

HOUSE FINANCE COMMITTEE  
February 6, 2008  
1:44 P.M.

CALL TO ORDER

Co-Chair Meyer called the House Finance Committee meeting to order at [1:44:04 PM](#).

MEMBERS PRESENT

Representative Mike Chenault, Co-Chair  
Representative Kevin Meyer, Co-Chair  
Representative Bill Stoltze, Vice-Chair  
Representative Harry Crawford  
Representative Les Gara  
Representative Mike Hawker  
Representative Reggie Joule  
Representative Mike Kelly  
Representative Mary Nelson  
Representative Bill Thomas Jr.

MEMBERS ABSENT

Representative John Harris

ALSO PRESENT

Representative Nancy Dahlstrom; David Teal, Director, Legislative Finance Division; Ian Fisk, Staff, Representative Bill Thomas; Eddy Jeans, Director, Education Support Services, Department of Education and Early Development; Mary McDowell, Vice President, Pacific Seafood Processors Association, Juneau; Tom Sunderland, Marketing Director, Ocean Beauty Seafoods; Tim Cottongim, Fish Group Manager, Tax Division, Department of Revenue; Dan Stickel, Economist, Department of Revenue

PRESENT VIA TELECONFERENCE

Debbie Joslin, Eagle Forum Alaska

SUMMARY

HB 273 An Act relating to school funding, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date.

CS HB 273(FIN) was reported out of Committee with a "do pass" recommendation and with previously

published fiscal notes 1 & 2 by the Department of Education and Early Development and a new fiscal note by the Department of Education and Early Development.

HB 321 An Act relating to the salmon product development tax credit; providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006; and providing for an effective date.

CS HB 321(FSH) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Revenue.

HJR 2 Proposing an amendment to the Constitution of the State of Alaska requiring an affirmative vote of the people before any form of gambling for profit may be authorized in Alaska.

HJR 2 was HEARD & HELD in Committee for further consideration.

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Co-Chair Meyer noted for the record that during the 2/6/08 Committee on Committee's meeting, approval was made for the temporary appoint-replacement of Representative John Harris to fill the House Finance Committee seat for Representative Richard Foster until he recovers.

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#HB273

HOUSE BILL NO. 273

An Act relating to school funding, the base student allocation, district cost factors, and the adjustments for intensive services and average daily membership calculations; and providing for an effective date.

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Representative Mike Hawker, MOVED to ADOPT Amendment 1, 25-LS0148\M.1, Mischel, 1/25/08. Co-Chair Meyer OBJECTED for discussion purposes.

Representative Hawker explained that the amendment adds essential information on financing components & recommendations made by the Joint Legislative Education Funding Task Force. At the time the bill was drafted, the information was not available to be included, addressing recalibration of the pupil transportation costs. The contracts were rewritten last summer and then renegotiated.

Amendment 1 reflects those contracts, adding them to the bill.

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Co-Chair Meyer WITHDREW his OBJECTION. There being NO further OBJECTION, Amendment 1 was ADOPTED.

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DAVID TEAL, DIRECTOR, LEGISLATIVE FINANCE DIVISION, provided members a handout: "K-12 Foundation Formula Funding-State of Alaska FY2002 through FY2011". (Copy on File).

He explained that the information resulted from requests to identify the numbers representing inflationary costs and basic education funding. He highlighted the three various scenarios:

- Method 1 - The amount of State spending for education increased since FY2002
- Method 2 - Increases to the Base Student Allocation (BSA)
- Method 3 - Numbers including retirement costs

Mr. Teal explained there is "no clear way" to determine what education funding actually is or how it has changed. The easiest way to understand education funding is to observe the total amount appropriated for the foundation formula. In FY02, the General Fund formula spending for the foundation formula required \$643 million dollars; FY09, General Fund spending, not including debt reimbursement, will amount to \$1.214 billion dollars, which includes Task Force recommendations not included in the BSA. The increase from FY02 to FY09 is anticipated to be \$570 million dollars, an increase of 89% during the seven years or a 9.5% annual increased spending.

Representative Gara inquired the location of that information on the handout. Mr. Teal said the cream colored area listed under Method 1. He noted an objection to the comparison of total spending and the number of items affecting it includes the student count. On a per student base, the average daily membership (ADM) in FY02 was \$5 thousand dollars higher than it is currently. On a per student basis, funding was approximately \$4.8 thousand dollars; in FY02 & FY09, it has increased 95% to \$9.4 thousand dollars. To adjust that number for inflation, the spending would be boosted by inflation to match FY09 equivalent dollars, placing the increase up to 62% per student funding.

