

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 17, 2004**  
**6:02 PM**

**TAPES**

SFC-04 # 50, Side A  
SFC 04 # 50, Side B  
SFC 04 # 51, Side A  
SFC 04 # 51, Side B

**CALL TO ORDER**

Co-Chair Gary Wilken convened the meeting at approximately 6:02 PM.

**PRESENT**

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

**Also Attending:** SENATOR JOHN COWDERY; SENATOR GARY STEVENS;  
SENATOR GENE THERRIAULT; SENATOR TOM WAGONER;

Testifiers are listed in the minutes in the order they testified.

**SUMMARY INFORMATION**

Public Testimony on Conference of Alaskans Resolutions

Co-Chair Wilken noted the following witness has submitted editorials to the Anchorage newspaper regarding income taxes.

DONALD ANDERSON testified via teleconference from an offnet location in Anchorage about the loss of Alaska's wealth due to federal income taxes on permanent fund dividends (pfd) and other distributions. He told of his experience in creating computerized models to simulate real world events. He reported that in 2001, the most recent year that information is available from the federal Internal Revenue Service, Alaskans paid approximately \$186 million in taxes on the pfd. He calculated this at 17 percent of the total

amount distributed. He remarked that the larger dividend payments proposed by former Governor Hammond would result in 18 percent paid to the federal government. He furthered that Governor Hammond's proposed income tax would generate approximately \$93 million annually, but collected at a total cost of \$25 million. He predicted such action would incur the resentments of those citizens "who know this waste is totally unnecessary." He submitted the funds should be withdrawn from "the source" before the imposition of a federal income tax. He asserted that utilizing the minimum amount necessary to fund government services is "the only viable long-term strategy" that would produce "minimum damage" to the State.

Senator Bunde clarified it would cost \$25 million for the State to establish an income tax collection "bureaucracy".

Mr. Anderson corrected the annual cost would be \$8.6 million and \$6.1 million in set up costs. He explained the \$17 million difference represents the loss to citizens on the taxes on the \$93 million collected.

Mr. Anderson indicated he would submit a spreadsheet to demonstrate his findings.

Mr. Anderson next addressed the concept of sales tax. He noted this tax affects more people and therefore receives significant opposition. He stated that sales tax "captures a fixed proportion of expenditures" whether purchasing a "Yugo or a Lamborghini".

Mr. Anderson listed four negative impacts of income tax: growth is affected by income tax, lower income, high government cost, and unstable revenue. He detailed each of these components, as represented by actions of other states.

Senator Dyson interjected to question the figures relating to high government costs incurred by states that impose an income tax, saying the information did not provide the complete "picture". He asked the tax revenue generated by the eight states with the highest per capita expenditures compared to the eight states with the lowest.

Mr. Anderson did not have this information.

Senator Dyson assumed more factors were involved than reflected.

Mr. Anderson gave the psychological factor and the exposure factor of income tax as examples.

Mr. Anderson continued speaking against income taxes, asserting it mostly affects those who are "making it". He remarked that due to multiple levels of taxation, these people are often "stifled in their attempts at expansion." He offered his e-mail address: don.anderson@softwarenorth.com to those interested in receiving the aforementioned spreadsheet.

Senator Bunde relayed quotes that income tax has minimum participation, in that about 20 percent of the populous pays 80 percent of the tax. He asked if the witness had additional information to support this statement.

Mr. Anderson had data relating to the federal income tax, but not for an Alaska state income tax.

Senator Bunde commented to the broader inclusion of a sales tax.

Mr. Anderson agreed.

Senator Dyson noted that many undertake efforts to avoid paying taxes, such as making purchases via mail order and without imposition of a sales tax. He asked the impact of transferring transactions to the "black market".

Mr. Anderson qualified he has not studied this matter, He surmised that many purchases made locally are primarily for convenience reasons, as shipping and other expenses make purchases higher than in the "Lower 48".

Senator Bunde spoke of teenage strippers earning \$250,000 annually in cash and asked if the witness had information about cash income.

Mr. Anderson did not.

RAPHAEL MURRAN, Administrator, City of Hooper Bay, testified via teleconference from an offnet site in Hooper Bay about the effect of State budget reductions on the community. He informed that most of the police force was eliminated. He remarked that reductions in State funding results in loss of federal funding as well, due to matching fund requirements. He stated that a sales tax would result in less revenue because of the negative impact it would have on local economies. He opined that if an income tax were enacted "poor men would get richer and rich men would get poorer."

