

MINUTES
SENATE FINANCE COMMITTEE
April 4, 2005
9:10 a.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [9:10:16 AM](#).

PRESENT

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

Also Attending: SENATOR BEN STEVENS; SENATOR TOM WAGONER; REPRESENTATIVE ERIC CROFT; REPRESENTATIVE MIKE HAWKER; FRANK HOMAN, Commercial Fisheries Entry Commission; JERRY MCCUNE, United Fishermen of Alaska; CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue; LAUREN WICKERSHAM, Staff to Senator Bunde; KATHY WASSERMAN, Alaska Municipal League;

Attending via Teleconference: From Mat-Su: KIM FLOYD, Public Information Specialist, Mat-Su School District; KRIS MOORE, Wasilla resident; From an offnet location: LESTER LUNCEFORD, resident of Whittier;

SUMMARY INFORMATION

SB 93-FISHING PERMIT AND VESSEL LICENSE FEES

The Committee heard from the sponsor, the Commercial Fisheries Entry Commission and an industry organization. A committee substitute was adopted and the bill was reported from Committee.

SB 155-APPROP: SCHOOLS/UNIV/VIROLOGY LAB/MUSEUM

The Committee heard from the sponsor and members of the public. The bill was held in Committee.

SB 112-TAX ON REAA RESIDENTS

The Committee heard from the sponsor, the Department of Revenue, the Alaska Municipal League and members of the public. A committee substitute was adopted and the bill was held in Committee.

#SB93

SENATE BILL NO. 93

"An Act relating to commercial fishing permit and vessel license fees; and providing for an effective date."

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

Co-Chair Green noted a proposed committee substitute was distributed.

Co-Chair Wilken moved for adoption of CS SB 93, 24-LS0504\F, as a working document.

Co-Chair Green objected for an explanation.

SENATOR BEN STEVENS, sponsor of the bill, outlined two changes proposed in the committee substitute: the first would impose a cap on the amount of the permit fee and the second change would provide for a 20 percent license fee increase to vessel class. The original language of this legislation contains no limitation and a fee structure that imposes a proportionately higher fee for smaller vessels.

[9:12:41 AM](#)

Senator B. Stevens referenced a table titled, "DRAFT, CFEC Vessel Fees, Current and Proposed" [copy on file] which contains the following data.

Vessel Length: 0-25'
Number: 3,484
Current Fee: \$20
Current Revenue: \$69,680
Proposed 20% Fee: \$24
Proposed 20% Revenue: \$83,616
Vessel Length: 25-50'
Number: 5,600
Current Fee: \$50
Current Revenue: \$280,000
Proposed 20% Fee: \$60
Proposed 20% Revenue: \$336,000

Vessel Length: 50-75'
Number: 764
Current Fee: \$76,400
Proposed 20% Fee: \$120
Proposed 20% Revenue: \$91,680
Vessel Length: 75-150'
Number: 447
Current Fee: \$250
Current Revenue: \$111,750
Proposed 20% Fee: \$300
Proposed 20% Revenue: \$134,100
Vessel Length: 150-250'
Number: 92
Current Fee: \$500
Current Revenue: \$46,000
Proposed 20% Fee: \$600
Proposed 20% Revenue: \$55,200
Vessel Length: 250'
Number: 26
Current Fee: \$750
Current Revenue: \$19,500
Proposed 20% Fee: \$900
Proposed 20% Revenue: \$23,400

Total
Number of Vessels: 10,413
Current Revenue: \$603,330
Proposed 20% Revenue: \$723,996

Note: A 20% across the board vessel fee increase would generate \$120,666 in fees over the current vessel fees. In comparison the vessel fee proposal currently in SB 93 generates approximately \$291,000. The current fiscal note for SB 93 would be reduced by \$170,334 under this proposal.
Source: CFEC 3/23/2005

[9:13:42 AM](#)

Senator B. Stevens next referenced a chart titled, "State of Alaska, Commercial Fisheries Entry Commission, Comparison of Permit Renewal Fees for 2005 Licensing Year Under Current Fee Schedule and Under CFEC's Proposed Methodology for Implementing SB 93, Permit Counts and Estimated Revenue by Base Fee with \$3000 Cap, March 23, 2005, Draft" [copy on file.] This demonstrates the impact to individual permit holders of the proposed fee increases with no change to the current formula for deriving those fees. He detailed the calculation of how the fees would be assessed under the provisions of the committee substitute. The majority of the large vessels impacted are the offshore deep sea fishing fleet.

