

MINUTES
SENATE FINANCE COMMITTEE
April 5, 2005
9:10 a.m.

CALL TO ORDER

Co-Chair Green convened the meeting at approximately [9:10:37 AM](#).

PRESENT

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

Also Attending: BILL DOOLITTLE, Project Manager, Anchorage Telephone System; WALT MONEGAN, Police Chief, Municipality of Anchorage; JOHN FULLEMWIDER, Fire Chief, Municipality of Anchorage; STAN HERREA, Director/Chief Technology Officer, Enterprise Technology Services, Department of Administration; DAN DICKENSON, Director, Tax Division, Department of Revenue; CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue; ROB CARPENTER, Fiscal Analyst, Legislative Finance Division, Legislative Affairs Agency

Attending via Teleconference: From Anchorage: JIM ROWE, Executive Director, Alaska Telephone Association; From Offnet Sites: TIM ROGERS, Alaska Municipal League; DON SAVICH, Wasilla Police Department, City of Wasilla; From Anchorage: STEVE HEBBE, Lieutenant, Anchorage Police Department; From Kenai: CHUCK KOPP, Kenai Police Department

SUMMARY INFORMATION

SB 100-ENHANCED 911 SURCHARGES

The Committee heard from the sponsor and took public testimony. A committee substitute was offered but withdrawn from consideration. The bill was held in Committee.

SB 151-DECOUPLING FROM FED TAX DEDUCTION

The Committee heard from the Department of Revenue and the Legislative Finance Division. The bill was held in Committee.

SB 88-POLICY ON GENERAL FUND REVENUE SHORTFALL

The bill's sponsor reviewed a power-point presentation and the bill was held in Committee.

SB 141-PUBLIC EMPLOYEE/TEACHER RETIREMENT

This bill was scheduled but not heard.

#sb100

CS FOR SENATE BILL NO. 100(L&C)

"An Act relating to enhanced 911 surcharges imposed by a municipality."

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

Co-Chair Green informed the Committee that the forthcoming committee substitute was developed as the result of public testimony to a similar bill she had sponsored the previous Legislative session. The committee substitute changes are detailed in a Memorandum from her office, dated April 5, 2005 [copy on file]. The Memorandum also corrects inadvertent language omissions in Sections 4 and 5, as requested by the bill drafter. These changes would allow the bill "to apply to all municipalities, regardless of organization, equally".

Co-Chair Wilken moved to adopt the aforementioned committee substitute, CS SB 100(FIN), Work Draft Version 24-LS0407\S as the working document.

Co-Chair Green objected for purposes of explanation. She reviewed the changes as outlined in the Memorandum as follows.

Work Draft to CSSB 100 (FIN) "Version S"

Section 1. AS 29.10.200(37) is amended to include the enhanced 911 system under Home Rule applicability.

Section 2. AS 29.35.131(a) 911 surcharge

Page 2

- Line 11 - \$1.50 surcharge for wireline and wireless (from \$2.00)

- Line 23 - requires notification by the municipality when the surcharge is assessed and when it is changed.
- Line 27 - links the 911 surcharge to the federal definitions.
- Line 29 - requires the Borough to reimburse the municipalities for their expenses first and that reimbursement shall occur at least every three months.

Section 3. AS 29.35 is amended to include Private Branch Exchange (PBX) phone identification to ensure that responders go to the actual location of the caller.

Section 4. AS 29.35 is amended to apply to home rule and general law municipalities.

Section 5. AS 29.35.131(h) is repealed (home rule applicability).

Co-Chair Green noted that the proposed change to lines four and five of Section 1, are supported by the bill's drafter. The customer notification language being proposed in Section 2, page two, beginning on line 23 is included because, historically, the telephone utility has borne the responsibility for explaining to their customers that they did not increase the rate on their own; the cost of providing Enhanced 911 (E-911) is allowed to be passed on to the ratepayer. In addition, aligning state definitions with federal definitions would further clarify to municipalities the proper usage of the E-911 or 911 "funds for the purposes for which they were intended". This is specified in Section 2(a), page two, beginning on line 27. This expense reimbursement language would clarify that Boroughs with multiple Public Safety Answering Points (PSAPs) municipal service areas within their boundaries and in which the Borough is the primary collector of the E-911 surcharge, must distribute those funds to the municipalities. She noted that the primary purpose of E-911 systems is to provide emergency responders both the location of the caller and the caller's phone number.

Senator Bunde, the bill's sponsor, noted that SB 100 was developed at the request of municipalities who, while being required to comply with E-911 service regulations, had no funding mechanism in place through which to pay the associated expenses. This bill would provide that funding mechanism. He noted that several testifiers were available to further explain the situation.

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JIM ROWE, Executive Director, Alaska Telephone Association, testified via teleconference from Anchorage in support of the Version "S" committee substitute on behalf of the Association's fourteen-member companies that serve Rural Alaska. The hope is that the bill would be adopted this Legislative Session. While the original version of SB 100 proposed a \$2.00 maximum surcharge limit for E-911 services, the Association is in support of the \$1.50 surcharge proposed in Version "S". "This is double the amount that is currently charged". Language in Section 2(a), line 16, page two would address "parity in the payment between wireless telephone service and wireline telephone system". This issue is very important to the members of the Association because of the competition between wireless and wireline service carriers. "Competitive neutrality is important" and if one service is required to implement a rate increase on its service, then "the competing service should also be required to do that". The language incorporated into line 24, page two of Section 2(a) that would require a municipality to inform the utility's customers about the rate increase is important, as it would further clarify the reason for the increase.

Mr. Rowe stated that the PBX and other telephone system language identified in Section 3, page three, is an area that could easily invoke confusion. In layman's terminology, there are "dumb PBXs" and "smart PBXs". Smart PBXs are systems that are able to communicate both the caller's phone number and location. There would be costs associated with upgrading or replacing the older "dumb" PBXs. Consideration should be given to specifying a time frame in this legislation in which entities that provide telephone systems must implement the required upgrade. In conclusion, the Association supports the bill.

[9:20:35 AM](#)

TIM ROGERS, Alaska Municipal League (AML), testified via teleconference from an offnet site and noted that, while he does not have access to a copy of the Version "S" committee substitute and therefore could not address it specifically, AML does not take issue with the customer notification process that would be required of municipalities. AML is, however, concerned about the proposal to reduce the surcharge from \$2.00 to \$1.50, as AML considers \$2.00 to be a more reasonable amount based on some of the local government needs. Nonetheless, the bill would be acceptable.

DON SAVICH, Wasilla Police Department, City of Wasilla, testified via teleconference from an offnet site in support of the bill.

[9:23:09 AM](#)

BILL DOOLITTLE, Contract Project Manager, Municipality of Anchorage 911 System, testified in Juneau and informed the Committee that two components of the bill could generate "significant impediments to 911 programs within the State". The first, located in Section 2(a) line 26, page two, is the language specifying that "The municipality may only use the enhanced 911 surcharge for phase I and phase II enhanced 911 services, as described in 47 CFR 10.18 as revised..." That specific code of federal regulations "only applies to wireless carriers". This would, in effect, "block using the 911 surcharge for even a basic 911 system within the State".

Mr. Doolittle explained that the initial step in developing a 911 system is "the basic" 911 system, which allows 911 calls to be made. An E-911 system, which is built upon the basic system, would provide both the phone number and the address of the caller. Wireless phase I capability, which would provide the address of the cell site transmitting the call, and Wireless phase II capability, which would provide the latitude and longitude of the handset making the call, are programs developed upon the basic 911 and E-911 systems.