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Representative Gara pointed out that a large dollar increase went into funding the retirement shortfall. That account was placed into the BSA for a few years. He asked if those funds had been backed out, would there still be an adjusted inflation amount increase to education funding. Mr. Teal pointed out that information was indicated on the Method 2 chart. Method 2 identifies the increase to the BSA, a more traditional method at looking at education funding. Education funding tends to be a mix of State and local contributions, which can be affected by property values. He commented, the BSA is the "cleanest way" to look at the amount of money going toward education in the classroom.

Mr. Teal referenced handouts from previous meetings, which he had modified to reflect the Task Force recommendations amounting to a \$100 dollar increase from that proposed for FY09-FY11, \$200 dollars.

Mr. Teal referenced Handout 2: "Alaska K-12 Funding, Base Student Allocation with Adjustments". (Copy on File). The pencils on that chart do not show an increase quite as rapidly, highlighting a 49% increase from FY02-FY09. However, with the indicated changes, what is actually being proposed is a 45% increase.

The BSA does not reflect what the State has spent for K-12 because of inclusion of the early opportunity grants, district cost factors, school improvement grants and intensive needs.

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Representative Gara pointed out that the increases show the upward flow to the BSA but do not indicate outside funding such as the learning opportunity grants. Consequently, the increases were actually higher. He noted that a large portion of the BSA increases for a few years had gone into the retirement shortfall. He requested more information indicating the exclusion of money to the retirement shortfall. He maintained that those dollars never go into the classroom.

Mr. Teal advised that he had not tracked those numbers because retirement was funded through the BSA; in order for it to be tracked, there must be a conversion of the district cost factors and the learning opportunity grants to a BSA equivalent. He understood why Representative Gara would want to do that for the retirement numbers because, basically, that too is a reduction to the BSA. He noted those numbers were only tracked for FY09; he added, retirement costs could be ignored from the FY02-FY09 comparison. The State now has returned to the FY02

contribution rate and retirement costs have been corrected in the FY02-FY09 comparison.

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Representative Gara understood that in FY09, the contribution rate would be 12.5%; he asked if that was the rate in FY02. Mr. Teal replied it was approximately 12.5%.

Representative Gara asked the change between FY02 and FY09 to per student funding. Mr. Teal referenced the chart with the bars next to the pencils, Handout 2. The bars represent the adjustments to the BSA. He described the process for determining the difference between the graphed numbers, pointing out that in FY05 & FY06, there was no funding outside the formula. The BSA and the adjusted BSA was the same in FY07, including the district cost factors; in FY09 & later, intensive needs and district cost factors (DCF) add a substantial amount of funding outside the BSA.

Mr. Teal continued, the Governor's proposed increase of \$200 dollars to the BSA, would cost \$44.8 million dollars in FY09. Therefore, the \$90 million dollars added for intensive needs and DCF equals a \$402 dollar increase to the BSA.

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Mr. Teal stated those numbers include what the Department of Education has indicated in the footnote with the \$35 million & the \$70 million dollars outside the formula, converting it to an equivalent BSA and then indicating the number. The inflation adjustment does not include retirement costs, but instead addresses dollars within the classroom. The increase is approximately 45%, with an average increase of about 5.4%. The BSA is anticipated to increase to 5.8% n FY09, which will be a 45% increase since FY02. He reiterated that the average annual rate of growth is approximately 5.4% annually. Inflation has averaged 2.65% each year, which means that since FY02, K-12 funding has grown twice the rate of inflation.

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Representative Gara observed that those numbers did not include the cuts for funding. By excluding retirement costs and then including the outside allocated dollars within the formula, the increase will be 5.4% per year. He pointed out it is not calculated and in FY03, the Legislature cut the amount of pupil transportation funding and the formula. Additionally, the Legislature cut the pre-Kindergarten program, which had been included in the FY02 budget. Schools were required to make up the shortfalls from their BSA dollars; hence, classroom money had to be placed into

the above listed items. Community school funding was cut in FY03. Representative Gara summarized, there are a number of funding sources K-12 education in FY02, which are not indicated in the itemization graph, which narrows the change between FY02-FY09. Mr. Teal agreed.

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Mr. Teal admitted that many complications occur when making a comparison. The attached chart represents only three scenarios. Mr. Teal added that the items referred to by Representative Gara were relatively small and would not change the bottom line, which is that funding is increasing roughly twice the rate of inflation.

