Unalaska: DEBORAH MACK, City Clerk, City of Unalaska; AIMEE KNIAZIOWSKI, Assistant City Manager, City of Unalaska; GREGG HANSON, Small Business Owner; From an Offnet Site: RICH SEWELL, Representative, Iceberg Seafoods

SUMMARY INFORMATION

SB 220-STATE SALES AND USE TAX

The Committee took public testimony and held the bill in Committee.

#sb220

SENATE BILL NO. 220

"An Act relating to a state sales and use tax; relating to taxes levied by cities and boroughs; providing authority to the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; increasing the motor fuel tax and repealing the special tax rates on blended fuels; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee.

Co-chair Wilken announced that the purpose of the meeting is to take public testimony on SB 220, which he specified, is a sales and use bill. He declared that testimony would be limited to two minutes and would be conducted on a five-person per community rotation basis. Additionally, Co-chair Wilken informed the public that testimony could be faxed to the Committee to become part of the public record.

MARY HUGHES, Representative, The Alaska Club, testified via teleconference from Anchorage to request that health club membership dues be excluded from the proposed State sales tax as, she asserted Alaskans, like residents of other states, are increasingly becoming unhealthier. She declared that four of every ten Alaskans are overweight. She stated that it would be good public policy to exclude health facility dues from taxation.

BRAD PHILLIPS, Owner, Phillips Cruises & Tours, testified via teleconference from Anchorage to state that during his 57-years in the tourism business, Alaska has fallen from third place to thirty-eighth place in tourism marketing efforts. He noted that a proposed amendment to the bill [copy not provided] would track the level of revenue the State receives from the tourism industry that employs approximately 30,000 people in the State. He stated that while he is aware that the State is prohibited from dedicating funds; he urged the Committee to support language that would assist in determining the revenue generated from tourism activities with the goal of acquiring additional State tourism marketing funds.

RICHARD BLOCK, Representative, Christian Science Committee on Publications for Alaska, testified via teleconference from Anchorage to state that while the Christian Science Committee does not have a position on the sales tax issue; he requested that the Christian Science practitioners be included in an amendment that would exempt health care services from State taxation, as he declared, Christian Science practitioners provide a healing service. He requested that these practitioners be included in this exemption even though they are not licensed like other medical services. He mentioned that exemptions are provided in the bill for 501-C3 entities such as religious organizations; however, he noted that Christian Science Practitioners do not qualify under that exemption even though they provide healing and religious activity.

BROOKS CHANDLER, City Attorney for Nome, Dillingham, Unalaska, Soldotna and Sand Point, testified via teleconference from Anchorage to state that the cities he represents have local sales taxes and would be affected by this legislation. He specified that consideration of a State sales tax should be discussed at length rather than being addressed quickly as, he asserted, this piece of legislation has been. He suggested that a special session be conducted in order to carefully consider the impact of the bill. He voiced that in his experience the fewer sales tax exemptions and special situations "the better" as each exemption raises administrative expenses. He stated that the preference would be to have a lower tax rate with few exemptions. He shared that current language in the bill that could be problematic would include: the resale exemption, as it would be difficult to enforce; the blanket motor fuel tax exemption as it would affect municipalities that currently impose motor fuel taxes; and the mining and manufacturing exemption as it would raise "complicated legal issues in its enforcement."

CHRIS HLADICK, City Manager, City of Unalaska, testified via teleconference from Anchorage that the City would be negatively

affected by the proposed motor tax exemption in the bill. He stated that the City could lose approximately three million dollars in local marine fuel revenues were this exemption imposed. He stated that while other provisions in the bill are cause for concern, the motor fuel tax exemption would do the most damage to City revenues.