FRANK HOMAN, Commercial Fisheries Entry Commission, testified the increased fees would be assessed at four tenths of one percent of the permit value.

[9:17:14 AM](#)

Co-Chair Green understood that the intent is to expand the existing fee structure.

Senator B. Stevens affirmed the fee amounts have been limited, although the original language of this bill would eliminate this maximum cap. The proposed committee substitute instead increases the cap. The cap is justified because the fisheries at the higher end are multi-million dollar industries and fluctuate according to worldwide factors.

[9:18:16 AM](#)

Senator Hoffman noted fees have not exceeded \$300 in the past and asked the number of residents and nonresidents who would be subject to the higher amounts.

Senator B. Stevens indicated he could calculate this and provide information at a later date.

Senator Hoffman surmised the majority of the new revenue generated by this legislation would be derived from fees collected from nonresidents.

Mr. Homan had not differentiated the residency source of the increased revenues. The value of a permit is not correlated to the residency of the permit holder, with the exception of a nonresident differential assessed to each nonresident-owned vessel.

[9:19:42 AM](#)

Co-Chair Green asked the position of user groups on this legislation.

Senator B. Stevens replied that the fee limit was reintroduced to be less onerous on smaller vessel owners. The limit would also assure those larger vessel owners participating in the offshore fleet that the fees would not increase as the fishery values increased. The majority of the fishing industry does not oppose this legislation. He noted a letter of support from the United Fishermen of Alaska organization dated March 7, 2005 [copy on file.]

[9:21:17 AM](#)

Co-Chair Green requested an explanation of how the money is expended and the function of the Commission.

[9:21:33 AM](#)

Senator B. Stevens deferred to Mr. Homan.

[9:21:38 AM](#)

Mr. Homan replied that authorization to spend money collected from the fees is legislative. The Commercial Fisheries Entry Commission is a receipt-supported entity without general fund support. In many years and as recently as 1998, the Commission had a surplus of \$2 million that was transferred to the State general fund. A practice was started in the year 2000 to appropriate a portion of the surplus to the Division of Commercial Fisheries for industry related programs.

[9:23:21 AM](#)

Senator Stedman clarified that only the permit renewal fee would be changed under the provisions of the committee substitute. Be

Senator B. Stevens stated the fee increase is unchanged from the original version of the bill with the exception that a \$3,000 maximum fee would be established; the original language did not include a cap.

[9:24:20 AM](#)

Senator B. Stevens noted a companion bill was introduced in the House of Representatives.

JERRY MCCUNE, United Fishermen of Alaska, testified in support of the committee substitute. Members had complained about the higher end fees proposed in the original version of the bill. He indicated that the organization had received a letter from the commissioner of the Department of Fish and Game, assuring that these concerns would be considered. The organization was satisfied that the regulation and public hearing process would be adequate to address the matter.

[9:25:51 AM](#)

Co-Chair Green noted letters from other industry organizations were received as well.

[9:26:04 AM](#)

Co-Chair Green removed her objection to the adoption of the committee substitute and the committee substitute, Version "F" was ADOPTED.

Co-Chair Wilken offered a motion to report CS SB 93, 24-LS0504\F from Committee with individual recommendations and new fiscal note.

There was no objection and CS SB 93 (FIN) MOVED from Committee with a zero fiscal note dated 4/1/05 from the Department of Fish and Game.

#SB155

[9:27:02 AM](#)

SENATE BILL NO. 155

"An Act making appropriations from the earnings reserve account for construction of an integrated science complex at the University of Alaska in Anchorage, for replacement of the virology laboratory in Fairbanks, for expansion of the Anchorage Museum of History and Art, for the major maintenance grant fund, and for other capital projects related to education; and providing for an effective date."

