

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

February 25, 2005

8:33 a.m.

MEMBERS PRESENT

Representative Bruce Weyhrauch, Chair
Representative Paul Seaton
Representative Peggy Wilson
Representative Max Gruenberg
Representative Norman Rokeberg

MEMBERS ABSENT

Representative Ralph Samuels
Representative Carl Moses

COMMITTEE CALENDAR

HOUSE BILL NO. 143

"An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."

- HEARD AND HELD

HOUSE BILL NO. 52

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

- SCHEDULED BUT NOT HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB 143

SHORT TITLE: POLICY ON GENERAL FUND REVENUE SHORTFALL

SPONSOR(S): WAYS & MEANS

02/14/05	(H)	READ THE FIRST TIME - REFERRALS
02/14/05	(H)	W&M, STA, FIN
02/18/05	(H)	W&M AT 8:30 AM CAPITOL 106
02/18/05	(H)	Heard & Held
02/18/05	(H)	MINUTE(W&M)
02/25/05	(H)	W&M AT 8:30 AM CAPITOL 106

BILL: HB 52

SHORT TITLE: LONG-RANGE FISCAL PLAN

SPONSOR(S): REPRESENTATIVE(S) GRUENBERG

01/10/05	(H)	PREFILE RELEASED 1/7/05
01/10/05	(H)	READ THE FIRST TIME - REFERRALS
01/10/05	(H)	W&M, FIN
02/18/05	(H)	W&M AT 8:30 AM CAPITOL 106
02/18/05	(H)	Heard & Held
02/18/05	(H)	MINUTE(W&M)
02/25/05	(H)	W&M AT 8:30 AM CAPITOL 106

WITNESS REGISTER

No witnesses to record.

ACTION NARRATIVE

CHAIR BRUCE WEYHRAUCH called the House Special Committee on Ways and Means meeting to order at [8:33:47 AM](#). Representatives Weyhrauch, Wilson, Gruenberg, and Seaton were present at the call to order. Representative Rokeberg arrived as the meeting was in progress.

The committee took an at-ease from [8:34:08 AM](#) to [8:38:00 AM](#).

HB 143 - POLICY ON GENERAL FUND REVENUE SHORTFALL

[8:38:57 AM](#)

CHAIR WEYHRAUCH [announced that the only order of business would be HOUSE BILL NO. 143, "An Act relating to the policy of the state regarding the source of funding used to cover a shortfall in general fund revenue."] He explained:

HB 143 would essentially set as policy for the State of Alaska that if there were any budget shortfalls, ... if there was a gap between what the state receives as revenue and what the state ... spends, that the gap would be filled with permanent fund earnings and the constitutional budget reserve in equal amounts.

CHAIR WEYHRAUCH continued:

I had not planned to take any action on that bill today, but what I did want to ask the committee members ... if there was any other testimony that ... the committee would like to hear on that bill or any other information related to that bill, and I will set

that up for next week. ... I would like to get a sense of what the committee would like to do before we do anything more with that bill. Generally what I wanted to do is get a bill like HB 143 which would fill any gap with constitutional budget reserve and permanent fund earnings, and have that in conjunction with potential new revenue sources like taxes. And so what the rest of this committee's work is going to do is either be spent on bills right now before the committee are constitutional amendments, or a review of taxes. And that gets us to the last part of this agenda, and that is oversight hearings on long-term fiscal plan. ... What I had indicated to the media that I would be doing was be introducing what I had called an omnibus tax bill. And it took roughly four weeks in working with Legislative Affairs on that bill, and it took that long for lots of reasons. Number one, I simple had to make policy choices on my own about what taxes we wanted to include in that bill. ... When I finally got a bill back, it was such a large bill that I saw it might fall from its own weight.

8:41:14 AM

CHAIR WEYHRAUCH continued:

In addition, because the omnibus tax bill that I had prepared was roughly the size of a phone book, it would be a tremendous use of potential paper and expenses for no reason. And so what I had instead decided to do is use the opportunity and ... the organizational abilities of our legal drafters that had gathered together the whole range of taxes that we presently have as a state and ... that we could adopt as a state in one form. And simply have hearings then on each component on this omnibus tax bill, and approach it as an oversight on potential tax revenues and draft measures before the committee and before the public so that we knew what we were discussing. And I think that way it might be much more wieldy to move out pieces of a tax package out of the committee. In addition, what I wanted to do was have, for the benefit of the committee and the benefit of the public, at least the [House Special Committee on Ways and Means] would be able to say with ... full credibility that we had everything on the table. ...