Co-Chair Green asked that communities that impose local motor fuel taxes review language in Version "D" on page 13, line 23 in the committee substitute to determine whether it addresses concern. This language reads as follows:

Sec.27. AS 43.40.010 is amended by adding a new subsection to read:

(m) An amount equal to the revenue obtained from six cents of the tax collected under (a) and (b) of this section, excluding the amounts collected under (a)(1) - (4) and (b)(1) - (4) of this section, shall be separately accounted for in the special highway fuel tax account under AS 43.40.010(g). The annual estimated balance of the amount separately accounted for may be appropriated by the legislature to the Department of Community and Economic Development for distribution to municipalities according to AS 29.60.110.

Co-Chair Wilken clarified that, for purposes of discussion, SB220, Version 23-LS1128\D is being considered as the working document.

DENNY KAY WEATHERS testified via teleconference from Cordova in opposition to the tax. She stated that a State sales tax issue should be determined by a vote of the people rather than the Legislature "shoving it through."

KENNY SIMPSON testified via teleconference from Cordova in opposition to the proposed tax. He echoed Ms. Weathers' comments that the issue should be decided by a vote of the people rather than the issue being "railroaded" through. He declared that the tax would not solve the State's fiscal problems, and he voiced opposition to exemptions for special interest groups.

Senator Taylor asked whether the City of Cordova has a sales tax.

Ms. Weathers responded that it does.

TIM JOYCE, Mayor, City of Cordova, testified via teleconference from Cordova to announce that the City is on record in opposition to a State sales tax. He explained that due to its isolation, the cost of living in Cordova is high and a State sales tax, in addition to the local six-percent sales tax, would drive the cost of living higher. He noted that a total sales tax cap of eight-

percent would curtail the city's revenue and be harmful to the operation of city services. He shared that in order to compensate for lost sales tax revenue, the City would be required to increase the property tax of 13.5 mils, thereby placing a burden on property owners. He summarized that the eight-percent tax cap would stifle economic activity and would limit the City's ability to expand services. He noted that the City's additional six-percent tax on rental vehicles and temporary lodging would also be affected.

Senator Bunde asked Mr. Joyce for suggestions as to how to address the State's fiscal gap were a State sales tax not an option.

Mr. Joyce suggested that a tourism head tax or an income tax might be "more palatable."

Senator Taylor asked for verification that a one-percent City sales tax loss would require a 4.5 mils property tax increase to compensate for estimated lost revenue of \$400,000.

Mr. Joyce affirmed. He stated that the City's one mil property tax equates to approximately \$100,000. He noted that the City has a relatively small property tax base because numerous properties in Cordova are tax-exempt because they are owned by the forest service, the State, or by other tax-exempt organizations.

NANCY BIRD, Member, Cordova City Council, testified via teleconference from Cordova to assert that the City has worked hard to diversify its tax base in light of such things as declining revenue from the raw-fish tax. She stated that a State sales tax would "dramatically affect" the community. She commented that an income tax might be a revenue generating option.

GARY GRAHAM, Member, Cordova City Council, testified via teleconference from Cordova to remind State citizens that money is available in "the Rainy Day" account. He urged the Committee to not impose a State sales tax, as it would negatively affect people in rural areas of the State.

MERRICK PEIRCE testified via teleconference from Fairbanks in opposition to a State sales tax. He quoted from a recent Wall Street Journal study that concluded that the economies of states that raise income by increasing taxes fare worse than states that lower taxes. He voiced that the consequences of this tax on the Fairbanks North Star Borough, which has "a stagnant population" and the highest property mils tax in the State, has him "very, very worried."

CLIFF BERGLIN testified via teleconference from Fairbanks and

stated that this bill is "one of the cruelest and most brutal bills" that he has ever read. He stated that the estimated \$300 million that would be generated by this tax and proposed user fees would not adequately impact the State's fiscal dilemma. He continued that implementation of the State tax would require an unknown quantity of individuals to be hired to administer the program. He voiced discontentment "that retired bureaucrats and politicians who do not live in" the State are being supported by State funds. Additionally, he opined that the State subsidizes the operations of three oil companies, and he declared that those three companies are reported in the Wall Street Journal to have some of the highest profits in the industry.