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

SENATOR BEN STEVENS, sponsor of the bill, testified this bill specifically funds construction \$142 million to address the entire list of statewide deferred maintenance projects compiled by the Department of Education and Early Development. Secondly, this legislation appropriates money for new construction of elementary schools statewide. These projects were selected based on location in school districts that have experienced population growth as well as student population growth. Consideration was also given to projects located in areas in which rapid growth is anticipated as a result of construction of a natural gas pipeline and exploration and development of the Arctic National Wildlife Refuge.

Senator B. Stevens continued that this legislation would also provide funding for University of Alaska projects and appropriates \$5 for the Anchorage Museum of History and Art.

Senator B. Stevens informed that the funding for these

appropriations is entirely from the earnings reserve account of the Alaska Permanent Fund.

Senator B. Stevens referenced charts provided showing population growth in areas of the state, including the Matanuska Susitna valleys [copies on file.]

[9:30:40 AM](#)

Co-Chair Green clarified this legislation would fund every project included on the Department of Education and Early Development deferred maintenance list.

Senator B. Stevens affirmed all 78 projects are included.

Co-Chair Green asked if funding for all deferred maintenance projects has ever been provided in one appropriation.

Senator B. Stevens was unaware of a previous instance.

Co-Chair Green noted Senator Hoffman affirmed this has never occurred.

[9:31:26 AM](#)

Senator Stedman asked the length of time to "build up" another deferred maintenance project list. He asked if consideration has been given to a scheduled maintenance plan to eliminate future deferred maintenance needs. This would avoid another onerous list with schools in disrepair.

[9:32:26 AM](#)

Senator B. Stevens deferred to the Department of Education and Early Development.

[9:32:39 AM](#)

Senator B. Stevens noted that each year a certain portion of the maintenance list is funded. School districts identify deferred maintenance projects and apply to the Department for consideration and priority ranking. He did not know how rapidly the project list would be regenerated.

[9:33:11 AM](#)

Co-Chair Wilken recalled in 1997 or 1998 the legislature adopted a provision requiring school districts to develop a preventative

maintenance plan in order for deferred maintenance projects to qualify for State funding.

[9:34:51 AM](#)

Co-Chair Green asked if the State has the ability to determine whether appropriated funding has been expended for the specified project.

[9:35:04 AM](#)

Co-Chair Wilken understood the Department has this oversight, but was unsure of the details.

[9:35:14 AM](#)

Co-Chair Green expressed interest in including such a provision in this legislation for monitoring projects. Some school officials are express interest in securing State funding for projects but have no interest in reporting back to the Department.

[9:36:03 AM](#)

Senator Hoffman applauded Senator B. Stevens for presenting this bill. This proposal would save the State "several millions of dollars" in the future. Maintaining and improving facilities would extend their live expectancy.

[9:36:51 AM](#)

Senator Stedman spoke to his past experience with maintenance issues. Due to budget constrains, the Sitka School District did not maintain its facilities. As a result the Borough assembly removed that function from the Board's authority.

[9:38:04 AM](#)

Co-Chair Green noted that several local governments have "cross purposes" with different entities in charge of facility maintenance.

[9:38:22 AM](#)

Co-Chair Wilken agreed. He told of his participation in a deferred maintenance task force in which he traveled to different schools and made a comparison of the condition of different schools some within the same district. The issue is not a matter of money, but rather of attitude.

[9:39:34 AM](#)

Senator Bunde commented to the mentality that residents are less inclined to maintain a facility they did not contribute to financially. He indicated the next bill on the Committee's agenda could assist in overcoming this.

Senator Bunde clarified the intent is to utilize earnings from the Alaska Permanent Fund for this appropriation.

[9:41:17 AM](#)

Senator B. Stevens listed the three justifications for his efforts on this bill. The proposed projects are nonrecurring expenditures and would not require ongoing funding from this source. It could be argued that deferred maintenance is an ongoing service; however, this legislation does not stipulate continued appropriations. Secondly, this is an investment. The Alaska Permanent Fund is viewed as an investment fund and the earnings have never been expended for any purposes other than investments. Past investments have been made for a monetary return; this would be an investment in educational facilities and would provide an intellectual return. It is important to invest in these facilities that provide an intellectual return. Lastly, the Alaska Constitution mandates these funds be deposited into the State general fund unless otherwise provided for in statute. Current statute provides that funds from the earnings reserve account must first be utilized to inflation proof the Fund with excess earnings available for allocation at the discretion of the legislature. Past legislatures have chosen to invest the funds for monetary return.