Mr. Doolittle noted that the second significant matter involves the issue of reimbursement to the municipality, as specified in Section 2(a), line 28, on page two. The language specifies that "A borough must use the enhanced 911 surcharge to fully reimburse each city within the borough for expenses borne by the city for the enhanced 911 services before the enhanced 911 surcharge may be used for other expenses of the enhanced 911 system". He noted that "there are necessarily some area-wide types of expenses, such as the "the database management piece", that must be put in place" prior to the 911 system becoming operational. "The database management piece ... aggregates the subscriber records from all the carriers" for the location identification capabilities for the E-911 system. "This is generally a super-jurisdictional area", and in addition to its one-time start-up fee, continuous monthly expenses would be associated with the maintenance of those records.

Mr. Doolittle continued that trunking and circuitry from each of the carriers to the primary PSAP would also be necessary. In a situation where there might be multiple PSAPs, there could be the opportunity to identify municipal-specific expenses; "but they would be equally reimbursable to all municipalities or a borough's 911 center". He offered "as an alternative" the ability "to determine precedence of cost" of such things as database costs, infrastructure costs, and technology costs. These components would be less expensive were they aggregated among agencies. Doing so

would allow for some of the surcharge revenues to reimburse call-taking and operational expenses associated with the 911-program. The current challenge is that the existing surcharge program does not allow reimbursement for many of these costs, and, as a result of an inadequate surcharge, many 911 programs are operating at a deficit.

Co-Chair Green asked what specific changes would be required to address these concerns. The purpose of this legislation is to remind the collectors and the recipients of the 911-surcharge that the funds are generated for "specific use", as defined in federal law.

Mr. Doolittle pointed out that there are two classes of carriers: local exchange carriers who are regulated at the local level and wireless carriers who are regulated by the Federal Communications Commission (FCC). Therefore, two sets of rules govern such things as surcharges and collections. The federal government has allowed each state to establish its own 911 program. As a result, 50 unique programs exist in the nation, and 27 states impose differing rates for the two carrier systems. Therefore, State "statute is what directs or allows what a local level 911 program would be". As a result of interaction with numerous municipalities and boroughs in the State, it has been determined that "one of the challenges" is achieving an inter-local agreement about the scope of services and the scope of the 911 program. Current statutes provide wide latitude to municipalities in that regard. "Many municipalities and boroughs are challenged" in regards to specifying the roles and responsibilities and the allocation of surcharges. "The priority of those costs could be specified on a Statewide basis based on the reality of how you make those expenditures. But really the needs and configurations of dispatch centers within a borough or municipality ... is a local selection". The local public safety agencies "get to choose who will dispatch for them". This would include decisions regarding whether to have a radio dispatch center and 911-call taking and service area responsibilities.

Mr. Doolittle concluded that some alternative language regarding these issues could be developed and provided to the Committee. However, being unsure as to whether the Committee wished to further delay the bill, he noted that there "is great support for the bill as written today", and his comments could be viewed as cautionary in regards to how some of the language is written and the challenges it might create.

Co-Chair Green voiced the desire to correct the bill in Committee rather than allowing it to move out of Committee "flawed".

Co-Chair Green noting that Mr. Doolittle's first concern dealt with the federal regulations, asked for further clarification regarding his second concern.

Mr. Doolittle verified that the federal concern involved tying the surcharge to Phase I and Phase II. His second concern dealt with "reimbursement to municipalities as a priority".

Co-Chair Green acknowledged and asked whether Mr. Doolittle understood the issue the legislation was intended to address.

Mr. Doolittle assured that he understood, as he has worked with a number of municipalities. There "is a question regarding program scope and accountability to municipalities within boroughs", as not all 911 programs hold monthly, quarterly, and annual meetings. The scopes of many programs are not published and explicit. "It would be very easy to have that requirement. It is very simple and straight forward to do that on a local level."

Co-Chair Green asked how the issue could be addressed in State Statute.

Mr. Doolittle suggested that there be a requirement "that a 911 program explicitly document the scope of the program and reimbursement to agencies". This would establish "the groundwork" for establishing a mechanism through which to address "a bona fide request" for reimbursement from an agency.

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AT EASE [9:31:41 AM](#) / [9:39:45 AM](#)

Co-Chair Green stated that upon the conclusion of today's public testimony, staff would work with "experts" to further develop the bill's language.

Co-Chair Wilken voiced being pleased that the bill would be further refined as he has a few problems with it; specifically whether a surcharge level of \$1.50 would be appropriate. Continuing, he asked regarding the home rule city within second-class borough situation that exists in Fairbanks; if the City of Fairbanks is responsible for the 911/E-911 system and they wished to adjust the rate, the question is who would vote on the issue: the residents of the City or the residents of the Fairbanks North Star Borough.

Co-Chair Green asked for further clarification as to which entity manages the 911-system.

Co-Chair Wilken affirmed that the City does.

Senator Bunde speculated that the vote would depend on who the subscribers of the telephone utility system were: whether the subscriber base was limited to the City or included other areas of the Borough.

Co-Chair Wilken noted that he would ask the community to provide the answer to this question.

STEVE HEBBE, Lieutenant, Anchorage Police Department, Municipality of Anchorage testified in Juneau and agreed with Senator Bunde that anyone assessed the surcharge would vote on it. Therefore, were the surcharge borough-wide, there would be a borough-wide vote. Allowing only the City subscribers to vote on an Areawide surcharge would prevent the borough-wide subscribers from having a voice in the matter.

Co-Chair Green understood therefore that anyone residing in the telephone service area should be provided the ability to vote on the issue. It should not be limited solely to the residents of the City of Fairbanks.

Lieutenant Hebbe affirmed that anyone to whom the surcharge rate is charged should have the right to vote on it.

Co-Chair Green asked Mr. Rogers his position on the issue.

Mr. Rogers concurred with Lieutenant Hebbe that the entire service area should vote.

Co-Chair Wilken stated that his office would develop a definitive answer to the question.

Co-Chair Green agreed, as she recalled the issue of whom should be charged the surcharge was the crux of Fairbanks residents' discussions last year during the discussions on her bill.

[9:44:18 AM](#)

Senator Bunde commented that the intent of the language, as drafted, was to provide "that combination of flexibility for the municipality and protection from the municipality" in that the people in the service areas would be allowed to vote regarding the surcharge assessment. How this would affect other divisions in the area should be further clarified.

CHUCK KOPP, Kenai Police Department, testified via teleconference

from Kenai and recounted that, in 1985, the Kenai Peninsula Borough included three home rule cities: Kenai, Homer, and Seward and one first class city: Soldotna. Each had their own 911 program supported by residents of that particular city. Eventually, all four cities transferred their individual authorities to a single borough-wide authority to which all borough-wide residents paid a surcharge. The situation in Fairbanks mirrors that of the Kenai Peninsula in that the City of Fairbanks has agreed to manage the 911-program for the entire Borough, Therefore, the entire borough would vote on the surcharge. A single unified 911 system should be the preferred choice instead of a "fragmented" system, which was originally the case in the Kenai Peninsula Borough. He appreciated the Committee's work in addressing this complicated issue and he supported moving the bill forward.

Mr. Kopp supported Mr. Doolittle's comments regarding the establishment of program management guidelines. "Any borough that has 911 authority must have a program, documented, that explains how the program is managed", to include language addressing the program's reimbursement methodology.