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Co-Chair Meyer noted that references such as community schools are not considered education funding. He commented that pupil transportation had increased. Mr. Teal advised that pupil transportation had not been indicated, only the foundation formula and that pupil transportation has increased. Some consider that cost outside classroom money. There are numerous methods that could be considered in providing a valid comparison.

Co-Chair Chenault noted that in FY03, the Legislature instituted a new pupil transportation funding arrangement, which he understood provided an increase. Currently, those dollars are no longer adequate to address the concerns.

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Representative Hawker observed that the analysis had not included any funding for the major maintenance list, capital construction or debt reimbursement. Mr. Teal added, the included costs are strictly operational.

Representative Hawker recalled that in FY03, pupil transportation was moved from a non-accountable to an accountable system. He acknowledged the difficulty of composing an analysis and applauded the efforts done by Legislative Finance Division (LFD).

Representative Kelly noted appreciation for the work provided by the LFD breaking down specific funding information. He warned that there had not been enough information and research done for the choices being made. He pointed out the 89% increased educational funding for K-12 over the past seven years, emphasizing his concern with the proposed budget. He stated the budget is unsustainable and does not provide adequate value for increases to the educational system. He pointed out that the retirement costs to the system will take twenty-five years to pay off.

Representative Kelly urged that a more conservative approach be taken. He reiterated that the proposed costs are "out of control".

Co-Chair Meyer agreed with concerns voiced by Representative Kelly. He had hoped that the Task Force would have adequate information for making recommendations. Representative Hawker noted that Mr. Jeans from the Department had provided extensive information regarding the financial consequences of the decisions being made.

Co-Chair Meyer advised that the legislative appropriations have more than doubled in keeping up with inflation.

Representative Gara remembered opposing the change to pupil transportation made in FY03. Until FY03, school districts received full compensation for transportation costs. Beginning in FY03, the communities were provided increased supplemental funding for fuel costs. In most school districts, the increase has been steep. The Legislature determined a formula providing a percentage that did not increase with the actual costs. Many districts have had to take money from their classroom funds to pay for the increased fuel costs, which has been a great concern since FY03. He acknowledged, the education debate has been frustrating. Education policy should be determining the balance between urban and rural areas. In many districts, class sizes are too big. He recommended that discussion occur on what the legislature can do to help reduce class size. Instead, discussion only compares funding from one year to the next. Representative Gara worried about basic education considerations.

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Mr. Teal addressed Method 3, the model excluding retirement costs. Method 3 provides an analytic view of only the dollars in the classroom. State retirement contributions on behalf of school districts in FY09 will be \$216 million dollars. If that money was distributed to the districts, the BSA would experience a 68% increase in K-12 funding since FY02, growing at 7.7% annually, tripling the rate of inflation. Retirement funding is costing the State more money, however, the teachers are not being paid more. There is no more available to the districts or the classrooms because the funds are paid directly to the Department of Education. Method 3 excludes retirement costs. Retirement costs are now \$216 million dollars per year, which the State pays instead of increasing the BSA. If those dollars were paid to the districts, it would be the equivalent of having a BSA of \$6.8 thousand dollars. He concluded that it grows triple the rate of inflation.

Representative Gara discussed the amount of money currently placed into the education system. Costs to the schools are increasing faster than inflation. He questioned how much health insurance & fuel costs had superseded inflation. Those costs are eating away the district's ability to provide curriculum. Mr. Teal agreed, but did not have the numbers. The inflation indicator being used is the Consumer Price Index (CPI), which has no relationship to the costs of running schools but is the standard recommendation.

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Representative Kelly asked if K-12 education system used a similar index as that used by the University. Mr. Teal said no. Representative Kelly opined that the spreadsheet attachment provides a "great voucher proposal" for education. He reiterated concerns with the proposed budget.

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EDDY JEANS, DIRECTOR, EDUCATION SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that he had just received the LFD analysis, which, he assumed originated from his testimony during the pervious hearing, identifying the Governor's request to move \$100 dollars per student per year for each of the next three years.

Mr. Jeans hoped he had not left the Committee with the impression that education funding had not substantially increased since FY02. That was not his intent. Mr. Jeans warned it is inappropriate, for the Legislature to consider formula adjustments in an inflation calculation. The Task Force made recommendations because they perceived deficiencies in the existing formula, to be adjusted. Mr. Jeans stated there should not be an adjustment, weighing in a cost of living factor. He understood that Anchorage's contract for their teachers would increase 4%-3%-3% over the next three years. The Governor's proposes a \$200 dollar increase, which would be slightly below 4%. The Administration attempts to achieve sustainability and predictability for the school districts & municipalities so that they can plan ahead for the next four years. He commented that the \$200 dollar increase will provide that predictability.