Senator Bunde clarified that the State's retired employees and elected officials are funded by retirement programs rather than by general funds. Additionally, he commented that 70-percent of current State expenses are paid by revenues generated from the oil industry.

JACK SHAY, Member, Ketchikan Gateway Borough Assembly and Immediate Past President, Alaska Municipal League, testified via teleconference from Ketchikan to announce that the Alaska Municipal League opposes this legislation. He stated that were the legislation to be adopted, the organization would request that the eight-percent sales tax cap, as well as the phase-in provision, be maintained. He further requested that provisions be included to exempt municipalities that currently have a sales tax from the State tax for a two-year transition period. Furthermore, he urged that the bill be expanded to include provisions allowing municipalities to levy excise taxes. He voiced support for municipalities to be granted the authority to collect the tax and remit to the State its portion of the tax.

Mr. Shay opined that the State could generate additional revenues by incorporating a visitor head tax, approving such things as electronic gaming, selling State land, and reinstating the education and employment taxes.

MCHAEL SALAZAR, Mayor, Ketchikan Gateway Borough, testified via teleconference from Ketchikan to voice opposition to a State sales tax. He stated that other revenue sources such as legalized gambling, State land sales, and a State lottery should first be explored.

Senator Taylor asked the current property tax mil rate and sales tax levied in Ketchikan. Additionally he asked how one percent of sales tax would equate to the mil rate.

Mr. Salazar responded that Ketchikan has a property tax of 6.4 mils and a 5.5 percent sales tax. He stated that the sales tax verses mil rate information would be forthcoming.

ROY ECKERT, City Manager, Ketchikan Gateway Borough, testified via teleconference from Ketchikan to state that this is one of the "worst bills" he has encountered in his professional experience and that other states that have considered similar legislation "have opted to back out." He stated that the "bill is being introduced too fast and if implemented would be an economic nightmare." He informed that language in the bill indicates that the tax would be collected through "a joint procurement process" with a privately owned company; however, he informed that other states using this method have experienced difficulties in collection and auditing measures. As an alternative to the State hiring personnel and implementing software programs to collect and audit the tax, he urged the Committee to develop a cooperative agreement between the State and local communities where staff is already in place, as he informed that studies conducted in other states have determined that local cities and counties that collect sales and use taxes are more efficient and have a high collection rate.

Co-chair Wilken noted, for clarification, that SB 220 and HB 293 are identical bills.

LEN LAURANCE, Tourism Business Owner, testified via teleconference from Ketchikan and stated that bookings in the tourism industry are continuing to decline. He stated that in order to grow this industry and create more jobs in the State, the State must increase marketing funds; therefore, he urged the Committee to amend this bill to dedicate those taxes garnered from tourism industries to fund a long-term marketing program. He stated that this revenue, collected via "the broad-based tax" on the industry, "would be the ultimate public-private partnership."

DOUG WARD, President, Ketchikan Chamber of Commerce, testified via teleconference from Ketchikan to suggest that the bill should be modified to prevent negative impacts on regions, particularly those in Southeast Alaska and those communities that currently have local sales taxes. He avowed that communities facing an eight-percent tax comprised of a local five-percent tax and a three-percent State tax would experience an increase in "retail leakage," and out-of-state purchases.

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Mr. Ward continued that modifications to Sec. 43.44.155 on page 18, line 25 could assist in mitigating retail leakage. This section currently reads as follows.

Sec. 43.44.155. Exemption for motor vehicles, watercraft, aircraft, and mobile homes. The sales price or purchase price of a motor vehicle, watercraft, aircraft, or mobile home in excess of \$5,000 is exempt from the sales tax and use tax. For purpose of this section, "motor vehicle" has the meaning given in AS 28.40.100.

Mr. Ward suggested that this section be modified to provide a general exemption for services and equipment sales, service, and rentals in excess of \$5,000. He stated that this exemption would allow Alaskan businesses to remain competitive. He stated that the Ketchikan and Wrangell shipyards are examples of businesses that would benefit from this modification.

