

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**April 20, 2005**  
**9:06 a.m.**

**CALL TO ORDER**

Co-Chair Green convened the meeting at approximately 9:06 am.

**PRESENT**

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

**Also Attending:** There were no additional participants.

**Attending via Teleconference:** There were no teleconference participants.

**SUMMARY INFORMATION**

SB 112-TAX ON REAA RESIDENTS

The Committee adopted a substitute and one of two amendments offered. The bill was reported from Committee.

#SB112  
[9:07:00 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 third hearing for this bill in the Senate Finance Committee.

Without objection CS SB 112, 24-LS0505\X, which was offered at the previous hearing, was ADOPTED as a working document.

[9:07:15 AM](#)

Amendment #1: This amendment adds language to subsection (2)(B) of Sec. 43.45.011. Tax Imposed., of Chapter 45. Regional Attendance Area Tax., established in Section 4 of the committee substitute. The amended subsection on page 2, following line 16 reads as follows.

(B) is employed during the tax year in a regional educational attendance area for 10 consecutive working days or a normal pay period, whichever is less, or for more than 20 cumulative working days.

Senator Bunde moved for adoption.

Co-Chair Green objected for an explanation.

Senator Bunde explained that this amendment provides a definition of "employed".

[9:08:03 AM](#)

Senator Hoffman asked the amount of the tax an individual would be responsible for paying under this definition.

[9:08:19 AM](#)

Senator Bunde replied that the payment schedule provides "half the tax or ten percent, whichever is less."

[9:08:40 AM](#)

Senator Olson expressed concern about the issue of residents versus nonresidents. He asked if this legislation or the amendment would impose the tax on nonresident workers.

[9:09:11 AM](#)

Senator Bunde replied that anyone who works in a Regional Education Attendance Area (REAA) and has not paid a tax to support schools in another Alaska jurisdiction would be subject to the tax. Therefore, nonresident workers would be subject to the tax.

[9:09:38 AM](#)

Senator Olson read the language as providing that only residents would be subject to the tax. However, the sponsor indicated intent

that nonresidents would pay the tax.

[9:09:46 AM](#)

Co-Chair Green clarified that a resident paying a school-supporting tax in another area of the State would be exempt from this proposed tax.

[9:10:25 AM](#)

Co-Chair Green removed her objection and the amendment was ADOPTED.

[9:10:30 AM](#)

Amendment #2: This amendment changes the title of the bill to read "An Act imposing an education tax on employment; and providing for an effective date."

This amendment also deletes all language of the bill, Sections 1 through 5, and inserts new language to read as follows.

Section. 1. AS 43 is amended by adding a new chapter to read:  
Chapter 45. Education Tax.

Sec. 43.45.011. Tax imposed. There is imposed a tax of \$100 a year on each individual 19 years of age or older who does not own real property in the state subject to tax by a municipality and who, during the entire tax year, receives compensation greater than \$5,000 in the state.

(b) For purposes of this section, "compensation" includes wages, salaries, commissions, tips, and any other form of remuneration paid for personal services.

(c) The tax imposed under this section does not apply to compensation exempt from the tax under federal law.

Sec. 43.45.021. Collection of tax. (a) An employer shall deduct and withhold \$50 of the tax from the employee's salary or other compensation on each of the first two regular payrolls after the employee's total compensation paid by the employer during the tax year has exceeded \$5,000. An employer shall file a return on a form prescribed by the department and send the tax withheld to the department on or before the fifteenth day of the month following the month in which the tax was withheld from the employee.

(b) A deduction of the tax may not be made in the salary or other compensation of an individual who provides proof to the employer that

(1) the tax imposed under AS 43.45.011 for that tax year has already been withheld by another employer;

(2) the individual was not 19 years of age or older

for the entire tax year; or

(3) the individual owns real property in the state subject to tax by a municipality.

(c) An individual who has not had the full tax withheld by an employer must file a return on a form prescribed by the department and remit the tax due under this section, if any, by June 30 of the tax year.

Sec. 43.45.031. Liability of employer. An employer who pays compensation is liable for the tax required to be withheld from an employee under this section unless the employer can demonstrate that the employer relied on proof provided by the employee that

(1) the tax imposed under AS 43.45.011 had already been withheld by another employer;

(2) the individual was not 19 years of age or older for the entire year; or

(3) the individual owns real property in the state subject to tax by a municipality.