WALT MONEGAN, Police Chief, Municipality of Anchorage spoke in Juneau in support of the bill. He noted that the Anchorage Police Department is the manager of the Anchorage PSAP of which Lieutenant Hebbe was the commander. He voiced appreciation for the efforts being exerted regarding the surcharge. The bill is supported "in that every dollar that is now being utilized to subsidize the shortfall could be reallocated to its proper duties". Addressing the funding shortfall "would effectively enhance all public safety efforts within our municipality".

Senator Olson asked Mr. Monegan his position in regards to the proposal to reduce the surcharge from two dollars to \$1.50.

Mr. Monegan voiced the preference for a two-dollar surcharge. Adopting a two-dollar levy would provide "more breathing room" for managers and would negate the expense of possibility being required to conduct an election to increase the fee over time.

Senator Olson asked whether "a significant decrease in service" might occur absent that fifty-cents.

Mr. Monegan replied "not at this point".

JOHN FULLEMWIDER, Fire Chief, Municipality of Anchorage, spoke in Juneau and stated that a great deal of discussion has occurred in regards to the language in this bill and changes that should be made. While he, like Mr. Monegan, supported the bill as written, he

opined that a few changes could be made to further enhance it and make it a "little bit more palatable from the borough's standpoint". He reiterated Lieutenant Hebbe's remarks to the effect that the Municipality of Anchorage "does not have a dog in that fight". Representatives of the Anchorage fire and police community are testifying today "because of public safety issue". When people call 911, they anticipate that the call would be answered and that the response would be to the correct location, regardless of whether the call is made from a hardwire or wireless phone. "That is what this legislation is all about ... it's the ability to turn the switch on so that we can find you or somebody else that has a cell phone and go forward". Anchorage has been "the first" to address the wireless issue, but the communities of Fairbanks, Kenai, Nome, and Juneau "are right behind us". He asked the Committee to support the legislation.

Co-Chair Green requested that those willing to work on revising the bill's language to address the issues raised by Mr. Doolittle, work with her and Senator Bunde's staff in that regard.

Senator Hoffman asked whether information could be provided in regards to how the Alaska State Troopers' Department of Public Safety, emergency services system operates on a statewide basis.

STAN HERREA, Director/Chief Technology Officer, Enterprise Technology Services, Department of Administration responded that the Department's role in the 911 program is two-fold in that the Department of Administration and the Department of Military and Veterans Affairs jointly house the coordinator for the Statewide 911 program. The Department's role with regards to the 911-coordinator "is to ensure compliance with the law, or the statutes that are established, for 911". This would include such things as the collection of the surcharge and the compliance with the terms within the legislation. The Department of Public Safety's commissioner, William Tandeske, "has voiced concern about the affects of the collection of 911 surcharges; specific ... to the Mat-Su Borough and how that affects the PSAP and ... the role of the Alaska State Troopers in that". The question is "who is actually getting the funds verses who is having to provide the services". He stated that a Department representative would work with Co-Chair Green's staff to address language revisions.

Senator Hoffman commented that 911 programs must be operated 24 hours a day, seven days a week, year-round. To that point, the question is how the Alaska State Trooper 911 program is manned and funded, specifically as it applies to responding to Rural calls for assistance from anywhere in the State. A response from the Alaska State Troopers would be appreciated.

Co-Chair Green responded that the Troopers would be contacted for a response.

Co-Chair Wilken asked to withdraw the motion to adopt Version "S".

There being no objection, the motion to adopt Version "S" as the working document was WITHDRAWN.

Co-Chair Green ordered the bill HELD in Committee in order to further modify its language.

[9:56:29 AM](#)

#sb151

SENATE BILL NO. 151

"An Act excepting from the Alaska Net Income Tax Act the federal deduction regarding income attributable to certain domestic production activities; and providing for an effective date."

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

Co-Chair Green explained that this legislation would decouple a federal tax deduction from the Alaskan Net Income Tax Act.

DAN DICKENSON, Director, Tax Division, Department of Revenue, explained that, beginning in 2005, the Qualified Production Activities Income (QPAI) section of the federal American Jobs Creation Act of 2004, would phase in tax relief to certain tax payers by excluding a specified percentage of their net income earned from extraction, production, and manufacturing activities in the United States. Several handouts, including "The American Jobs Creation Act of 2004", the "Tax Analysis Special Report" dated February 21, 2005, and the "Primer: IRC 199 Qualified Production Activity Income (QPAI)" dated April 4, 2005, [copies on file] were provided to Members to provide additional information.

Mr. Dickenson stated that QPAI is "an attempt" by the United States (U.S.) Congress "to advantage these kind of activities" that occur in the nation "relative to those activities occurring abroad". The affected industries in this State would include the construction industry, the fishing and fish processing industry, the mining industry, and the refinery/production and marketing activities of the oil and gas industry. The QPAI would allow a three percent

deduction of their QPAI for the specified activities in 2005-2006, a six percent deduction in 2007-2008, and a nine percent deduction thereafter.

Mr. Dickenson stressed that the QPAI deduction would not be limited to new activity. Companies would operate "exactly" as they had before; however, under this new tax law, their "taxable income is going to decrease", as a percentage of the specified activities income "would be deducted, or excluded" from the calculation. Alaska typically "adopts the federal tax code by reference" and, as a result, the Alaska tax is based on the business's "worldwide or U.S." taxable income. As of the year 2005, QPAI would lower a business's taxable income by three percent. This would in effect reduce the amount of money Alaska would collect in taxes.

Mr. Dickenson informed that the State has the option to decouple from federal law. This has occurred in other areas of State law: for example, Alaska's depreciation deductions differ from those of the federal government. He pointed out that the impact of QPAI would be more severe on Alaska than on any other state due to the fact that "natural resources ... form the base" of the State's taxable income. The State has limited service industry income in its tax base.

Mr. Dickenson also observed that it is impossible for the State to mirror the concept of the federal QPAI, which is to encourage business activities in the United States rather than in other countries, as the State is prohibited from passing a law that would, in effect, lower a business's tax on an activity occurring in Alaska rather than in another state.

Mr. Dickenson theorized that had the entire nine-percent deduction been in effect in Fiscal Year (FY) 2004, the State would have received approximately \$24.7 to \$27.4 million less revenue. He reminded that the deduction would gradually increase from three percent in the year 2005 to nine percent beginning in 2009. The projected revenue loss, by year, is depicted on page two of the aforementioned "Primer: IRC 199 Qualified Production Activity Income (QPAI)" in the section titled "Projected State Revenue Loss from QPAI Deduction". As reflected on that chart, the State would lose approximately \$100 million in tax revenues over the next decade "as a consequence" of this federal tax.

Mr. Dickenson reiterated that this federal tax and its economic policy goals could "not be replicated" by the State. In addition, the income of foreign oil and gas corporations is viewed in terms of corporations' worldwide income rather than their U.S. income. To that point, the State is required to create a deduction table based

on those companies' worldwide income. "We believe that we would" be required to allow QPAI-like deductions for activities done in places outside of the United States such as Nigeria. The State would be prohibited "from drawing that line between interior U.S. and exterior U.S." activities in the same manner as allowed the federal government.

Mr. Dickenson detailed that when the State audits a large multinational oil company, it relies on the federal government to conduct 95-percent of the work. While the State does not replicate any audit work that the federal government conducts, it does audit any income that might be attributed to Alaska or how a company managed rules exclusive to Alaska. Were the State to accept the QPAI deduction, it must be recognized that the federal government would not be auditing a company's construction activities occurring outside of the U.S.; therefore, the State would be required to either conduct that audit or ignore it. To that point, the fiscal notes accompanying this legislation do not reflect that, absent the adoption of this legislation, more State resources would be required as the State would be required to conduct audits "without the support of the federal Internal Revenue System. This effort would not be required were the legislation adopted.