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Representative Gara maintained that there must be a formula, protecting both urban and rural school districts. He noted his support for the proposal by the Administration, increase as recommended in the bill. He observed the increase for special needs funding is a fraction of the real costs. He asked how much the Anchorage School District receives for

their special needs student versus the real costs for that student.

Mr. Jeans replied that currently, Anchorage is spending \$80 thousand dollars for a special needs child; they are actually funded \$26 thousand dollars through the foundation program. He hoped that could be a formula correction recommended by the Task Force and to include it as an offset to inflation in the analysis would be inappropriate.

Representative Gara warned that establishing a formula that leaves the majority of students in the State behind inflation, results in bigger class sizes & less curriculum. He hoped that the Committee could discuss ways to address those concerns.

Representative Kelly disagreed with comments that Alaskan's only look at the cost of education. He believed that the public looks at the total costs, reiterating that the proposed costs are not sustainable.

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Co-Chair Meyer interjected that on the State level, only the total costs should be addressed. It is up to the local school districts to determine which programs are offered in their location. The function of the Legislature is only to provide the necessary funding.

Representative Gara advised he intends to offer an amendment on the House floor. He urged reconsideration of the proposed increase contained in the bill. He agreed with the Administration that \$200 dollars per year does make more sense. Initially, the however, the Task Force members disagreed about the exact amount and decided that the Legislature should determine it. He requested further discussion on the increased levels of funding are and what it means in terms of class size and curriculum offered and it affects each student.

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Representative Crawford noted frustration maintaining the status quo for Alaska's students. He urged a better investment in kids so that they can succeed in the competitive world. He supported the number proposed by the Administration.

Representative Joule observed that the Education Funding Task Force had a narrowly defined mission and that the timeline was short for addressing such a large focus. He shared frustration as voiced by other members.

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Co-Chair Chenault appreciated the work that the Task Force accomplished with the requested direction provided them. They did address some of the needs of Alaskan students. He did not agree that the proposed funding keeps districts at a status quo but thought, instead, it moves them forward. He indicated the short funding over the past ten years, and realized that Anchorage intensive needs are a huge issue. He mentioned the special needs in his own district and pointed out that statewide, there are over 800 children in that category. Smaller classrooms require more money in education and/or hiring more teachers. He agreed the topic should be discussed at greater length at a future time.

Co-Chair Chenault acknowledged the system is not perfect. He indicated concern with the voucher criteria. He thought that the Task Force did an excellent job in forming legislation, maintaining that HB 273 improves the outlook of education in the State.

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Co-Chair Meyer reiterated his appreciation for the work by the Task Force. He pointed out the three fiscal notes, with a new one by the Department of Education and Early Development.

Representative the statistics on the number of kids actually graduating from high school & how Alaska ranks with the other states.

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Representative Hawker acknowledged there had been a divergence of opinions brought forward in drafting HB 273. He acknowledged shared concerns voiced by Representative Kelly.

Representative Hawker MOVED to REPORT CS HB 273 (FIN) out of Committee with individual recommendations and with the accompanying fiscal notes. Representative Kelly OBJECTED.

A roll call vote was taken on the motion.

IN FAVOR: Crawford, Gara, Hawker, Joule, Nelson,  
Stoltze, Thomas, Chenault, Meyer  
OPPOSED: Kelly

Representative Foster was not present for the vote.

The MOTION FAILED (9-1).

CS HB 273(FIN) was reported out of Committee with a "do pass" recommendation and with two previously published

fiscal notes by the Department of Education and Early Development and one new fiscal note by the Department of Education and Early Development.

AT EASE: [2:38:12 PM](#)

RECONVENE: [2:44:03 PM](#)

#HB321

HOUSE BILL NO. 321

An Act relating to the salmon product development tax credit; providing for an effective date by amending an effective date in sec. 7, ch. 57, SLA 2003, as amended by sec. 4, ch. 3, SLA 2006; and providing for an effective date.