AT EASE 6:35 PM / 6:46 PM

JANET BIFELT, Mayor, City of Hughes, testified via teleconference from an offnet location in Hughes that because grants from the

revenue sharing program have not been forthcoming, the community would continue to suffer. She stated that the community requires funds for the Village Safe Water program to provide safe drinking water for the residents and the schools. She spoke to the difficulties rural residents, accustomed to a subsistence lifestyle, would have if forced to relocate to urban areas.

AT EASE 6:50 PM / 7:00 PM

ARLISS STURGULEWSKI, former State Senator, and Delegate to the Conference of Alaskans, testified via teleconference from Anchorage, in appreciation of the Legislature's efforts. She stated that despite favorable oil prices, the State has serious "structural damage" in its funding procedures. She told of the issues brought before the Conference of Alaskans. She stressed the benefits of utilizing a portion of the earnings of the Permanent Fund and of instituting a five-year market value payout system. She preferred a constitutional amendment, rather than statutory provisions to accomplish this. She did not support enshrining the dividend in the Alaska Constitution, but noted if under consideration, the percentage amount should not be stipulated in the Constitution. She expressed that the Constitution was carefully authored to maintain the ability of the Legislature to appropriate funds. She stated that a statewide sales tax would cause difficulties for those communities that impose a local sales tax, suggesting residents could be forced to shop regionally or outside the State.

JOE SONNEMAN testified in Juneau about his education and experience in public finance. He spoke of development of oil in poor countries, opining these countries do not benefit from such development. He stated these countries tend to overspend when the revenues are available but are faced with deficits once the revenues decline. He referenced an article in the Economist, "Can oil ever help the poor?" [Copy on file.]

Mr. Sonneman stressed need to "focus on the impossible rather than the possible." He gave as an example the Department of Corrections, which he said has grown primarily because of the criminalization of many activities. He suggested the criminal statutes be changed. He also suggested that limited liability provisions should be extended only to infant companies.

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Mr. Sonneman questioned the validity of the Conference of Alaskans,

saying the delegates were not elected, as delegates to the Constitutional Convention were, and because the average income of Conference of Alaskans delegates was higher than average for Alaska.

Senator Bunde asked the witness' understanding of "raiding the Permanent Fund", noting that the corpus could not be accessed except by investment actions of the Fund's Board of Trustees.

Mr. Sonneman responded that utilizing the Fund's earnings for State government after 83 percent of voters participating in the September 1999 special election on the issue voted against such a proposal would be viewed as a raid.

MONTE SHADE, 66-year old Military Veteran and long-term Alaskan Resident, testified via teleconference from Fairbanks that he has never missed participating in an election. He asserted that the minimal responsibility of the Legislature is to adhere to the wishes of residents. He surmised that budget difficulties could be solved with budget reductions. He stated local governments practice in this manner, exemplifying the reduction of the pupil transportation program in the Fairbanks North Star Borough. He remarked that the funding appropriated to education, including the University of Alaska, results in a "brain drain" in that educated residents relocate out of state.

JERRY BROWN testified via teleconference from Fairbanks that the original intent of the Alaska Permanent Fund was for capital improvement projects and that the current proposals are intended for operating expenses. He remarked that the public has stated that Permanent Fund earnings should not be used, that the budget should be reduced and at that point if funding is necessary then the earnings of the Permanent Fund could be accessed. He suggested the earnings of the Fund could be utilized as a loan program to fund railroads, schools and other capital improvements with repayment, rather than funding operating expenses. He spoke of tourists and nonresident workers who utilize the State's infrastructure and should contribute to the expense of such operations. He urged the Committee vote against each of the proposed resolutions.

Senator Bunde clarified the witness stated the original intent of the Permanent Fund was for capital projects.

Mr. Brown responded that Alaskans would prefer those expenditures be for lasting infrastructure.

Senator Bunde referenced the supporting arguments for the establishment of the Permanent Fund contained in the voter's

pamphlet. He cited the intent that the Fund would be established to be available for a "rainy day" in the future. He also disagreed that nonresident workers could contribute a significant portion to deficit and cited figures demonstrating this.

ROGER GAY, resident of Big Lake, testified via teleconference from Mat-Su in opposition to the Conference of Alaskans. He remarked that the Governor did not have authority to appoint certain people to make decisions that would affect all Alaskans. He noted the decisions reached were made in only three days and without public testimony. He stated the legislators are elected to address the important issues. He expounded on the premise of a republic government to have elected representation. He quoted Thomas Jefferson and Samuel Adams.