[9:44:18 AM](#)

Senator Bunde asking that this information be conveyed to the public to promote understanding of this philosophy. He indicated he is a cosponsor of this legislation.

Senator Bunde stated that investments, dividends, and hold harmless provisions are appropriate uses of the earnings reserve account funds. Constitutionally these are State funds and are no different than oil revenues or other revenues generated by the State. He countered the argument that proceeds from the Alaska Permanent Fund should not be spent without a public vote by contending that all State appropriations should therefore require such voter approval. Every year the legislature expends excess earnings of the Fund.

[9:46:17 AM](#)

Senator Hoffman noted the sponsor statement reference to the effect of this legislation on dividend payments, which is likely the highest concern of citizens. The impact would be less than one percent, or a \$10 reduction to the amount of the previous year's dividend payment.

[9:47:09 AM](#)

Senator B. Stevens stated he would provide further details on the calculations [copy on file.]

Senator B. Stevens clarified these calculations are "forward looking", explaining that the one-percent impact on dividends would be an impact on the distribution of future dividends, as growth rates would not be as high. He cited information provided by the Division of Legislative Finance, "the impact on the future distribution over the next 15 years is anticipated under the status quo ... would be \$29,690 in distributions." If this legislation were implemented and this "one-time draw" were made from the earnings reserve account, the distribution is estimated to be \$29,393. The total reduction would therefore be \$297 in future distributions. Dividends would continue to increase from royalty deposits, inflation-proofing the principal of the Fund would continue, and with prudent management, the Fund would continue to grow. He informed that over the 15 years an individual is educated in kindergarten through college, that individual would receive \$29,000 from the State. These are conservative estimates. The question as to whether this is a prudent investment is justified.

[9:50:19 AM](#)

Senator Stedman wanted elaboration on the history of utilizing the Alaska Permanent Fund for capital appropriations versus on-going operation expenses. He pointed out the significant difference between these expenses. He also requested clarification on the differences of debt versus equity financing. This legislation essentially proposes to "pay cash" for these projects, as opposed to borrowing money to fund the projects, which is "not free".

[9:51:21 AM](#)

Senator B. Stevens replied that a capital expenditure is a one-time expense not a baseline number for future appropriations. The operating budget uses a management plan to create an ongoing funding source to provide a steady stream of funds for State services. This legislation is a one-time appropriation bill with no expectation to continue the following year. The proposed projects

are worthy of this funding source.

[9:53:22 AM](#)

Senator B. Stevens continued that certain projects are "worthy" of debt financing, while others should be funded with cash. None of the proposed projects are to "cash generating" facilities. Roads would generate commerce from freight transports and commuters traveling to jobs. The proposed projects provide education for students. This funding source would allow the proposed projects to be completed earlier. An argument could be made that the funds are currently invested to earn money and would not earn interest through this appropriation. However, funding would be required to pay for the projects or to pay off debt incurred to undertake the projects. Investing equity into an "instrument" that earns money is sensible; investing equity into a facility that does not make money only increases the debt.

[9:56:11 AM](#)

Co-Chair Green recalled calculations done on a separate bond proposal of \$350 million paid out over 20 years estimated a debt of \$600 to \$700 million over the life of the bonds. The interest owed on bonds issued for these projects could impede the ability to undertake new projects.

[9:57:02 AM](#)

Co-Chair Wilken appreciated Senator B. Stevens' efforts and recognizing that the State has the capacity to pay for projects without debt financing. Conditions may not be as favorable in the future and efforts should be made to ensure that future generations are not encumbered.

Co-Chair Wilken emphasized that appropriations would be made from the earnings reserve account after the Fund is inflation proofed and after dividends are paid. He acknowledged that constituents are concerned about reduced dividends, but stressed that once this is explained to them, they understand. Many mistakenly predict their annual dividend would be reduced significantly, at about \$900; however, the actual reduction is approximately \$42. This is an investment he could accept for "building Alaska". This requires a change in "how we view Alaska" but Alaskans have a fund of billions of dollars to benefit 600,000 people, which no other state or country has. This presents a "daunting responsibility."