JOE SONNEMAN testified in Juneau and informed the Committee of his professional background including a Public Finance PhD as well as budget and management experience. He opined that the sales taxes, the \$100 Employment tax, and the elimination of the Permanent Fund Dividend check "are a really excellent way to soak the poor." He continued that were a sales tax imposed, "the fair thing" to do would be to provide exemptions for such things as medical expenses, food, and home heating oil. In contrast, he stressed that an income tax is a much better way to tax people because those who earn more, pay more.

Mr. Sonneman reminded that, during the Longevity Bonus Program elimination bill hearings, approximately 90-percent of the respondents who suggested an alternative solution recommended that an income tax be considered.

Senator Taylor asked the testifier how he would "characterize the system that taxed based upon the ability to pay and rewarded based upon the need."

Mr. Sonneman stated that while he has not addressed the reward system, he voiced support for a progressive income tax as its rate structure is based on earnings. However, he stressed that care must be given to not provide "a disincentive to work affect."

JOHN BITNEY, Representative, Alaska State Homebuilders Association, informed the Committee that the organization represents 900 small businesses. He stated that the organization commends the Committee for providing a "sale of real property" exemption in the bill, however, he voiced that the organization urges the Committee to

additionally consider an exemption for building materials similar to the aforementioned exemption for motor vehicles, watercraft, aircraft, and mobile homes. He communicated the concern that acquisition limits for the tax-exempt first-time homebuyer program are being approached across the State, and he attested that the imposition of a State sales tax would cause the purchase of building materials to increase home purchase prices, and thereby exceed the program's limits in certain areas of the State, and therefore, he stated that the effect of the tax on building materials would be "to disqualify that program from being available." He noted that this loan program generates significant loan volume for the Alaska Housing Finance Corporation (AHFC); however, he stressed that current market conditions already have a negative affect on the availability of the program.

RON PECK, President, Alaska Travel Industry Association (ATIA), testified in Juneau and spoke in support of the bill as, he attested, the 1,123 businesses represented by ATIA understand and recognize the need for a sales tax. He stated that while the majority of ATIA businesses are small entities with 15 or less employees, the industry directly and indirectly contributes 30,000 employment opportunities in the State and approximately \$1.8 billion to the State's economy. He stated that ATIA is instrumental in marketing the State as a tourism destination, and that while ATIA recognizes the fiscal gap challenges the State faces and the need for a state sales tax; he stated that the tourism industry additionally faces challenges and booking declines as the result of the economy and other factors. He urged the Committee to amend this legislation to designate sales tax revenues resulting from tourism related industries to bolster the State's marketing efforts to ensure that the industry remains viable. He provided the Committee with a copy of the proposed amendment [copy on file].

JUDY BRADY, Executive Director, Alaska Oil & Gas Association, testified in Juneau and informed the Committee that the Association is not taking a position regarding the sales and use tax issue, however, she informed that, were the legislation adopted, the Association has transitional concerns including current language drafting flaws pertaining to the sale for resale exemption as well as a concern that the oil and gas industry is "not being double and triple taxed" in ways that would result is "a disincentive for future investment." She mentioned that the Association has submitted written testimony regarding their concerns [copy on file].

Co-chair Wilken reiterated, for clarification, that SB 220 and HB 293 are similar bills.

KEVIN RITCHIE, Executive Director, Alaska Municipal League (AML), testified in Juneau and voiced support for earlier testimony presented by Jack Shay on behalf of AML. Additionally, he noted that the proposed tax exemption for motor and marine fuel would result in a substantial loss of revenue for numerous communities that currently levy taxes on these products. He stressed that this is a concern as the proposed revenue sharing plan does not include marine fuel tax revenues and is based on miles of road rather than the actual tax loss to municipalities. He stated that this significant issue must be further addressed.

Co-Chair Wilken commented that Mr. Ritchie and AML have supplied "considerable" insight on this legislation. He asked Mr. Ritchie to highlight major areas of concern.