ED ZASTROW, President, AARP - Local 35, and 35-year Alaska Resident, testified via teleconference from Ketchikan that this issue has been often discussed with the legislators representing Ketchikan. He remarked that the organization supports an income tax. He addressed a proposed equal division of earnings to dividend and government services, stressing the dependence of seniors on the pfd. He exemplified one elderly resident able to purchase eyeglasses, new clothes and shoes and also pay utility bills with the dividend payment. He relayed the education of organization members and seniors on the issue of POMV and the increasing costs of Medicare. He stated the organization does not oppose the use of a portion of earnings for Medicare expenses, but did not support the addition of new programs.

DAVE TRANTHAM, 57-year Alaskan resident, testified via teleconference from Bethel that he first came to the State in 1941 while serving in the US Air Force. He addressed Senator B. Stevens' legislation to implement a sales tax. He spoke to the higher cost of items in rural communities, noting purchases would be twice the amount as paid in Anchorage. He recommended the Legislature adopt a fiscal plan this year. He emphasized the importance of the pfd to rural residents. He supported the proposed community dividend to replace the revenue sharing grant program, which has not been funded in recent years. He stated that an income tax would have a lesser impact on rural residents. He supported a tobacco tax increase of \$1 per pack and surmised other residents would also support this tax. He also suggested implementation of user fees, noting that residents pay very little for services.

CHERYL KEEPERS testified via teleconference from Fairbanks that she agreed with the findings of the Conference of Alaskans that revenues are insufficient to meet the need for government services. She acknowledged the "devil is in the details" but urged the

Legislature adopt a fiscal plan.

CARL BENSON testified via teleconference from Fairbanks that Alaska needs a long-term fiscal plan immediately. He supported a State income tax in conjunction with utilizing a portion of earnings of the Permanent Fund for government services. He stated this would garner revenue from nonresident workers. He noted that income tax is regressive, particularly to rural residents.

SCOTT SAXON, Wasilla resident, testified via teleconference from Mat-Su about his concern that the Conference of Alaskans did not provide adequate representation. He disagreed with assertions that the State "could not save money", commenting that as a State employee, he recognized where reductions could be made. He suggested "closing loopholes" and requiring value added processing for logging. He supported POMV, predicting that funding government agencies with Permanent Fund revenues would provide incentive for agencies to reduce spending to minimize the amount diverted from dividends. He preferred a sales tax to an income tax. He referenced other testimony relating to the higher cost of living in rural communities, but stressed it also costs more for the State to provide services to those areas.

KAYE SAXON, Wasilla resident, testified via teleconference from Mat-Su that she was raised in Alaska. She stated that although she would like to stay home with her children, she is unable and that her family resides in an area with employment and education opportunities. She preferred others to take responsibility for their circumstances. She stated that budget reductions must continue to be identified. She supported funding government services from Permanent Fund earnings, as this would equally impact all residents.

PHILLIP FURBUSH testified via teleconference from Mat-Su in opposition of enshrining dividends in the Constitution. He stated this would prioritize payouts over inflation proofing and protection of the Fund itself. He remarked, "The state of Alaska is spending a lot of money": two to three times the amount expended by other states and is done without regard to the future. He charged that current practices are not adding value to renewable resources. He stated the establishment of the Fund is the only action made to benefit future residents. He charged that the current generation must "pay" more of its "share" and "build" for the future.

MARGARET RUSSELL, Chair, Board of Directors, Fairbanks Chamber of Commerce, and Conferee to the Conference of Alaskans, testified via teleconference from Fairbanks about use of Permanent Fund earnings for government services. She stressed the importance of considering

all available income sources.

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Ms. Russell spoke of funding needed for education. She noted that some conferees to the Conference of Alaskans included income tax as an option for revenue generation. She questioned those who support income tax and also assert dependence on dividend, suggesting they calculate how they would be affected by an income tax. She surmised many residents would ultimately pay an amount equal to their dividend in taxes. She thought that acceptance of the POMV proposal by the public could be compromised.

NANCY BAKER testified via teleconference from Fairbanks that the Conference of Alaskans had "different meanings to different people." She deferred to the Legislature to make important decisions. She cautioned against amending the Constitution; however, she supported the POMV proposal. She indicated she would not support a Constitutional amendment without the implementation of an income tax, which she remarked is the fairest method to generate revenue and would be the least expensive to implement. She surmised those who most oppose an income tax are those who would pay the most, including Governor Murkowski. She questioned that the legislators are the best suited to make these decisions, given that experts on the matter are available and the desire of legislators to be reelected. She questioned the democracy of the State when the co-chair of the Senate Finance Committee announces that an income tax is "off the table" and would not be considered.