[10:00:51 AM](#)

Senator Bunde compared this legislation to personal finances. It is illogical to incur maximum debt on personal credit cards if one has sufficient funding in a bank account. He expressed concern that Alaska could become akin to an eccentric who dies in poverty with millions of dollars stuffed into a mattress.

[10:01:58 AM](#)

Senator Stedman referenced a table titled, "State of Alaska, Department of Education and Early Development, Capital Improvement Projects (FY 2006), Major Maintenance Grant Fund, Final Agency Decision" dated March 11, 2005 [copy on file] that lists the total cost of the projects at \$187 million. He noted the sponsor statement includes a list of "K-12 Maintenance and New Construction" totaling over \$212 million. He understood the intent of this legislation to address every identified deferred maintenance project and asked about the additional \$25 million. He agreed to the necessity to prioritize investment in areas of the State with increasing student population growth and anticipated future growth as a result of the construction of a natural gas pipeline.

[10:03:16 AM](#)

Senator B. Stevens replied that appropriations made in Sections 1 and 2 of the legislation equal \$212 million. Section 2 lists 14 specific projects. Section 3 appropriates funding to for the construction of a virology laboratory managed by the University of Alaska, Fairbanks. Section 4 appropriates funding to the University of Alaska for projects at various campuses. Section 5 appropriates funding for the Anchorage Museum of History and Art.

[10:04:32 AM](#)

Senator Stedman calculated this legislation would appropriate \$141 million for deferred maintenance projects, \$80 million for new construction of schools, the University of Alaska and the museum.

Senator B. Stevens affirmed. The University of Alaska would receive \$119 million, \$80 million would be appropriated for construction of new K-12 facilities, approximately \$142 would be appropriated for deferred maintenance, and \$5 million for the museum.

[10:05:32 AM](#)

Senator Stedman commented that in the past, some school construction has been undertaken without consideration to population changes. He agreed with the concept of directing capital

to areas with population growth and not stagnant or declining populations. "There is only so much money to go around." The distribution proposed in this legislation is fair and would address areas experiencing population growth much quicker than would occur if past practices were continued.

[10:06:47 AM](#)

Senator Olson noted the proposed projects listed in the sponsor statement are not all maintenance and deferred maintenance items, but also include new construction, which he considered capital expenditures.

[10:07:18 AM](#)

Senator B. Stevens replied that the list of deferred maintenance projects is provided separately than the proposed new projects. Individual new construction projects are listed in Section 2 of the bill.

[10:07:48 AM](#)

Senator Olson asked that although such withdrawals from the earnings reserve account are legal, how assurances would be provided that future projects would be as worthy and the draw would not escalate in future years.

[10:08:24 AM](#)

Senator B. Stevens reiterated this legislation is a "stand alone" capital appropriation worthy of consideration. Future legislatures would have discretion to make future withdrawals from the account. This is not a binding process. He intended to utilize the excess earnings of the Fund for an investment. The "time is right" to undertake these projects in this manner, and circumstances could be more or less favorable in the future. These projects are necessary and the State has the resources to fund them.

[10:09:37 AM](#)

Senator B. Stevens addressed a spreadsheet titled, "Alaska Permanent Fund, Fund Financial History & Projections, as of January 31, 2005" [copy on file.] Each year the financial projections of the that FY 05 would be the first year the expenditure for inflation proofing the principal of the Fund would exceed the dividend payout. The end of year balance is important because of concerns that appropriation of the earnings reserve account would affect dividend distribution. The balance of the earnings reserve

account has been "swept", or transferred to the principal of the Fund, seven times and has never been used to pay dividends. The appropriation of this legislation would be less than one-third of the excess amount in the account in the worst-case scenario.

[10:14:05 AM](#)

Co-Chair Wilken directed attention to the total balance of the Fund, which is expected to be \$49 billion in FY 2015.

Co-Chair Wilken spoke of the upcoming election year and suggested the Committee members could campaign for reelection on a platform that utilizing a portion of the earnings reserve account funds for these projects would have improved the condition of the State at a cost of \$154 per person over ten years of receiving approximately \$10,000 in Permanent Fund dividends. Some would argue this amount is too high and therefore the question is political. If voters disapprove of the decision to appropriate these funds, they could vote for a different candidate.