Sec. 43.45.041. Disposition of tax proceeds. (a) The tax collected by the department under AS 43.45.021 shall be deposited into the general fund and accounted for separately.

(b) The legislature may appropriate the estimated amounts to be collected and separately accounted for under (a) of this section for education.

(c) The deposit required and appropriation authorized by this section are not intended to create a dedication in violation of art. IX, sec. 7, Constitution of the State of Alaska.

Sec. 43.45.051. Definition. In this chapter, "tax year" means the period beginning July 1 and ending on June 30 of the following calendar year.

Sec. 2. This Act takes effect July 1, 2005.

Senator Olson moved for adoption.

Senator Bunde objected.

Senator Olson outlined the amendment, noting the individuals subject to the tax would have an income of over \$5,000 during the tax year. This is to allow college students and other young people "trying to get started on their economic feet" an opportunity to do so. He pointed out this amendment provides for an education tax rather than an employment tax. He understood that funds could not be designated.

Senator Olson cited a spreadsheet titled "Alaska Resident and Nonresident Workers and Wages, 2002 and 2003" prepared by the

Department of Labor and Workforce Development [copy on file], listing over 68,000 nonresident workers. The total earnings of these nonresident workers is over \$1.1 billion. He intended to include those workers in the assessment of this tax. This would be fairer and would exempt those who pay property taxes, as those taxes are appropriated for education.

Senator Olson this amendment is "in the spirit" of the bill sponsor's goal.

[9:12:59 AM](#)

Senator Bunde spoke in opposition of the amendment. The bill as written would require that nonresidents pay the education tax as well as others residing in an REAA. The amount of the tax could be debated endlessly, but is suggested by the Department of Revenue at approximately \$400 to \$500 per individual. One objective of this bill is balance and fairness. Property owners likely pay two to four times the amount of this proposed tax, although that tax is used for other government services in addition to education. Therefore the proposed amount is not onerous. He pointed out that a family of four receives approximately \$5,000 each year from the State. He encouraged members to maintain the original language of the committee substitute.

[9:14:44 AM](#)

Senator Olson admitted the sponsor has good points, and Senator Olson agreed with the goals. However, he pointed out the wages and average employment of residents of the REAA districts is low. He exemplified the residents of the Bering Straits REAA earned a total wage of \$31 million with an average monthly employment of 1,686 individuals. He calculated that the average family of five would have an income of \$18,566, which is below the federal poverty level. Therefore half of the employed individuals would not be subject to this tax.

[9:16:16 AM](#)

Senator Bunde noted the main opposition to this legislation is focused on the amount of the proposed tax. He offered to remove the federal poverty guideline exemptions and "allow everyone to pay." He surmised, however, this is not the intent of the amendment sponsor.

A roll call was taken on the motion.

IN FAVOR: Senator Stedman, Senator Bunde, Senator Dyson, Co-Chair

Wilken, Co-Chair Green

OPPOSED: Senator Hoffman, Senator Olson

The motion FAILED (2-5)

The amendment FAILED to be adopted.

[9:17:14 AM](#)

Senator Bunde offered a motion to report CS SB 112, 24-LS0505\X, as amended from Committee with individual recommendations and forthcoming fiscal note.

[9:17:35 AM](#)

Senator Hoffman noted that the legislative intent language of the committee substitute had yet to be addressed. He asked if the intent is that all the tax revenues be used as an additional resource for the REAAs.

[9:18:12 AM](#)

Senator Bunde replied that the intent is to use the revenues as additional funding, and not to supplant existing funding.

Senator Hoffman asked for clarification.

Senator Bunde stated this revenue would add to the total education funding.

[9:18:26 AM](#)

Senator Hoffman asked how this would pertain to any new funding allocated to all school districts, as was currently under consideration by the legislature. He asked if the tax revenues would be appropriated "above and beyond" those revenue sources.

[9:18:51 AM](#)

Senator Bunde expressed his intent that the funds generated from this tax would be additional moneys and would not supplant existing or future funding.

[9:19:08 AM](#)

Senator Dyson shared that certain information influenced him to support this bill. He learned that the average income of a family

residing in rural areas of the State compared to the amount of income of urban families is similar. He asked for those figures.