We still will have every single potential tax that now is present in the state or could be implemented in the state, such as an income tax, an education tax, [and] a sales tax on the table for discussion. It just won't be in the form of an omnibus bill package.

[8:43:02 AM](#)

REPRESENTATIVE GRUENBERG commented that he would like a copy of the [draft omnibus tax bill] so that he can "see the best thinking so far as well as anything else you have. I think your idea's great. But I'd like to see all the work that's been put in."

CHAIR WEYHRAUCH responded that the preliminary questions have to do with the organizational aspect of how to do the review for the tax policies.

REPRESENTATIVE ROKEBERG stated that he agreed with Chair Weyhrauch's analysis and approach. He remarked that it might be helpful for the committee to review past work on tax issues. He referred to past work on an education tax and a sales tax.

[8:46:17 AM](#)

REPRESENTATIVE SEATON commented that he thought that [this plan] would be a valuable way to bring all the issues to the table.

REPRESENTATIVE WILSON stated that she thought it was a good way to do [deal with tax issues]. She said, "It's a systematic way to look at it ... without emotion because it's not a bill before us." She commented that it's important that all parts of the state be affected similarly.

[8:47:54 AM](#)

REPRESENTATIVE ROKEBERG said:

One good part of the exercise is to help educate the public about the actual potential income streams that could be derived from any different types of revenue-enhancing measures. And I find it very striking right now, particularly in the context of our budget-building process this year with the recommended increases in the budget, [and] ... the impact of the PERS [Public Employees' Retirement System] TRS [Teachers' Retirement System] situation on the budget,

which I view as almost like a \$300 million plus structural jump shift in our baseline and our budget. ... I think this committee in the past has had testimony that the historic income tax we've had before would generate maybe \$300-500 million, and ... if we continue increasing our spending at the rate that we are now projecting, there is no way we can pay for ourselves a decade or two down the road. ... Even if we were to implement every tax under the sun, we couldn't balance the budget. So there's got to be a recognition of what those things can generate, how they fit into an entire long-range fiscal plan....

[8:49:43 AM](#)

CHAIR WEYHRAUCH reiterated that he had drafted the bill on his own without discussing any of it with anyone in the legislature until it was finished; when he finally got a hard copy of it, he realized what it would mean to introduce a bill as opposed to having a segmented hearing approach. He remarked that this was the first time that the committee had discussed this topic. In addition, he commented that it became very clear to him that if there was a [budgetary] gap and the legislature wanted to use permanent fund earnings and the constitutional budget reserve in equal portions, [the state] would still run out of money. He said:

People have said to me [that] we need a long-term fiscal plan without defining what that means. ... What it means to that individual is: "Raise taxes, as long as taxes are on somebody else; cut a program, as long as the program is somebody else's; and continue to give me my permanent fund dividend check and make sure it grows." And that simply is inconsistent with reality of the state.

[8:52:18 AM](#)

CHAIR WEYHRAUCH pointed out that the next House Special Committee on Ways and Means announcement to come out on the House floor should have a list of the days the committee will hear specific hearings on specific taxes and revenue measures. He said that the types of taxes that are included are: sales, education, cruise ship, corporate income, oil and gas, mining (non-oil and gas revenue sources), income, and fish and game (including wildlife conservation fees and viewing fees).

8:53:09 AM

REPRESENTATIVE SEATON remarked that there have been polls showing that some people are willing to pay an income tax.

CHAIR WEYHRAUCH agreed that people have voiced willingness to pay taxes. However, he said, there is a concern that one business might be segregated out from the rest of the business community, then they're less willing to support a component of a fiscal plan if they feel that they are bearing the brunt of it. He commented that the oil industries and the cruise ship companies have both indicated that [they feel they are being singled out to pay additional taxes.] He stated that [this feeling] is diminished somewhat if people feel they are receiving fair treatment, where a place at the table to discuss the tax and the revenue system is fairly applied.