[10:17:36 AM](#)

Senator Olson asked the source of the \$49 billion FY 15 projection of the balance of the Permanent Fund.

[10:18:00 AM](#)

Co-Chair Wilken corrected the projected amount is \$48 billion.

[10:18:13 AM](#)

Senator Olson expressed concern with the projection, cautioning that the situation might not be as favorable in the future. In constructing new facilities, maintenance and operation expenses would increase. He cited the under funding of the State retirement system as an example of unforeseen circumstances.

[10:19:19 AM](#)

Co-Chair Wilken agreed that the situation could decline but pointed out that during the worst bear market since the 1930s, the balance of the Fund declined from \$26.5 billion to \$23.5 billion. This loss is inconsequential given the circumstances.

[10:20:08 AM](#)

Senator B. Stevens informed that endowments to the Permanent Fund are dependant upon receipt of royalty payments from natural

resource development. The projected amounts of these royalties only reflect proven oil reserves and production of those reserves. However, efforts continue to identify and develop additional reserves. The projected amounts do not include potential royalties as a result of a natural gas pipeline, development of resources in the Arctic National Wildlife Refuge (ANWR) or other sources. Therefore, future royalty projections are significantly understated.

[10:21:55 AM](#)

Co-Chair Green reported a student population growth in the Mat-Su School District of 300 since October 2004. This places pressure on existing facilities.

KIM FLOYD of the Mat-Su School District, and a parent, testified via teleconference from Mat-Su to thank the Committee for the discussion, which has informed her on this matter. She would share this information with others. She detailed the growth in student population and need for three new elementary schools not in the future but for today. Additional schools would be needed in future years. She preferred utilizing funds from the earnings reserve account, which she stated she would "never see" rather than increased property taxes. She spoke to a positive impact created by investing in the future. She pledged her support for this legislation.

[10:24:50 AM](#)

KRIS MOORE, Wasilla resident, testified via teleconference from Mat-Su glad to the growth rate in the area. She witnesses development activities daily. While she is privileged to live in an area with potential, some issues must be addressed to ensure quality of life. She supported this legislation and the proposed funding source for the listed projects. She intended to speak to others about this bill. It offers a fiscally responsible way to address these needs.

[10:26:55 AM](#)

Co-Chair Wilken asked if either of the previous two witnesses were elected officials.

Ms. Moore informed she is a mother, a student at "Mat-Su" and a member of the community.

Ms. Floyd listed her title as the Public Information Specialist for the Mat-Su School District, although her role as mother of two

elementary-school aged students is primary.

[10:27:31 AM](#)

Co-Chair Wilken understand the needs of the Matanuska and Susitna valleys area. He questioned the decision of the local government to not issue bonds to fund additional school facilities and expansions. This is an appropriate question for the elected officials.

[10:28:09 AM](#)

Co-Chair Wilken spoke of preventative maintenance, reminding the Committee of legislation adopted in 1998 stipulating rules by which grants for deferred maintenance projects could be received from the State. These rules require that a school district develop a preventative maintenance plan acceptable to the Department of Education and Early Development. The plan must include a computerized maintenance management program, regular custodial care, facilities training, energy management, and renew and replacement schedules. Department regulations require that each school district be visited one of every five years. All 53 school districts have been visited at least once and the Department has issued a report titled, "Preventative Maintenance State of the State, Report of the ADA [Americans With Disabilities Act] Assessments and Related Data" [copy not provided.] The preventative maintenance plans of six districts do not meet the five criteria necessary to receive grants. If the Department enforces these regulations, premature deferred maintenance projects would be minimized. Therefore, the list of proposed deferred maintenance projects would not "grow out of control" in the future.

[10:30:46 AM](#)

Co-Chair Green clarified that additional language in this bill is not necessary to address this matter.

[10:30:56 AM](#)

Co-Chair Wilken stated that "preventative language" could be beneficial.

[10:31:11 AM](#)

Co-Chair Green assigned Co-Chair Wilken to draft this language.