Mr. Ritchie responded that in addition to the fuel tax exemption, another concern is that "the only cap" specified in this bill is one that exempts any amount in excess of \$5,000 on the sales or purchase price of a motor vehicle, watercraft, or aircraft as he shared that municipalities place broad caps on other services as well. Furthermore, he pointed out that language exempting sales by local governments and the State is vague and should be further defined to clarify whether such things as bus and pool passes would be exempt.

Senator Taylor stated that he "was shocked" and didn't realize that the State/municipal revenue sharing plan that would be funded by the gas tax would be allocated based on the amount of road miles.

Mr. Ritchie confirmed that the language reads that the revenue sharing program would provide "so much per mile."

Co-Chair Wilken asked for confirmation that this is the proposed formula.

Mr. Ritchie confirmed.

Senator Taylor surmised therefore that communities in the Railbelt areas of the State with "lots of miles" would benefit more than those in Southeast Alaska served by the Alaska Marine Ferry System.

Mr. Ritchie responded yes, it is based on road miles.

Senator Bunde asked whether the Alaska Municipal League, with its long-term involvement with municipal revenue sharing programs, has discussed the possibility that the State's involvement in those programs might be negatively affected were the State's fiscal gap not addressed.

Mr. Ritchie stated that AML is aware of the very serious ramifications of the State's budgetary issues and its subsequent affect "on everybody in the State, not just the State or municipalities."

Senator Bunde asserted therefore, that "a little loss here" would be preferred to "a much larger loss later."

Senator Taylor reminded "colleagues, that municipal assistance and revenue sharing was a vehicle designed by the legislature of the State of Alaska so that there would be some sharing of the Railbelt wealth that was going to occur to that geographic area which was going to get all the jobs, all the new homes, all the infrastructure, and all the population to tax and to have that benefit for them," as the result of the construction of the Trans Alaska Pipeline and North Slope oil developments.

Senator Taylor declared that now that "the wealth" from the North Slope is in decline and the State is experiencing fiscal problems, the municipal assistance and revenue sharing programs are in jeopardy. He asserted that, "it is ironic" that those communities that benefited from the North Slope development are the ones without self-taxing systems. He declared that their support for the elimination of the revenue sharing program indicates that they "have very little sympathies" for those communities that have had to impose taxes.

LINDA FREED, City Manager, City of Kodiak, testified via teleconference from Kodiak in opposition to a State sales tax. She asserted that numerous municipalities around the State have fashioned city operations around local sale and property tax revenues. She recounted that Kodiak's six-percent sales tax accounts for 70-percent of the City's revenue, and that a State imposed tax would be contrary to the "home-ruled chartered municipality" status whereby the citizens of the community vote on the level of local taxes. She stated that eliminating the local control of taxation "is inappropriate." She informed that, were a State tax imposed, the City could lose 40-percent of its sales tax income because "sales will go elsewhere." She attested that this loss would negatively affect the City's ability to construct and maintain such things as harbors and roads, libraries, museums, law enforcement and other municipally supported operations. Were the tax imposed, she urged the Committee to contract with those local government entities that have a sales tax collection structure in place to administer the program, as it would be more efficient and profitable.

JAKE JACOBSON testified via teleconference from Kodiak to voice that "the arguments against the sales tax seem hollow." He stated that the proposed three-percent tax "is insignificant" and "is an equitable and fair tax." He voiced that the argument that an eight-percent tax would increase out-of-town purchases is groundless as it could be argued that the existing six-percent local sales tax already attributes to that affect. He suggested that the Committee impose an eight-percent State sales tax with five percent being designated for communities and three percent being designated for the State.

Senator Taylor asked the testifier the level of the property mil rate in Kodiak.

Ms. Freed responded that Kodiak has a six-percent local sales tax with an 11.25 mil property tax.

Senator Taylor asked how one-percent of sales tax equates to the mil rate.

Ms. Freed responded that one percent of the local sales tax equates to approximately four mils.

Senator Taylor calculated therefore that the mil rate must be increased to four mils to compensate for each one-percent reduction in the local sales tax.