[9:19:55 AM](#)

Senator Bunde did not have the information before him.

[9:20:05 AM](#)

Co-Chair Wilken stated the average annual wage in Fairbanks as either \$24,000 or \$26,000. Some communities in unorganized areas have lower average annual wages, but others have similar average wages and some have higher average wages. He listed the average annual wages of Tok as \$26,000, Copper River as \$35,000, Lower Kuskokwim as \$29,000 and Greely as \$36,400. The residents of Greely "refuse to pay for their schools".

[9:21:38 AM](#)

Senator Dyson asked the average income in the Anchorage Bowl area.

[9:21:44 AM](#)

Co-Chair Wilken was unsure, but recalled it was similar to that of the Fairbanks area.

[9:21:57 AM](#)

Senator Dyson reiterated this information impacted him.

[9:22:04 AM](#)

Senator Hoffman asserted that the average wage of those who work must be reviewed. He told of rural communities that have limited job opportunities: with only a few positions for teacher, one janitor, one Village Public Safety Officer (VPSO) and a store clerk. He offered to take Members to villages to show how only one-half of the residents have a job.

[9:23:40 AM](#)

Co-Chair Green asked if this was the direction Senator Hoffman wanted this discussion to proceed.

[9:23:49 AM](#)

Senator Hoffman listed villages he would take members to visit, including Eek and Newtok.

[9:24:01 AM](#)

Co-Chair Green noted that each job Senator Hoffman mentioned as available in rural communities is government funded or provides a government service. She asserted, "There is a point at which that no longer, as far as I'm concerned, is a viable excuse."

[9:24:29 AM](#)

Senator Bunde emphasized the intent is not to show compassion or be cruel. He had "great passion" for people without the resources to pay this tax and did not expect them to pay the tax. This is the reason this legislation exempts individuals whose earnings are below the federal poverty level. However, those individuals with adequate income should contribute.

Senator Bunde told of a conversation with a teacher who claimed to have chosen to live in Alaska because she and her husband would not have to pay taxes. She threatened to leave the State if required to pay this tax. Senator Bunde understood the argument that rural teachers would be difficult to attract and retain; but he pointed out that most teachers from urban communities have not relocated to rural areas simply to avoid taxes.

[9:26:35 AM](#)

Co-Chair Wilken agreed with Senator Hoffman's comments but remarked that for four years an attempt has been ongoing to have those people who are able, help financially support their local schools. There are areas of the State that are unable to contribute in this manner and the sponsor of this bill has acknowledged such. However, those people "who have run from their responsibility have shifted the burden now to everybody." This has resulted in the need for essentially a "flat income tax". Past efforts have been made to provide that those who could "help themselves" do so, to allow the State to instead provide adequate funding to those areas of the State that do not have the capacity to contribute. The intent is that in one or two generations, those communities would then have the ability to "generate wealth". It is unfortunate that this "broad brush" method is necessary, but it is the only option because "there are people who won't recognize fact" and lower income communities suffer. Residents of the Delta-Greely area, Glennallen, Gustavus and Denali could afford to contribute to the cost of local education, yet "they refuse to do so". This legislation would demonstrate to these people "that they have some responsibility and they should carry it."

[9:28:50 AM](#)

Senator Bunde clarified this legislation provides for a tax on residents and those who are employed; and is not an income tax.

[9:29:11 AM](#)

Senator Hoffman remarked that however described, this would be a tax for education. He addressed Co-Chair Wilken comments, saying the broad brush of attempting to fund education by forming another layer of government "just didn't cut it". Many other factors besides education are involved in borough organization. Alaska Natives support the least amount of government, preferring to "take care of themselves" and live a subsistence lifestyle on non-economic means. Some communities are struggling with their local governments and the State is providing less financial assistance. Native villages are becoming more reliant on federal "powers", as the federal government recognizes the self-reliant tribal status. Forming another layer of government is "the wrong way to go". This legislation may be the only alternative before the Committee, but would not be viable. He did not have the solution, but stressed this proposal is not it.

[9:32:19 AM](#)

Senator Bunde stated that a number of Tok area residents support this bill because it provides an alternative to the formation of a borough. These residents agree they should support their schools, but do not want another layer of government. This legislation would accomplish that.