[NOTE Co-Chair Wilken assumed chair of the meeting.]

[10:04:50 AM](#)

Mr. Dickenson noted that when this issue was discussed with Governor Frank Murkowski, "his quick reaction" was that this was "another unfunded federal mandate. Basically the feds have passed a law, it has desirable policy goals for the federal government". The State could recognize QPAI as being beneficial to taxpayers even though the State would lose revenue. However, unlike most unfunded federal mandates, the State, in this case, has the option to not participate.

Mr. Dickenson clarified that were the State to decouple the QPAI for State taxes, that action would "not make any changes to the benefits the taxpayers receive when they file their federal income taxes". The State's action would have no affect on the rules governing a taxpayer and the federal government. Were the State to decouple the QPAI section of the federal revenue code, the affect on a taxpayer would be that the information filed on the taxpayer's federal tax return would be used as the basis for their State filing. This legislation would simply specify that one section of the federal tax code would not apply in this State.

Mr. Dickenson qualified that this legislation would require some

transitional rules to be developed in order to avert confusion regarding such things as estimated payments.

Mr. Dickenson remarked that the backup material in Members' packets is extensive in comparison to "the brevity of the bill". The aforementioned "The American Jobs Creation Act of 2004" handout explains the history of the Act and briefly explains QPAI and the other sections of the Act. Were this legislation adopted, with the exception of the decoupling of the QPAI section, the other sections of the Act would become part of State law. Another handout, titled the "Tax Analysts Special Report" is a 24-page report that provides information to companies about how to deal with the Act. The third piece of material is a brochure notifying the Department's Certified Public Accountants (CPAs), who are required to undergo continuing professional education, about an upcoming conference that would educate CPAs on how "to maximize U.S. tax benefits on domestic production activities". Department participation in the conference might be beneficial, as it would allow the State to review tax codes and issues that could be relevant to the Alaska Tax Code.

Mr. Dickenson stated that Chuck Harlamert with the Department's Tax Code Division could address Members' technical questions.

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Senator Stedman voiced apprehension about whether this legislation is "as simple of an issue as stated". His understanding is that other than decoupling domestic production activities, no other activity would be excepted from the federal Act. To that point, he asked for further clarification regarding whether specific groups of industries, such as the oil and gas industry for instance, have been identified for exclusion.

Mr. Dickenson responded that the State has not identified any particular industry: the oil and gas industry would be treated the same as the fishing and construction industries. However, the federal tax exemption's application to the oil and gas industry would have significant impact as that industry "is paying the majority of the dollars" under the State's tax system.

Senator Stedman asked for further information about how the State would be affected by the federal nine-percent taxable income reduction.

Mr. Dickenson explained that a company would calculate their taxable income based on revenues less taxable expenses. The Act would allow an additional deduction of up to nine percent of the

income derived from qualified production activity. This would essentially allow some expenses to be "deducted twice". One limiting factor is that expenses could not exceed 50-percent of the business's W-2 wages.

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Senator Stedman asked whether this legislation would permit a business to incorporate an appreciation schedule, referred to as an Accelerated Cost Recovery System (ACRS), which would allow appreciation to occur, for instance, over a 15-year period rather than a 30-year period. Such compression would increase deductions.

Mr. Dickenson responded no, current appreciation schedules would continue unaffected. The only other change specifically included in this legislation would be an accelerated appreciation schedule in regards to an Alaska gas plant "for federal purposes".

Senator Stedman asked, were this legislation to fail and the federal Act to become effective in its entirety, whether a business would be able to incorporate an ACRS instead of the regular depreciation schedule.

Mr. Dickenson stated that neither the action of adopting or rejecting this legislation would provide a business "access to that".

[10:13:38 AM](#)

Senator Olson understood that the theory behind this federal Act was to create jobs. He asked whether that theory would hold true for Alaska, regardless of the outcome of this legislation.

Mr. Dickenson agreed that the purpose of the Act was to create jobs in the U.S. There is "no sense" that this would result in jobs in Alaska. The Act would essentially provide a "tax advantage if you create jobs" in the United States. No tax advantage would be provided were an entity to create jobs outside of the United States. Alaska is prohibited "from drawing that same line". There is no doubt that this legislation would provide the economic tools to encourage new jobs in the nation; however, "the point is that it doesn't help Alaska at all".

Senator Olson calculated that, absent this legislation, the State would experience a \$10,000,000 a year revenue loss for the next ten years. He inquired to the cost associated with the implementation of this legislation.

Mr. Dickenson expressed that this legislation would not incur any expenses. To the contrary, costs would be incurred absent this legislation, as the State would be required to conduct deduction auditing on "QPAI-like activities that occur outside of the U.S".

Senator Bunde questioned the Department of Revenue indeterminate Fiscal Note #1, dated March 22, 2005, [copy on file], as it does not reflect the cost to the State were the legislation not enacted, as specified in the Note's analysis on page two under the "Revenue Discussion" heading.

Mr. Dickenson replied that the Department based its calculations on FY 2004, "which was a very high" taxable income year. Future taxable income level projections, which consider such things as falling oil prices, are lower than FY 2004. Projections indicate a range of losses from five million dollars in the initial years to \$16 million dollars in FY 2013. Losses could amount to \$25 million were a year similar to FY 2004 to occur.

Co-Chair Green commented that the fiscal note is "a little bit misleading in that the information on page two must be brought into consideration.

[10:17:12 AM](#)

Senator Stedman understood that this legislation would, in effect, opt the State of Alaska out of this federal "economic stimulus concept". To that point, he asked whether that action would affect the accounting practices of such entities as "Sub-chapter "S" corporations.

Mr. Dickenson reiterated that the State would be uncoupling from only one section of a large multi-section piece of federal legislation.

CHUCK HARLAMERT, Juneau Section Chief, Tax Division, Department of Revenue, expressed that while the QPAI section is "a major piece" of The American Jobs Creation Act of 2004, it does not have any specific affect on "S" Corporations under Alaska law. "Basically the affect of this bill would be to reverse in your Alaska tax return", one line item in the Other Deductions category of your federal tax return. "Only corporations who pay tax now would be affected; S Corps would not".

Senator Stedman noted that the State has two options: to uncouple from the QPAI or to incorporate the federal Act in its entirety into State tax code. The question is, "from the corporate standpoint and from the State standpoint" which of these two

options would encourage development of refineries and other large capital projects in the State.

Mr. Harlamert voiced being unaware of any element in this federal Act that would incentivize construction of a refinery in Alaska; as regardless of the location, be it in Alaska, Texas, or any other state, the company would benefit from the federal tax exemption. This benefit would also be allowed under Alaska tax code were the State to adopt the Act in its entirety.

Senator Stedman asked which state would be in a better position to attract development of a refinery: a state that has chosen not to opt out or one that opted out.

Mr. Harlamert responded that that would depend on a mix of economic factors including the specific state's taxation. Texas's income tax laws, for example, differ from Alaska's. However, were the tax laws identical and Texas to accept the Act in its entirety and Alaska to uncouple the QPAI, the tax rate for the refiner would be lower in Texas. However, it should be noted that even were the refinery built in Alaska, the refiner would receive the same tax deduction in Texas; the refiner would not receive the tax deduction in Alaska regardless of whether the refinery was built in Texas or Alaska. In conclusion, regardless of where the refinery was built, the refiner would receive the same result under the State tax law.