Mr. Jacobson interjected that were the City's local tax lowered from the current six-percent to five-percent, as he suggested in his testimony, that the City could absorb the reduction by downsizing local government, as he opined there is "some questionable City spending" occurring. He attested that "the general theme in Alaska is to cut back," and that City operations could be funded by its significant savings account and could function adequately with a five-percent sales tax levy.

Co-Chair Wilken asked for confirmation that a four mils property tax would equate to the revenue generated from a one percent sales tax.

Ms. Freer concurred that this is correct for the property tax levied inside City limits.

Co-chair Wilken concluded therefore, that the community would be required to increase the local mil rate by 24-mils were the current local sales tax eliminated.

Ms. Freed concurred, citing the two-mil City rate and a 9.25 mils

Borough rate. She shared that the City sales tax revenues are dedicated for City service operations and that the Borough uses its property tax revenues to fund schools.

Mr. Jacobson informed the Committee that he is a member of a group that is promoting an initiative that would place a limit on the mil rate Statewide. However, he noted that the initiative would grant local governments the authority to levy higher mil rates, if desired.

MARCI SCHMIDT, Small Business Owner, testified via teleconference from Mat-Su to voice that a State sales tax "would devastate" small business in the State. Instead, she urged the Committee to support HB 321 that proposes to implement a State income tax.

MARY KVALHEIM, Member, Mat-Su Borough Assembly, testified via teleconference from Mat-Su to voice that she personally prefers a State income tax as opposed to a State sales tax as it would be paid by all residents, including non-residents who "contribute nothing to the State," but who benefit from State services.

Ms. Kvalheim further noted that the committee substitute specifies that boroughs would be responsible for collecting the State tax on city services such as bus and pool passes, and then remit that tax to the State. She voiced concern regarding the costs and staffing impacts that a tax on City services would incur. She urged the Committee to fully evaluate this legislation during the interim break between legislative sessions or via a special session rather than addressing it in a short timeline.

Senator Bunde voiced that an income tax would impact small business operators because the language currently being considered would have approximately "20-percent of Alaskans paying approximately 80-percent of the tax."

JIM CROWE, Member, Mat-Su Assembly, testified in Juneau and shared the Alaska Municipal League position that local governments are "the domain of sales taxes." He stated that a State sales tax would have "severe impacts" on communities that currently impose local sales taxes and might result in an increase in property taxes. He continued that the legislature has failed to address the issue of school funding shortfalls, which is "the most pressing concern" of local governments. He stated that were a State tax imposed, a vehicle to funnel adequate funding to schools should be implemented. In addition, he echoed Ms. Kvalheim's concern that this bill should provide a clear definition of what would qualify for municipal service exemptions.

Mr. Crowe furthered, that as a small business owner, he is "under assault" with this Legislature as separate proposed legislation would increase business license fees and gas taxes and impose a studded tire tax in addition to the current level of corporate taxes. He stated that in addition to the aforementioned limit on the \$5,000 purchase price of motor vehicles, watercraft, aircraft, and motor homes, he stated that "a cap" should be instilled on professional services.

Senator Bunde asked the testifier to suggest alternatives to this legislation.

Mr. Crowe suggested that such things as a school tax on individuals' first paycheck and avenues to generate revenue from non-residents be considered. He urged that this bill not be rushed through the legislative process.

Senator Bunde communicated that 90-percent of the wages in the State are earned by Alaskans. He continued that the average salary earned by the ten percent who are non-residents is \$13,000 a year, which he declared means that for every non-resident North Slope oil worker there is another non-resident employed at a minimum wage job. He pointed out that the State would not garner much revenue from that average wage.

Mr. Crowe challenged the average salary earned by non-residents by stating that non-residents would not consider it worthwhile to travel to and from the State on a regular basis were this the amount of money being earned. He shared that while working on the North Slope, he did not encounter many Alaskan resident workers although employers "claim they do local hire."

Senator Bunde commented that the ten-percent non-resident calculation is a Department of Labor and Workforce Development statistic.