[9:33:03 AM](#)

Senator Dyson recalled that when he first entered the legislature eight years prior, he determined his most valuable contribution would be to devise a way for rural and small communities to form self government to deal with their economic means and cultural identity. For three years he attempted to pass legislation to provide for a method for communities to establish a form of government that reflected their values. Three governments cover some areas of the State: State, Indian Reorganization Act (IRA) and tribal governments. These entities could organize a local government appropriate for the community.

[9:34:52 AM](#)

Co-Chair Wilken informed Senator Hoffman of discussions occurring regarding "bringing Title 29 and trying to marry it up with federal

funding as we know it today." It is predicted that "the ship of money that sails from Washington [D.C.] to Alaska is going to get smaller and smaller" in subsequent generations. The people in low income communities would be impacted negatively first. It would be possible to form a regional government without creating another layer of government. Meanwhile, it has been a standard response explaining why "people don't want to acknowledge their personal responsibilities."

[9:36:37 AM](#)

Senator Olson distributed a handout listing data from a Department of Labor and Workforce Development Employment and Earnings Report of 2003 [copy on file]. The average annual income of \$35,614, for the Fairbanks area is significantly higher than Co-Chair Wilken had cited.

[9:37:19 AM](#)

Senator Olson understood this legislation is an attempt to achieve more "common ground" between those who could afford to contribute to education expenses. However, he predicted this would increase the divide between economic groups. Individuals who own property would be exempted from this tax, regardless of their ability to pay, while workers who do not own property would be required to contribute.

[9:38:01 AM](#)

Co-Chair Green respectfully disagreed.

[9:38:05 AM](#)

Senator Hoffman informed that he had collaborated with former Senator Richard Schultz on this issue. Senator Hoffman indicated he would contact him and draft an amendment to this legislation to provide that the legislature would not implement mandatory borough formation without voter approval. Senator Hoffman predicted Members would support this amendment if "that is their intent."

[9:39:11 AM](#)

Co-Chair Wilken responded, "Not in my lifetime."

[9:39:20 AM](#)

Senator Stedman told of the communities within Senate district A, which he represents. The major communities are within boroughs and

the mid-sized communities of Wrangell and Petersburg are in unorganized boroughs, although, those residents contribute to local education funding. The district also includes the communities of Thorne Bay, Port Alexander, Pelican, Coffman Cove and other small communities that are in unorganized boroughs. Port Alexander and Pelican are "in economic zones that don't appear to be all that vital". However, the economy of communities on Prince of Wales Island is growing, if at a slower pace. These communities are unorganized although they appear to have the ability to help pay and fund education. Forcing these communities into a borough is premature "probably by at least a decade if not longer." Therefore, this legislation would serve as a "bridge" between local contributions for education funding and eventual borough formation for those communities in the district. He predicted this legislation would "tend to slow down" borough creation. He expected those residents to "be more hesitant" to form a borough once a head tax were imposed. In some locations the head tax would be significantly less expensive than the imposition of a property tax.

[9:41:39 AM](#)

Senator Bunde commented that this legislation has been a catalyst for discussion on public policy. However, the intent is "raising money for schools". He reiterated that people who do not have money would not be expected to pay; those who do have money should be expected to pay. The estimated annual amount of the tax at \$400 would purchase 400 cups of coffee. He concluded this was not "too much to ask" individuals to contribute to education funding.

Senator Hoffman indicated objection to the motion to report the bill from Committee.

A roll call was taken on the motion to report the bill from Committee.

IN FAVOR: Senator Dyson, Senator Stedman, Senator Bunde, Co-Chair Wilken, Co-Chair Green

OPPOSED: Senator Hoffman, Senator Olson

The motion PASSED (5-2)

CS SB 112 (FIN) MOVED from Committee with a forthcoming fiscal note from the Department of Revenue in the amount of \$527,700.

#

[9:43:14 AM](#)

Senator Stedman announced that SB 141 was reported from the House State Affairs Committee on a vote of 5-2. Substantive amendments were made to the bill; however, its passage from that committee is "clearly a step in the right direction." The bill is scheduled for hearings in the House Finance Committee and would receive thorough review at that time.

**ADJOURNMENT**

Co-Chair Green adjourned the meeting at [9:44:18 AM](#)