8:55:27 AM

REPRESENTATIVE SEATON reiterated that his district is willing to pay taxes. He asked that someone prepare a chart showing the economic value of the different industries in Alaska and the tax contribution those industries make to the state. This way, he said, the committee can determine if there is a fair application of taxes across the state.

REPRESENTATIVE WILSON pointed out that, though this is a state government, sometimes they have to think like a business, which must look into the future to determine if it can continue on the same course. She noted that the state has a number of expenses that it has no control over, including Medicaid expenses, retiring baby-boomers, and the rising price of fuel and insurance. She expressed concern about whether the state can even sustain current programs.

8:59:28 AM

CHAIR WEYHRAUCH said:

I want to apologize to the committee and to the public for not setting forth an aggressive agenda ... initially. ... One thing that has influenced my ... approach on this whole taxation policy is, number one, the state has what's called [a] windfall. And people have been playing with this notion that we have a windfall because the amount that has budgeted for expenses has been exceeded by the amount we've

received as revenue from high oil prices. And because of that there has been a perception that we don't need to act because ... we're awash in cash that we can spend. But nothing so far that I've heard in any hearing so far or on any issue has ... put the lie to that, because we are ... still in a structural problem that we haven't been able to address on a long-term basis. And notwithstanding money that we have this year, simply discussing how we fund education and the increase in the base student allocation over the long term is an impossible task because we're not going to have that spike forever.

[9:00:44 AM](#)

CHAIR WEYHRAUCH continued:

And the other thing that has chilled ... my setting a more aggressive agenda on consideration of additional taxes or tax policy discussion is the notion that somehow we might have to aggressively start dealing with stranded gas act kinds of concepts, which has not happened. And I'm a little bit discouraged that it hasn't and ... I need frankly more information on what the status of those negotiations are and how fast or slow things are going to move in that. Because there's a lot of assumptions built into the public sentiment that we don't really need to act because we have ANWR [Arctic National Wildlife Refuge] coming online, and we have stranded gas and we could be awash in cash and gas from that. But I don't think that's the reality I see shaping up in the near term.

[9:01:35 AM](#)

CHAIR WEYHRAUCH:

The other thing that has shaped my feelings on this is that the House of Representatives has always ... acted. We've adopted fiscal plan and we've adopted POMV [percent of market value] approach to management of the permanent fund. We've dealt with balanced budget amendments, and I do not want to be part of an entity that doesn't work and doesn't act. I'm here for two years ... and I feel there's an important belief that the public put us here to do something.

And I'm not going to sit here anymore and not do something about it.

CHAIR WEYHRAUCH commented that he agreed with Representatives Gruenberg and Rokeberg that the legislature should have a fiscal plan.

[9:02:27 AM](#)

REPRESENTATIVE GRUENBERG remarked that he agreed with these comments and that he would like to spend time becoming more knowledgeable in taxation and fiscal planning.

CHAIR WEYHRAUCH responded that [the committee] has to educate themselves as well as the public while providing a "substantive basis for the kinds of legislative measures we may want to put forward [to] additional committees that move out of this one as part of a fix to the structural problem we have with a failure of recurring expenses to meet recurring revenues."

[9:04:57 AM](#)

REPRESENTATIVE SEATON expressed concern that HB 143 was basically making the House Special Committee on Ways and Means go away until 2013. He said, "I don't think that our tax system in this state is fair. I don't think that we have equality among industries, and I don't think we should be looking at tying our hands." He recommended that part of line 9 be eliminated.

CHAIR WEYHRAUCH reiterated that he did not intend to take action on HB 143, but would take amendments on the bill and deal with it at a future hearing.

REPRESENTATIVE SEATON stated that his amendment would be to remove the line "before the enactment of a new tax" on line 9.

REPRESENTATIVE WILSON said that she agreed with Representative Seaton because of the need for the committee to thoroughly study the issues first.