[10:31:36 AM](#)

Co-Chair Green ordered the bill HELD in Committee.

#SB112

[10:32:09 AM](#)

CS FOR SENATE BILL NO. 112(CRA)

"An Act imposing a tax on residents of regional educational attendance areas and relating to permanent fund dividend applications; and providing for an effective date."

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

Senator Bunde presented this bill saying it relates to discussions on the previous bill. The Committee has heard testimony that school districts need more money. This legislation would generate approximately \$13 million. The intent is that this money would be used for education purposes as "new funding" rather than supplant existing funding. Residents of cities and communities governed by home rule contribute some money for operation of the schools in their communities. This is an "important expression" of a community's investment in their schools both fiscally and psychologically. Residents who have a local investment take a greater interest in protecting that investment. This legislation would generate additional revenue as well as local responsibility for schools.

[10:34:47 AM](#)

Senator Bunde relayed an incident told by a school superintendent in the Bristol Bay region. School supplies would be received in small communities and left unprotected from the weather without concern by local residents. Once those residents began contributing financially to the operation of the small schools in their communities, the supplies were better cared for. This is not a reflection solely on rural residents, but rather of human nature regardless of location.

[10:36:46 AM](#)

Co-Chair Green noted a proposed committee substitute.

Senator Bunde moved for adoption of CS SB 112, 24-LS0505\L, as a working document.

Co-Chair Green objected for an explanation.

[10:38:02 AM](#)

Senator Bunde outlined the committee substitute. Language beginning on page 1, line 12 provides that individuals aged 21 through 65 would be liable for the tax. This mirrors the requirements of many organized communities.

[10:38:36 AM](#)

Senator Bunde noted language beginning on page 2, line 8 lists exemptions for those whose income is less below the poverty line, disabled veterans, and those owning real property, but also pay property tax in another Alaskan jurisdiction.

Senator Bunde deemed this legislation a "fairness bill" that would "allow" contribution by those not paying taxes. Residents of unorganized areas would pay the proposed tax. The intent is not to "double tax" residents and therefore the exemption is given to those who are levied a tax in an organized area.

[10:40:06 AM](#)

CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue, testified the Department had some technical suggestions to make the tax "administratable".

[10:40:33 AM](#)

Co-Chair Green asked if those suggestions are included in the committee substitute.

[10:40:38 AM](#)

Senator Bunde affirmed.

[10:40:41 AM](#)

Mr. Harlamert stated that Section 2, on page 2, line 16 relates to paying the tax in the event an employer did not withhold the tax.

[10:41:34 AM](#)

Senator Bunde furthered that if the tax was not withheld from a paycheck, the individual must file the tax.

[10:41:58 AM](#)

Mr. Harlamert continued that the language contained on page 2, line 22 through page 3, line 21 simplify and clarify the provisions for withholding the tax.

[10:43:01 AM](#)

Co-Chair Green, Senator Bunde and Mr. Harlamert established that similar technical changes are included through line 21 of page 3.

[10:43:37 AM](#)

Mr. Harlamert next addressed the refund provision on page 3, line 26. Refunds would be issued the calendar year after the tax year to avoid redundant claims during the year. This corresponds with other administrative procedures.

[10:44:00 AM](#)

Co-Chair Green asked if the provision relating to the Office of Administrative Hearings was new to the committee substitute.

[10:44:24 AM](#)

Mr. Harlamert affirmed and explained this provision is intended to avoid frivolous appeals. These appeals would be subject to adjudication in the same manner as other State administered programs.

[10:44:56 AM](#)

Co-Chair Green asked for an explanation of the language on page 7, line 14.

Mr. Harlamert was unable to answer.

[10:45:17 AM](#)

Senator Bunde informed that the legislative bill drafters inserted this language, although he was unsure the reason.

[10:45:31 AM](#)

LAUREN WICKERSHAM, Staff to Senator Bunde, elaborated that the drafter stated this language was necessary for "upkeep". She would obtain additional information.

[10:45:57 AM](#)

Co-Chair Wilken asked if the fiscal note amount would be adequate to cover the provisions inserted in the committee substitute, such as increased enforcement.