Senator Stedman stressed that the encouragement of economic development in the State is important. The concern is, therefore, that the State not position itself at a disadvantage in that regard.

Senator Bunde asked whether any taxpayer would be testifying regarding this legislation.

Co-Chair Green replied that none have, of yet, signed up to testify.

Senator Bunde stated that that could be an indication of "a lack of concern" as he doubted their being unaware of the issue.

Senator Stedman requested that the bill be held in Committee to allow for further discussion.

Co-Chair Green agreed.

Senator Olson referenced the "Status of QPAI in Other States" section on page three of the Department's "Primer: IRC 199 Qualified Production Activity Income (QPAI)" report, and asked

whether the desire is to move the State from the "Conform to Federal QPAI Deduction" column to the "Decoupled from Federal QPAI Deduction" column.

Mr. Dickenson responded that would be correct.

Senator Olson commented that none of the states in the "Decoupled from Federal QPAI Deduction" column resemble the State of Alaska. Alaska is an oil producing state and has no personal income tax. He inquired to the reason that Alaska should consider decoupling when other oil producing states such as Oklahoma and Louisiana were listed in the "Conform to Federal QPAI Deduction" column.

Mr. Harlamert expressed that the information reflected on page three was voluntary, was not all-inclusive, and was not up-to-date. One issue on which the State "stands alone in the nation for applying worldwide combined reporting" is that major industries in the State, specifically oil and gas companies, represent "80-percent of the State's tax base". There is no other state in which the implications of the bill would be "as dramatic as they are in Alaska".

Mr. Harlamert continued that there "is a good argument for staying in conformity with federal law ... [it] keeps things simple". Minor timing differences should be avoided, as they would "generate headaches for taxpayers and the State for years to come". However, this legislation addresses "a permanent difference" ... the State "would never be able to recoup the revenue" once its gone. The affect of this Act would be more dramatic for Alaska than for any other state. Most states typically adopt federal standards in a manner similar to how Alaska does as that is the easiest approach: it "takes an effort to come forth and change it".

Mr. Dickenson observed that West Virginia, Montana, and North Dakota, which are also considered resource states, have decoupling legislation pending.

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Co-Chair Green recognized Arkansas, which has already decoupled from the Federal QPAI Deduction, as a resource state.

Mr. Dickenson voiced that the Department would be available to work with the Committee to address further concerns.

Co-Chair Green ordered the bill HELD in Committee.

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#sb88

SENATE BILL NO. 88

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

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

Co-Chair Wilken, the bill's sponsor, informed the Committee that this legislation is an enhanced and updated version of the information that he presented during the June 2004 Legislative Special Session. In addition to the bill, the sponsor statement, and a zero Fiscal Note from the Department of Revenue, Members' packets contain a copy of a March 2, 2005 letter he had received from Chris Phillips, Director of Finance of the Alaska Permanent Fund Corporation. A copy of the "Senate Bill 88 A Bridge to Development A policy on General Fund Revenue Shortfall" power point presentation titled dated April 5, 2005 [copy on file] has also been provided.

Co-Chair Wilken read his sponsor statement as follows.

Senate Bill 88

A Policy on General Fund Revenue Shortfall

Senate Bill 88 reads as follows: *It is the policy of the State of Alaska that the amounts necessary to cover a projected shortfall in general fund revenue during a fiscal year be appropriated equally from the Constitutional Budget Reserve fund and the Earnings Reserve Account.* These few words adopt a course of action that balances the state budget when a shortfall in general fund revenue exists.

Senate Bill 88

- When needed, fills the potential fiscal gap in a way that minimizes the financial impact on Alaska families.
- When needed, provides a bridge over the gap between general fund expenditures and general fund revenues until our state's natural resources can be further developed.
- Doubles the life expectancy of the Constitutional Budget Reserve fund.

- May strengthen the State of Alaska bond rating, and save millions of dollars on future bond offerings.

Senate Bill 88 affirms a policy of the state that provides fiscal certainty when the general fund revenue is insufficient to fully fund the state budget. Please join me in support of this legislation.

Co-Chair Wilken pointed out that the term "'the bridge' is a metaphor [meaning] to get us from here to there." "There are only nine letters that describe economic development in this State: Oil and Gas ... it's not mining, it's not fishing, it's not tourism, and its certainly not taxes."

Co-Chair Wilken noted that the aforementioned power point presentation is available on the Internet at "www.akrepublicans.org/Wilken".

Co-Chair Wilken stated that were this legislation adopted, it would be a component of the AS 37.07.010 Executive Budget Act as opposed to being incorporated into State Statute. "It's policy and can be ignored as needed". The fact that it would not be mandated is "an important consideration".

Co-Chair Wilken stated that the pie chart on page three of the presentation depicts the FY 06 \$7,600,000,000 Operating and Capital Budget, as proposed by Governor Frank Murkowski. 75-percent of the State's revenue budget is attributed to three primary things: the Permanent Fund (PF) equating to \$1.42 billion or 19 percent of the budget; federal funds of \$2.52 billion or 33 percent of the budget; and General Fund (GF) Revenue amounting to \$2.63 billion or 34 percent of the budget. The General Fund "is the home of the fiscal gap". He noted that Oil and Gas Tax Revenues typically comprise between 68-percent and 90-percent of the State's GF revenues. It is anticipated that they would amount of 87-percent of the GF revenue in FY 06. It should also be noted that, in FY 06, the federal and GF funding are expected to mirror each other. The State should "be vary of any changes" that might alter federal funding support in the future.

Senator Dyson asked for examples of what types of funding comprise the "Statutory Restricted" component, which at \$744 million, would equate to ten percent of the proposed FY 2006 budget.

Co-Chair Wilken replied that those revenues consists of Department of Fish and Game receipts or federal money that is considered "flow through money" in that it is earmarked to support a specific program.

Co-Chair Wilken remarked that the information on page four titled "What's the problem?" presents three variables in graph form: the State's General Fund Budget, the General Fund Baseline, and New General Fund Revenue from the years FY 1990 through FY 2020. As shown, the General Fund Baseline tapers downward as the years advance; the General Fund Budget trends upward two percent per year; and the New General Fund Revenue reflects the insertion of new oil and gas development revenue in approximately FY 2013.

Co-Chair Wilken stated that this graph depicts the fiscal gap issue facing the State: the General Fund budget would exceed the General Fund Baseline beginning in approximately FY 2007; however, the receipt of New General Fund Revenue is not projected until the year FY 2013.

Senator Stedman asked for further information about the General Fund Baseline".

Co-Chair Wilken responded that the General Fund Baseline reflects general unrestricted revenues as calculated by the Division of Legislative Finance. As mentioned earlier, 87-percent of the FY 06 General Fund Baseline component would be attributable to Oil and Gas Tax revenue. The General Fund Baseline, as depicted on the graph, is based "on current reserves and current production and their forecast out to the year 2020".

Senator Stedman understood therefore that the General Fund Baseline is General Fund revenue.

Co-Chair Wilken affirmed.

Senator Dyson asked for confirmation that the Division of Legislative Finance based the forecast on oil prices.

Co-Chair Wilken confirmed.

Co-Chair Wilken stated that he valued the information in the " ... and things can change quickly 'For the Good and the Bad'" graph depicted on page five, so much that he had a small wallet size card [copy on file] of the information made for distribution. The graph depicts a variety of fiscal scenarios based on the price of oil ranging from \$25 to \$50 per barrel. The graph indicates that, given the Governor's FY 06 budget, the State's break even point would be a North Slope Crude Oil price of \$42 per barrel. The oil price scenarios are accompanied by projections of the "Unrestricted General Fund Revenue" as well as projected "Surplus" levels.