Co-Chair Wilken offered to discuss the matter further with the witness and stressed he would not support a proposal claiming to be broad based when it only taxes half the residents.

JAMES E. FISHER testified via teleconference from Kenai that taxes should be enacted before reductions are made to vital programs affecting seniors and education. He remarked that other revenues should be considered and implemented before earnings of the Permanent Fund are utilized for government services. He quoted, "The self righteous shall lead us to hell," and suggested the proposed actions would do this.

Senator Hoffman asked if the witness supported a sales tax, income tax or both.

Mr. Fisher preferred income tax due to the dependence of local governments on sales taxes, including Soldotna where he resides.

ANN KILKENNY, Conferee to Conference of Alaskans, testified via teleconference from Mat-Su that she has come to understand that the current method of managing the permanent fund is "broken". She recommended adoption of the POMV as an independent proposal. She asserted the legislature has the duty to prevent a fiscal crisis. She supported an income tax and every other proposed tax with the exception of a sales tax. She remarked the economic limit factor (ELF) issue relating to taxation on oil production, must be revisited. She asked the form of revenue generation the Members prefer.

Senator Bunde stated that the more input from constituents the better able legislators are to make decisions; however, he noted that he consistently hears differing opinions of the correct solution.

CLARENCE FURBUSH testified via teleconference from Mat-Su that the State is "spending too much money, otherwise we wouldn't be here tonight." He questioned the large number of school districts, suggesting that consolidation could reduce expenses. He encouraged resource development. He was disheartened by the demands of teachers for salary increases and asked the return on investment of educating children. He supported a sales tax, but qualified it should not include food or prescription medication.

PAM BRADLEY testified via teleconference from Fairbanks, that she felt a responsibility to voice her support for POMV. However, she was amazed at the number of other resolutions to amend the constitution. She predicted that voters would approve none due to the amount of misinformation that exists. She recommended protection of the dividend, as dividends were the intent of the Permanent Fund. She also supported use of a portion of the earnings for government services. She predicted it was time to re-impose the income tax, admitting she does not earn a high income, despite her efforts.

ANNA PLAGER testified via teleconference from Fairbanks not claiming to have any new information but that she felt it important to express her opinion. She stressed the need for a long-term fiscal plan. She supported most of the findings of the Conference of Alaskans. Although she deemed the dividend an "important tool", she did oppose enshrining it in the Constitution. She emphasized the importance of ensuring the "health" of the Fund. She had faith that legislators would make appropriate decisions regarding use of the Permanent Fund, noted if they did not, they would not be reelected.

Senator Bunde thanked the witness for the "vote of confidence" in the process. He asked the public understanding of "long term" relating to a fiscal plan.

Ms. Plager replied that 25 years ago the intent was to establish a savings account. She stated that earnings of that account could now be utilized to meet public needs, including education, transportation and public safety. She acknowledged the plan could be amended given changing circumstances.

Senator Bunde shared the witness' position supporting the use of Permanent Fund earnings for government services.

Senator Bunde addressed Senator B. Stevens's legislation to implement a sales tax and the exempted purchases. Senator Bunde ascertained that if income tax were implemented there would be no exemptions. He asked therefore why Senator B. Stevens had considered any exemptions for a sales tax.

Senator B. Stevens responded that income tax taxes a generation for wealth, while sales tax generates from consumption. He stated that basic needs are equally required by all.

Senator Hoffman pointed out itemized deductions are allowed for income tax.

Senator B. Stevens agreed deductions are allowed for some expenses, such as medical, but are not allowed for heating or food.

LYNN BURKHARDT testified via teleconference from Homer that Governor Murkowski intended to utilize the Permanent Fund even before taking office. She noted high oil prices and asserted that threatening elimination of teaching positions is a scare tactic. She surmised that the Members earn too much income to fully appreciate the dependence on dividends.

Senator Bunde questioned that the witness pays the salaries of the legislators.

Ms. Burkhardt responded that citizens pay federal taxes.

Senator Bunde countered that 80 percent of State revenue is from oil development. He referenced other testimony that the dividend was intended to distribute revenue; however, the witness suggests this is more a welfare program.

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Senator Hoffman agreed with the witness that Alaska residents do pay legislators salary. He explained that utilizing a portion of the Permanent Fund earnings for government services results in less money available for dividends.

Senator Dyson requested the language in the voter information pamphlet on the proposal to establish the Permanent Fund.

Co-Chair Green disagreed with Senator Hoffman. She also referenced the article from The Economist distributed by Mr. Sonneman and disputed its merits.

#### **ADJOURNMENT**

Co-Chair Gary Wilken adjourned the meeting at 08:51 PM