JULIE HURSEY testified via teleconference from Petersburg to voice that she is "very opposed" to this legislation. She explained that the legislation is unfair in that it specifically exempts the cruise ship business from the tax while requiring her small charter boat business to pay the State tax in addition to the local tax. She stated that the level of taxes that her charter boat business would be required to collect for a weeklong charter equates to the discounted price that a large capacity cruise ship could charge for a weeklong trip. She suggested that a five-dollar head tax would be a preferred alternative to raise funds, as it is unfair that local businesses would be required to carry this burden that would contribute to making them less competitive with outside entities.

She stated that travelers are price shopping and that this tax, in addition to the downturn in travelers resulting from the September 2001 terrorist attack on the nation, the economy, and the Sudden Acute Respiratory Syndrome (SARS) would aggravate the situation. She stated that it will take time for Alaska's tourism industry to rebound, and she voiced concern regarding the "burden this sales tax would place...on her small Alaskan business." She voiced that an income tax would be a preferred alternative, as she stated this alternative "would cost her money but not close her business." She stated that the State should recognize the importance of local tourism businesses and support the industry just as, she attested, the State does for the oil industry. Furthermore, she avowed that a State sales tax would be harmful to small communities that levy a sales tax. She urged the Committee to hold this bill to better gauge its effect on small businesses and local communities.

MICHAEL LOPEZ, President, Petersburg Indian Association, testified via teleconference from Petersburg in opposition to the sales tax legislation.

TOM LAURENT testified via teleconference from Petersburg to voice strong opposition to the proposed sales tax because of the negative impact on the City of Petersburg. He stated that were the current six-percent City sales tax lowered one percent, the amount of revenue lost would equate to the salaries of approximately 25, or half of the total, City employees. He stated that this loss would severely impact city services and local schools, residents' quality of life, and would result in an increase in out-of-town purchases. He stated that the tax is regressive, and he voiced support for an income tax, as it would garner revenue from residents and non-residents who use State resources but do not contribute to the State.

NANCY BERG, Vice President, Petersburg Chamber of Commerce and Tourism Business Owner, testified via teleconference from Petersburg in opposition to the tax. She opined that the State tax would affect small communities more than larger ones, as it would result in a significant loss of jobs and services. Furthermore, she asserted that a loss of jobs would negatively affect communities because it would result in a loss of volunteer resources for such things as the fire department. She stressed that small businesses struggle to compete with large companies and businesses providing Internet sales that might not be required to pay a State tax. She voiced support "for a fair and graduated income tax."

Senator Taylor understood that a four or five property tax mil increase would be required for each sales tax percentage loss that Petersburg would incur.

Mr. Laurent stated that each one-percent local sales tax loss would require a four to five mil property tax increase. In addition, he expressed that a State income tax would qualify as a federal income tax deduction whereas as a State sales tax would not.

STEVE CONN, Representative, Alaska Public Interest Research Group, testified via teleconference from Seward and stated that this "large consumer group vigorously opposes" this legislation as it represents an attack on Alaska's working people and pits "big cities against the small cities that have actually been in the forefront for fiscal planning and local control, the rich against the poor." He noted that this legislation "is pocked with special interest exemptions." He urged the Committee "to do the right thing and hold this bill."

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ROB ALLEN, President, Allen Marine Tours and Vice-President of Allen Marine, testified via teleconference from Sitka and voiced an understanding of the State's need to collect new revenues to address the State's fiscal gap. He asserted that a healthy visitor industry, particularly independent travelers who spend more money per capita than other type of travelers, would substantially contribute tax revenue were the State sales tax adopted. Therefore, he urged the Legislature "to make a public commitment to increase the amount of money the State spends on marketing," as he expressed that "the visitor industry is not healthy."

Mr. Allen specified that the downturn in the nation's economy, combined with international terrorism activities, have resulted in unforeseen negative impacts on tourism. This downturn, he attested, has forced the State's visitor industry to renege on previous years' commitments that the industry could support its own marketing expenses, as he avowed that the industry could only rebound were an aggressive and expensive marketing campaign undertaken.