Co-Chair Wilken stated that, as exemplified, the State's FY 06 budget "would break even at \$42 per barrel"; a price of \$50 per barrel would generate a surplus of approximately \$450 to \$500 million dollars.

Co-Chair Wilken pointed out, however, that, "things can change quickly for the good or for the bad." The price of oil on April 1, 2004 was approximately \$32 dollars a barrel. The Legislature was ecstatic at the time that the price had surpassed \$30 per barrel. "Money was rolling out of our pockets" at that price. However, were that price applied to the Governor's FY 06 budget there would be a \$600 million shortfall. "That's how fast" the scenario changes. In 1999, the per-barrel price was ten dollars and the State was \$1.3 billion out of balance. Therefore, when people bring up the subject of how much money the State has, showing them the aforementioned card would open the discussion to "what if" scenarios.

In response to a question from Senator Stedman, Co-Chair Wilken calculated that the Governor's FY 06 budget would exceed the FY 05 budget by approximately \$400 million. The current price of oil is in the \$33 range. A price of \$42 per barrel would "essentially" generate sufficient revenue to absorb the difference between the FY 05 and the FY 06 budget.

Senator Hoffman argued that the information conveys "only half the story" as, while the per-barrel price has increased, oil production has been experiencing "a steady decline" over the years. Continuance of this trend would further increase the fiscal gap.

Co-Chair Green asked whether the Division had factored in the reduction in oil production.

Co-Chair Wilken affirmed that the decline in production was factored into the projections. The projection is based on a flat 930,000 barrels per day. Were the Trans Alaska Pipeline to operate at full capacity the scenario would definitely change. The fact that things do change is exemplified by the fact that the State has had to withdraw a total of \$5.5 billion from the CBR over eight out of the last twelve years, in order to balance the budget.

Co-Chair Wilken stated that the information on page six specifies, as authorized by Article IX of the Alaska Constitution, that the CBR was established in 1990 as a separate fund to be used to support the State budget when necessary.

Co-Chair Wilken stated that the chart on page seven reflects the draws on the CBR since the initial draw in 1994. The chart depicts, from FY 94 through FY 05, the "CBR Ending Balance", the "Draw"

amount, and the "Average Draw". \$369,000,000 was drawn in FY 94, a peak draw of \$1,042,000,000 was drawn in FY 99, no draws occurred in FY 97 or FY 01, and a low draw of \$11,000,000 occurred in FY 04. No draw is expected for FY 05. The "Average Draw" is approximately \$320,000,000. The CBR Balance is currently \$2.1 billion and the balance is expected to increase to \$2.5 billion by June 2005.

Senator Bunde asked whether the presentation would address the ERA balance.

Co-Chair Wilken assured that ERA information is forthcoming. He reiterated that the current CBR balance is \$2.1 billion.

Co-Chair Green understood therefore, that contrary to previous projections, the CBR would not be depleted by the year 2006.

Co-Chair Wilken affirmed and recalled that, at one time, it was thought that the CBR would be depleted by the year 2002. "It's like the furniture store at the corner, it's been going out of business in the same location for years." "The CBR is pretty healthy" today.

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Co-Chair Wilken noted that page eight of the presentation provides samplings of press releases pertaining to the State's oil and gas resource opportunities. Reiterating that Oil and Gas Tax revenue would generate 87-percent of the FY 06 General Fund monies, he noted that in order for the State to continue to pay for the demands placed on State government, the State must develop its natural resources.

Co-Chair Wilken stated that because new natural resource development would evolve gradually rather than overnight, the State must address the points in time between now and then. This scenario is depicted in the " ... a bridge is needed from today to development" chart on page nine. This page projects oil and gas revenues from the years 2006 through 2016.

Co-Chair Wilken noted that the General Fund Budget on the chart encompasses a two percent growth factor. The "Unfilled Fiscal Gap" in the General Fund is depicted as is the "onset of the Gas Pipeline" and new oil expected from the development of the Arctic National Wildlife Refuge (ANWR). The projected unrestricted General Fund Revenue is also included.

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Senator Bunde asked for further information about the "General Fund

Budget" variable depicted on the chart, as, oftentimes, the argument is heard that the State's fiscal gap could be addressed by reducing State expenditures. He commented that the inclusion of a two percent per year growth factor in the General Fund Budget would be less than the inflation rate that would be experienced. Therefore, what is depicted in the information "is a very modest budget growth prediction".

Co-Chair Wilken agreed. He shared that during his Special Session presentation of this proposal, the General Fund Budget was presented with no growth. "Many people took exception to that and rightfully so". The two-percent growth included in this presentation "is the literary license to just kind of throw a number up there": three percent "is probably too high" and one percent "is probably too low".

Senator Bunde pointed out that a two percent growth calculation would be less than that proposed in separate spending limit legislation proposed by Senator Dyson.

Co-Chair Wilken expressed that a two-percent growth in general fund spending over a 15-year period would reflect "a great deal of fiscal constraint."

Senator Stedman commented that a two-percent general fund growth rate would be a lesser level than that proposed in the FY 06 budget.

Co-Chair Wilken agreed.

Co-Chair Wilken stated that, as portrayed on page ten, there are seven possible sources or "pots" of money for the State: State spending could be reduced; between \$50 and \$100 million dollars might be raised through increased Corporate Taxes; between \$200 and \$300 million might be raised by implementing a State Sales Tax; \$400 to \$600 million dollars might be generated by a State Income Tax; approximately \$30 million could be raised under Other Revenue by increasing such things as Tobacco Taxes, Alcohol Taxes, Fisheries Taxes, Car Rental Taxes, and Studded Tire Fees; the Constitutional Budget Reserve could provide \$2.1 billion; and the \$2.1 billion in realized earnings of the Permanent Fund, referred to as the Earnings Reserve Account (ERA), could be used, after accounting for the Permanent Fund Dividends and Inflation-proofing. Utilizing the ERA is the focus of this legislation.

Co-Chair Wilken stated that, as depicted in the chart titled " ... why not just the CBR?" the CBR could be used to sustain State Budget shortfalls for a finite time, as, absent another funding

source, the CBR would be deleted by FY 2010. However, at that point, there would still be "a gap to bridge".

Co-Chair Wilken stated, therefore, that the question, as written on page twelve, is " ... so what if ... The Legislature splits the future fiscal gaps with equal contributions from the Constitutional Budget Reserve and the Earnings Reserve Account?"

Co-Chair Wilken conveyed that the graph on page thirteen, titled " ... and we build a bridge" portrays the scenario were both an ERA and CBR draw to occur. This scenario would provide "a bridge" of funding that would support the State's budget until the time when "Potential Resource Development Revenue" could support the budget beginning in approximately the year 2013.

Co-Chair Wilken declared, "so, there's the bridge to development."

Senator Hoffman asked how, in this scenario, the capital needs of State would be addressed.

Co-Chair Wilken clarified that capital projects are included in the operating budget in the overall State budget.

Senator Hoffman understood therefore that the proposed FY 2006 \$2.5 billion budget would include capital expenditures.

Co-Chair Wilken affirmed.

Senator Hoffman asked regarding the level of capital funding that would be included in the FY 06 budget.

Co-Chair Wilken responded that it is embodied in the two percent growth.

Senator Hoffman asked whether the amount would be above or below \$100 million.

Co-Chair Wilken stated that the Division of Legislative Finance would provide specific information in that regard.