[9:07:12 AM](#)

REPRESENTATIVE ROKEBERG remarked:

I would like to ... get a legal opinion as to the effect of a statutory policy statement and its impact

on future ... legislatures and therefore the enforceability of enacting such as this. ... I believe that this statute is frankly meaningless, and in the main, diminishes legislative constitutionally invested powers. ... I don't believe there's anyway I could ever support [HB 143].

REPRESENTATIVE GRUENBERG commented that he also had problems with the bill.

[9:09:10 AM](#)

REPRESENTATIVE SEATON referred to a handout from a previous committee meeting entitled, "House Bill 143: A Policy on General Fund Revenue Shortfall." He said:

We need to realize that on page 10 where it's showing ERA [Earnings Reserve Account] draw and CBR [Constitutional Budget Reserve] draw, and that line is the same rate as our constitutional ... amendment that we passed last time ... [which] was that we wouldn't be able to increase spending above 2 percent. And that is the line that is incorporated in ... the constitutional spending limit. ... This line is incorporating the maximum rate that we could've contributed at, under our constitutional limit. ... And when we reference these charts we have to realize that this ... was projected at what the House said would be the maximum that we could spend, other than ... using a supermajority and other things.

CHAIR WEYHRAUCH commented that a lot of assumptions were made to make the charts.

[9:10:41 AM](#)

REPRESENTATIVE SEATON replied that when [the charts] go out to the public, the public might not understand the assumptions that have been made. He pointed out that the chart says that the base is inflated by 2 percent, but "we have to realize that that 2 percent was what we incorporated in a constitutional amendment, so you cannot go beyond this."

[9:11:11 AM](#)

REPRESENTATIVE ROKEBERG stated that last year's House Special Committee on Ways and Means was working on a project regarding

longer range expenditure projections because the Department of Revenue had historically published their future projections on a flat line basis for expenditures, which [the committee] believed was incorrect. He said:

I think that we've been vindicated in that work and ... the committee should continue on that work as perhaps even a high priority to try to get some type of a projection of realistically looking at what those demands are going to be for expenditures in future years. It seems clear, now that the revelations around TRS/PERS, and the becoming-clearer problems ... under Medicaid and Social Services budgets, make 2 percent, particularly in the near term, way under estimates.

9:12:30 AM

REPRESENTATIVE GRUENBERG commented that he thought POMV and constitutional amendments are within the jurisdiction of the House Special Committee on Ways and Means. He said:

When the POMV constitutional amendment was under discussion, I voted against it. But I do support the idea, at least for consideration as a statutory POMV, which doesn't get into the corpus of the permanent fund. And I would like to know ... if a statutory POMV piece of legislation were introduced, whether the Chair would be willing to consider that within this committee's jurisdiction.

REPRESENTATIVE ROKEBERG raised for a point of order. He said, "I don't think it's a very fair question."

9:14:10 AM

CHAIR WEYHRAUCH responded:

I didn't want to encumber the [POMV] resolution with yet another committee, which would have made it four or five committees. ... The statutory POMV, I've already been working with legislative legal ... on [an] approach to do that. It's not a simple task. ... There are simply policy issues that have to be addressed and I haven't come to resolution on that, but ... when I get something a little bit further

along, I was going to introduce a committee bill as a statutory form of [POMV].

9:15:03 AM

CHAIR WEYHRAUCH asked for questions from the press. There were none. [HB 143 was held over.]

9:15:25 AM

CHAIR WEYHRAUCH said that the committee will discuss income tax at the next meeting, and later will discuss the ELF (economic limiting factor).

REPRESENTATIVE WILSON asked if Chair Weyhrauch will provide the committee members with information, or if each member individually should try to find information.

CHAIR WEYHRAUCH responded that for the income tax discussion, they will use the same information the committee used for discussion last year.

REPRESENTATIVE SEATON asked whether the committee would be using last year's bill from Representative Wilson or from Representative Moses.

CHAIR WEYHRAUCH clarified that the committee would be using the bill from Representative Moses.

REPRESENTATIVE SEATON commented that it would be advantageous to have both of the bills for discussion.

REPRESENTATIVE ROKEBERG remarked that it might be helpful to the committee members if information about the historical Alaskan tax system was included as part of the committee background package.

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 9:17:32 AM.