Mr. Allen urged the Committee to "be strong" to the numerous groups seeking tax exemptions and resist the urge to provide those exemptions. Furthermore, he urged the Committee to change the Alaska Permanent Dividend Fund into an endowment fund, and consider instituting a progressive income tax as opposed to a State sales tax.

STAN STEPHENS, Owner, Stan Stephens Tours, testified via

teleconference from Valdez in support of a State sales tax to assist in the effort to diversify the state's economy. He stated that a tax of this nature is not uncommon as he pays user taxes wherever he travels. Additionally, he voiced support for amending the bill to specify that the revenue generated from tourism activities be designated to support "a viable tourism marketing program." He reminded the Committee that previously the State supported a strong marketing program with tremendous success; however, he attested that as the State's marketing efforts have dwindled, visitors have been successfully wooed to other destinations that have aggressive marketing programs. He stated that the downturn in tourism has resulted in many business failures; however, he avowed that the State's support of a marketing program would increase visitor traffic and would have a positive impact on the State's economy.

ROBERT PRUNELLA, Mayor, City of Wrangell, testified via teleconference from Wrangell in opposition to a State sales tax. He observed that the opponents of the tax reside in communities without local taxes, and he remarked therefore, that the implications of a tax do not affect them. He continued that Wrangell, with a seven percent local tax, has the highest tax in the State and that the local property tax must be raised 2.5 mils for each percent of sales tax lost.

DEBORAH MACK, City Clerk, City of Unalaska, testified from an offnet site in Unalaska to voice concern of the difficulty she foresees for the State in its efforts to collect and administer a sales tax program in the State's huge geographic area. She noted that the State would be forced to ask local governments to assist in this endeavor. She urged the Committee to: 1) classify motor fuel tax as a specific tax and allow local communities to continue to levy a local tax on motor fuel; 2) add a section to the bill specifying that the State could contract with local governments to collect, enforce, and administer the tax on behalf of the State; 3) remove the user tax portion of the bill as it would be difficult to enforce; and 4) appoint a task force, comprised of experienced members to work with the Department of Revenue to develop policies and procedures.

AIMEE KNIAZIEWSKI, Assistant City Manager, City of Unalaska, testified from an offnet site in Unalaska on behalf of the City. She reiterated that the exemption on marine fuel would have a serious negative effect on the City's revenue. She shared that the City collected three million dollars from the sale of 71 million gallons of marine fuel in the year 2002. She urged that the bill be amended to allow municipalities to levy a tax on marine fuel. Furthermore, she voiced the City's concern that were the State to

administer and collect sales taxes, a delay might result in the State remitting the City's share of sales taxes back to the City. She stated that this would severely impact the City's cash flow. She noted that while this issue is not directly addressed in the bill, she stated that this issue could be negated were the local government allowed to collect the tax. She voiced support of language in Section 35 of the bill that specifies that a "Streamlined Sales and Use Tax Agreement" be authorized that would allow the State to coordinate tax collection with other states for national and international businesses.

RICH SEWELL, Representative, Iceberg Seafood, testified from an offnet site to ask that the Committee consider "how and if" the wholesale and/or export business industry would be addressed in this bill, particularly "given the critical state of the seafood industry."

GREGG HANSON, Small Business Owner, testified from an offnet site in Unalaska, to voice that, in a similar fashion to the Ketchikan Gateway Borough, numerous businesses in Unalaska provide service to the commercial fishing industry and that this legislation would incur an uneven playing field in that it would allow the state of Washington, which is Alaskan businesses' biggest competitor, an advantage because Washington exempts sales of watercraft and their components from the Washington state tax. He avowed that this legislation would provide sufficient incentive "to drive business out of the State," and that an income tax would be the preferred alternative to solving the State's fiscal gap.

There being no further testifiers, Co-Chair Wilken announced that public testimony on SB 220 is closed.

The bill was HELD in Committee.

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ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 06:48 PM.