Co-Chair Wilken stated that the information presented on page fourteen, affirms that the Legislature, by a simple majority vote, could access the earnings of the Permanent Fund.

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Senator Bunde suggested that consideration be given to obtaining the information that included in the State's voter pamphlet at the

time the Establishment of the Permanent Fund was voted on in the early 1970s. That information "clearly" stated that the money would be available "for appropriation and use to support State services when oil revenues have diminished".

Co-Chair Wilken assured that that would be done.

Senator Hoffman, referencing the graph on page 13, asked whether the total CBR/ERA Draw amount that would be required until new resource development comes on line is known.

Co-Chair Wilken stated that that information was included in a Division of Legislative Finance spreadsheet titled "50/50 model", dated Feb 18, 2005 [copy on file] that had been previously distributed.

Senator Hoffman asked whether this proposal would deplete the CBR.

Co-Chair Wilken replied in the affirmative.

Co-Chair Green asked whether CBR growth was included in the projections.

Co-Chair Wilken deferred to the Division of Legislative Finance.

Senator Hoffman restated his question regarding the total amount of the CBR and ERA draws that would be expected.

ROB CARPENTER, Fiscal Analyst, Division of Legislative Finance, Legislative Affairs Agency, clarified that the proposal would split the draws equally between the CBR and the ERA. The total amount required from the ERA and the CBR would exceed \$2.1 billion. Earnings of the funds would also be utilized.

Senator Hoffman estimated that the total could exceed \$4.2 billion.

Mr. Carpenter responded that the amount would be approximately \$2.4 billion.

Mr. Carpenter re-distributed the aforementioned spreadsheet to Members.

Senator Stedman suggested that a "sensitivity table" be included in the presentation in order to recognize the changing price of oil as it increases and decreases. This would reflect the expansion and retraction and the price of oil that would be required.

Co-Chair Wilken stated that such a presentation could be developed.

Continuing, he noted that the thrust of the issue is whether or not the Legislature, after considering all these components, should adopt a policy that would allow joint use of the CBR and the ERA.

Co-Chair Wilken stated that the Alaska Permanent Fund, Fund Financial History & Projections as of December 31, 2004 spreadsheet is provided on page 15. It was included as verification that the numbers provided in the presentation have a legitimate basis. This sheet is the source for the forthcoming conclusions reached in this proposal.

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Co-Chair Wilken voiced the importance of the realization that, as reflected on page 16, there are two pots of money in the Permanent Fund: the principal consisting of 25-percent of oil revenues with the exception of the National Petroleum Reserve-Alaska (NPR-A); "special deposits" authorized by the Legislature; and inflation proofing drawn from the ERA. The Permanent Fund principal is protected in the State's Constitution. While it is highly unlikely, it "would be a dark day" for the State were the time to come that it would be required to ask voters to approve accessing the PF principal to provide for State services.

Co-Chair Wilken continued that the second pot of money comprising the Permanent Fund is the ERA, currently valued at \$3.3 billion. Money from the ERA is used to provide for annual Permanent Fund Dividends, inflation proofing of the Principal, and, by a simple majority vote of the Legislature, the balance of the fund could be accessed in order to fund a State fiscal gap. He voiced surprise that a large portion of the population are unaware that the ERA could be accessed in this manner.

Co-Chair Green commented that the "Other" ERA expenditure, reflected on page 16 as \$2.1 billion, could be referred to as "excess earnings".

Co-Chair Wilken asserted that Co-Chair Green's term or the word "remaining" would be descriptively appropriate.

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Senator Bunde shared the suggestion that the excess earnings be put toward Permanent Fund Dividends. It should be pointed out however, that the previous year, Alaskans sent \$180 million to the Internal Revenue Service (IRS) as the federal tax on that year's dividend. "A great deal" more money would be sent to the IRS were the Dividend increased substantially. That money, being sent out of

State, would not thereby support the building of new roads or schools or some other "State service that people would value".

Co-Chair Wilken stressed the importance of clarifying the distinction between the principal of the Fund and the ERA when discussing the Permanent Fund with people.

Senator Bunde concurred.

Co-Chair Wilken characterized the CBR and the ERA as "Alaska's Crown Jewels" as referenced on page 17. We are the only Legislature in the nation "deciding how to manage \$31 billion for 650,000 people". Only a few countries have that sort of wealth. While the State is not at the financial level of major oil producing countries like Qatar or Saudi Arabia, "it is in the next level down". The power of the PF earnings could be a big consideration, and each day, through a variety of avenues such as the financial market, "the world helps build Alaska". Stock market and real estate investments assist in building the State's Permanent Fund holdings. It is a form of economic development for the State.

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Co-Chair Wilken reminded that the average CBR draw has been \$318 million. Under this proposal, a hypothetical \$500 million annual fiscal gap for the next ten years would be equally split with \$250 million being drawn each year from both the CBR and the ERA. The chart depicted on page eighteen was developed to address the concern about how withdrawing money from the ERA would affect the Permanent Fund Dividend (PFD) check. The \$250 million ERA draw specified in this example, would result in a total PFD reduction of \$446 for the ten-year period. "This is a very important" chart, "as it brings home" the realization of how much money is in the ERA. In order to communicate this information to the public, the page eighteen chart is duplicated on the flip side of the aforementioned wallet sized card.

Co-Chair Green agreed that this is "great" information.

Senator Hoffman suggested that, to further alleviate public concern, a column that reflects the expected dividend amount for each of the ten years should be included on the chart. This information would be based upon the "Alaska Permanent Fund History and Projections as of December 31, 2004" information on page 15, and would assure people that their dividends would continue to grow.

Senator Bunde stated that the information on page eighteen could

address the difficulty that some citizens have in recognizing the fact that, unlike the federal government, the State cannot print more money. State services are supported in a manner somewhat akin to "robbing Peter to pay Paul", in that, through either citizen taxation or other means, the State must raise money to pay for services. While some people opine that a State income tax would be the most fair, others say it would be regressive. Therefore, it might be instructive to develop "a parallel chart" to the one on page eighteen that would reflect what folks might pay were an State income tax in place.

Co-Chair Wilken replied that a forthcoming presentation chart might address Senator Bunde's suggestion.

Co-Chair Wilken stated that the chart on page nineteen provides, as suggested Senator Hoffman, information regarding the estimated PFD for the next ten years compared to the PFD amount were \$250 million withdrawn from the ERA as per this proposal. After his initial review of the numbers, he had asked the Division of Legislation Finance to recalculate them, as they appeared "too good to be true". They are legitimate.

Co-Chair Wilken noted that the information on page twenty reflects the potential impact of this proposal to one's PFD in common terms: there would be almost no impact the first year; the amount lost the second year could equate to the cost of a specialty cup of coffee; the amount lost the third year might amount to the price of a movie ticket; the amount the fourth year could equate to the price of a large pizza; the amount lost the fifth year could equate to the price of a woman's haircut, and the amount lost the tenth year would equate to the price of a dinner for two at a fancy restaurant.

Co-Chair Wilken stated that the information on page 21 might address Senator Bunde's earlier suggestion as it compares the affect of an ERA draw to that of implementing alternate revenue generating sources such as a State income or sales tax. An income tax would cost a married couple with two children earning an adjusted gross income of \$57,000 approximately \$1,000 a year; a State sales tax would cost that family approximately \$950; and tapping the ERA would cost that family approximately \$12. This information is based on the second year of implementation.

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Senator Bunde suggested that a comparison reflecting the costs to someone earning \$30,000 a year be developed, as that was the minimum income baseline utilized during income tax proposal

discussions.