[10:46:44 AM](#)

Mr. Harlamert replied that the fiscal note was written to the original version of the bill and assumes the "best case scenario" for administrative purposes. The fiscal note also assumes the Division would "take business decisions for third party data" and "administer tax from our desks". The fiscal notes would change according to the committee substitute.

[10:47:46 AM](#)

Co-Chair Wilken asked if the Department would issue a new fiscal note for the committee substitute.

[10:47:55 AM](#)

Co-Chair Green affirmed this would occur.

[10:47:58 AM](#)

Co-Chair Wilken relayed he has heard some support of withholding a portion of permanent fund dividend payments for those residents living in unorganized boroughs who do not already pay taxes supporting local schools.

[10:48:25 AM](#)

Senator Bunde affirmed this suggestion has been discussed with the Permanent Fund Dividend Division. The Division is "hesitant" to support this, as it would be cumbersome to administer and expensive. In addition, garnishment for this purpose would be prioritized with garnishment for child support payments and other obligations. The likelihood of garnering revenue from this source for education would be limited.

[10:49:24 AM](#)

Co-Chair Wilken reminded the Committee that organized communities have contributed \$177.9 million to schools. Senator Bunde is attempting to "level the playing field a bit". Co-Chair Wilken supports this legislation and is a co-sponsor.

[10:50:01 AM](#)

Senator Hoffman suggested that if this legislation is a fair proposal it could be made universal to all areas of the state and subsequently, organized communities could reduce property taxes for their residents. Contrary to statements that this tax would be fair, there are many inequities because while residents in one school district pay the maximum allowable tax, other school districts impose a lesser tax. The tax rate proposed in this bill is based on the average amount paid by those who currently are taxed. The fairest system would be a statewide tax.

[10:51:16 AM](#)

Senator Bunde explained current State statute requires that organized communities contribute "some local support" for schools. How that funding is generated, whether through property tax, sales tax or other sources, is the decision of the community representatives. The legislature sits as the assembly for unorganized boroughs. A statewide head tax would be a progressive income tax, which he did not support.

[10:52:32 AM](#)

LESTER LUNCEFORD, resident of Whittier, testified via teleconference from an offnet location to applaud Senator Bunde's courage in sponsoring this bill. Mr. Lunceford heard complaints about the fairness or unfairness of taxation for schools and surmised this proposal would be implement fairness.

[10:53:33 AM](#)

DAN BOCKHORST, staff, Local Boundary Commission, Division of Community Advocacy, Department of Community and Economic Development, testified via teleconference from an offnet location that the Commission unanimously supports this bill.

[10:54:03 AM](#)

Co-Chair Green asked whether the Commission has provided written documentation of that support.

[10:54:09 AM](#)

Mr. Bockhorst replied that a letter of support was written on April 1 and submitted.

[10:54:22 AM](#)

KATHY WASSERMAN, Alaska Municipal League, testified in Juneau to

the need to address and resolve this issue. However, she questioned the use of the individual average amount paid in property taxes as the method for establishing this tax rate. The average property tax assessed for education purposes in organized communities is four mils and equals approximately \$426 per person. However, lower income citizens presumably live in homes of lesser value and subsequently pay less than those living in higher valued homes. Additionally, property values in unorganized boroughs tend to be significantly lower than properties located in organized boroughs. She furthered that schools located in Rural Education Attendance Areas (REAA) serve as a microcosm to the community. Funding these schools would result in less money available for other community needs.

Ms. Wasserman suggested that community members of both organized and unorganized boroughs should meet and find a solution to this issue. More information is needed to ensure the tax is fair.

[10:57:28 AM](#)

Senator Bunde was aware of the different costs of living in organized and unorganized boroughs but pointed out the combined income of residents of unorganized boroughs is \$505.5 million. For this reason he supported a head tax over a property tax. He reminded that Alaska had a head tax in the past with those proceeds going toward education expenses.

[10:58:16 AM](#)

Co-Chair Green directed that any additional questions be submitted to Senator Bunde.

Co-Chair Green withdrew her objection to the adoption of the committee substitute and Version "L" was ADOPTED.

Co-Chair Green ordered bill HELD in committee.

#

ADJOURNMENT

Co-Chair Green adjourned the meeting at 10:58 AM