Co-Chair Wilken stated that the graph depicted on page 22 indicates how adopting this policy would extend the life of the CBR to the time when resource development revenues would come online.

Co-Chair Wilken stated that "unlike" the Percent of Market Value (POMV) budgeting concept legislation that had been recently considered, the policy proposed in SB 88 would only be implemented when there were a fiscal gap. Years might pass without there being the need to tap the CBR or the ERA or they could be tapped one year and not the next. This legislation would establish a "unique accountability" between the Legislature and the electorate because the affect of the decision could be quantified. As presented on page 23, this legislation "demands spending accountability because ... (1) the Earnings Reserve Account is the people's money and (2) each legislator must answer to the public on how much was spent from the Earnings Reserve to fund state services."

Co-Chair Wilken read the summary of the presentation, as presented on pages 24 and 25.

The Bridge to Development Plan

- Bridges the State of Alaska revenue needs until development can occur
- Recognizes Alaska's natural resource potential and opportunity for jobs
- Recognizes the power of the Earnings Reserve - *the crown jewel of a fiscal plan*
- Establishes accountability by forming a investment partnership will all voters

... and ...

- When needed, minimizes the financial impact on Alaska families
- Doubles the life of the CBR
- Strengthens the Alaska's bond rating and saves millions of dollars
- Provides Alaska with a stable and dependable long term fiscal plan

Senator Bunde pointed out that, were this legislation adopted, the CBR and the ERA would not be utilized in FY 06 as oil price projections indicate that sufficient revenue would be generated to support that year's budget. In addition, were those who are more optimistic than him about oil prices and production correct, this

might be the scenario for the next several years.

Co-Chair Wilken agreed, but cautioned that oil prices could decrease as quickly as they had increased. He voiced the belief that the State "has a structural deficit" in that over a ten-year period, State revenues would be inadequate more often than they were "flush". "We need to be ready."

Senator Stedman "liked the presentation and the concept" of "a bridging mechanism" that could be utilized until the time that new resource revenues came on line, but opined that further discussion should occur on a couple of issues. To that point, he suggested that "some sidebars" or a maximum limit on the amount that could be drawn from the ERA be considered. This would address the concern that there might be budget increases of five, ten, or twelve percent were no limits placed on the revenue side. The objective would be include "sidebars" in order to prevent the occurrence of "ballooning budgets". "This year's a good example."

Senator Hoffman declared that, "this year is a really good example". To that point, however, he opined that, "when it's all said and done, we would find that we were the sideboards".

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Co-Chair Green applauded the presentation, and reminded the Committee that regardless of the outcome of this legislation, the ability for the Legislature to access the ERA, via a simple majority vote, has always been an option. She agreed with Senator Hoffman that the Legislature does play the roll of the sideboards. She doubted that the Legislature "would limit, under any circumstances", the amount that could be withdrawn as that could jeopardize appropriate action in the case of an emergency.

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Senator Bunde stated that while the Legislature could have exercised its ability to access the money in the ERA "many times" that has not occurred. There is a "huge political dike between" the Legislature and its ability to spend the ERA. Therefore, the question is were a mechanism such as the one provided by this legislation available, would future Legislators take "more political courage" and utilize it.

Senator Bunde also noted that, in order to further the spending limit goal as previously proposed in separate legislation by Senator Dyson, provisions could be included in this legislation that would allow this ERA/CBR mechanism to be utilized only were

the budget no more than perhaps a three percent increase over the previous year's budget.

Co-Chair Green remarked that such a provision would prohibit this CBR/ERA funding mechanism from being utilized in regards to the FY 06 budget.

Senator Bunde continued that, while such legislation could be modified, it would put in place "pretty serious sideboards that a future Legislature would be changing at its own political peril."

Senator Dyson suggested that the passage of this legislation could be contingent on the passage of a Constitutional spending limit.

Co-Chair Wilken, in response to Senator Bunde's comment, stated that his recent bid for re-election to his Senate seat had provided him the opportunity to discuss this ERA/CBR concept with a variety of people. Although he had been initially "afraid" to discuss this plan, which his opponent painted as a raid on the PF, the public response to it was gratifying. The opportunity proved successful in enlightening people about the power of the earnings of the PF. He encouraged people who might run for a public office to continue the dialogue of positioning the earnings "as an asset".

Co-Chair Wilken commented that the idea of imposing a spending limit of two or three percent above the previous year's budget could be doable provided the Legislature "could define what goes into the two or three percent increase".

Senator Bunde commented that, "the groundwork has been established".

Senator Hoffman asked Co-Chair Wilken's position in regards to placing this proposal on a Statewide ballot.

Co-Chair Green interjected that this proposal would not require voter approval.

Co-Chair Wilken stated that this issue is not addressed in the proposal.

Senator Hoffman agreed.

Co-Chair Wilken expressed that the Legislature should not request voter permission to spend the ERA. "That's our job".

Senator Hoffman argued that, rather than the issue being whether the Legislature could access the ERA, the issue is whether this

proposal, rather than a State sales tax, income tax, or user tax, would be the mechanism through which to fill the State's fiscal gap. Rather than his concern being that voter permission should be required to spend money from the ERA, his concern is whether this proposal should be the long-term solution. He surmised that upon voter review of the various options, this option "would have a high potential of passing."

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Co-Chair Wilken characterized this legislation as "soft policy" which future Legislators could either use or ignore. Future legislators would continue to have the opportunity to pursue other options if needed to raise revenue. The ramifications of implementing a sales tax or income tax would include placing pressure upon corporations and families. He opined that were this legislation in place and used, it would work. At that point, "it would become the standard". He voiced discomfort at the thought of asking the voters whether this should be "the" fiscal plan.

Senator Hoffman questioned the reason for Co-Chair Wilken's unwillingness to allow the people to vote on the issue since he had previously mentioned that after discussing the proposal with people during his re-election campaign, they had recognized its worth. Therefore, they would support it.

Co-Chair Wilken stated that it would be a challenge to discuss this issue with 640,000 citizens.

In response to a comment from Co-Chair Green, Senator Hoffman re-stated Co-Chair Wilken's remarks about how, during his bid for re-election, he had broached the subject of this bill and that, as a result, people had warmed up to the idea. The other options had drawbacks; this proposal "is markedly different".

Senator Bunde questioned the reason for there being such a thing as the Senate Finance Committee, were the Legislature "to accept what State law says" regarding the availability of the ERA for appropriation, but nonetheless putting that action to a vote of the people. Were that to occur, perhaps all spending of State funds should be put before a vote of the people. There is no difference between the ERA, "corporate income tax, and any other source of funds that the State has access to".

Senator Olson recognized there to be "a lot of difference" between a State income tax and corporate income tax, and the spending of the ERA. He echoed Senator Stedman's concern that, were a "bigger and bigger and more swollen budget" to evolve, few individuals

would possess the ability to hold a budget in line. He praised the work conducted by the chair of the Senate Finance Committee Department of Natural Resources subcommittee, who, in an earlier presentation, had held that Department's budget down.

Co-Chair Wilken clarified, in response to Senator Stedman's and Senator Olson's concerns, that the only time this policy would be necessary would be when State revenue were insufficient to support the State's budget. "That automatically dampens the desire to spend, spend, spend". It is not something that would occur every year.

Senator Olson respectively disagreed by commenting that, "when somebody spends someone else's money, there is always a shortage of money".

The bill was HELD in Committee.

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ADJOURNMENT

Co-Chair Green adjourned the meeting at 11:29 AM.