REPRESENTATIVE BILL THOMAS, SPONSOR, noted that the Salmon Product Development Tax Credit encourages and accelerates the development and production of value added salmon products in Alaska by providing an economic incentive to the investments in new technology and equipment. He explained that HB 321 provides a recommended sunset extension for an additional 3 years. The original expiration date was December 31, 2008. The tax credit applies to the fisheries business tax paid by the processors. It allows processors to claim up to 50% of the costs. The dollars must be predominately used for salmon and value-added product. The bill allows for innovative marketing of salmon products.

Representative Thomas pointed out that during the Salmon Task Force meeting, the market condition and prices were low, competing with farmed salmon. As a result of some other efforts and the drafting of the bill that trend is changing. He indicated strong support for the program, which is of value for the communities and the statewide economy. He urged passage of the tax extension.

IAN FISK, STAFF, REPRESENTATIVE BILL THOMAS, clarified the changes made in the committee substitute and put forward by the Fisheries Committee. He referenced Page 2, Lines 11-12, language relating to conveyers:

"(iii) Conveyors used specifically in the act of producing a value-added salmon product;"

A conveyer is equipment, which often is integral to value-added salmon processing. The language should have been included as intent, passing from the Task Force. Language on Page 2, Lines 14-15, was requested by the Department of Revenue, to prevent any misunderstanding regarding the use of the equipment:

"(i) vehicles, forklifts, conveyors not used specifically in the act of producing a value-added salmon product,"

Mr. Fish commented that for small processors, conveyors can be important equipment and should be included in the program.

He referenced language on Page 2, Section 3, Line 24, taken from the original bill:

"\*Sec. 3. AS 43.75.035 is amended by adding a new subsection to read:"

The language indicates a procedure for preliminary determination for eligibility, suggesting it would be a logical addition to the program.

Representative Hawker asked if the Representative Thomas was in agreement with the amendments made during the committee process. Representative Thomas replied yes.

MARY MCDOWELL, VICE PRESIDENT, PACIFIC SEAFOOD PROCESSORS ASSOCIATION (PSPA), JUNEAU, stated that three of PSPA's member companies are salmon processors - Peter Pan Seafoods, Alaska General Seafoods and North Pacific Seafoods. All three companies have made good use of the salmon product development tax credit, working with the program goals including development & expansion of new and value-added salmon products while keeping Alaska fishery market competitive in the world market.

Ms. McDowell noted letters of support in the Committee file from the processors, outlining the benefit of the credit. She pointed out that the Legislature had tightly constructed the program so that it could achieve the goals set forth. That has proven successful.

Ms. McDowell added there is more to do to continue the momentum of the program to insure that the product stays competitive. Currently, skyrocketing energy costs are eating up profits. Processors for the most part operate in rural communities where energy costs are the highest; the profit margins could otherwise be invested in equipment. The tax credit encourages processors to move ahead. The value-added product keeps Alaska's fish competitive in the world market, which in turn benefits fishermen and communities. Ms. McDowell anticipated that the investment will pay for itself.

Representative Gara asked how the tax is calculated and the anticipated annual revenue generated. He also asked the amount being credited. Co-Chair Meyer requested the question be held until public testimony was closed.

TOM SUNDERLAND, MARKETING DIRECTOR, OCEAN BEAUTY SEAFOODS, testified in support of HB 321. He pointed out that Ocean Beauty is an Alaskan owned corporation, 50% owned by the Bristol Bay Economic Development Corporation (BBEDC) and 50% owned by fishermen. The corporation operates only as a shore-based operation.

Mr. Sunderland continued, Ocean Beauty provides direct incentive for value-added fish and how to improve the quality of that product. He provided background on the original bill. Companies only have a certain ability to expand their plans. Ocean Beauty has taken advantage of the tax credit. Ultimately, the plan is to improve the value-added equipment. He acknowledged that many improvements are necessary requiring the use of tax credits. He emphasized that long-term economics for passage of the bill remain strong, while outlined specific costs. He believed that the credits have the benefit of rising the value of the fishery and that raising taxes at the same time could create better & higher paying jobs for the State of Alaska.

Representative Gara questioned if Ocean Beauty makes investments because they know they can receive a tax credit. Mr. Sunderland said they have. Representative Gara asked to receive an estimate of projects that would not have been done if the company had not received the tax credit. Mr. Sunderland expected it would have been half of what was accomplished.

Vice-Chair Stoltze stated that previously, he had not supported the bill. He asked if a short season would impact the tax credit. Mr. Sunderland asserted that a short season impacts everything; it is difficult to amortize costs when the season is short.

Representative Gara reiterated his request to get the numbers of estimated projects pending receipt of the credit. Mr. Sunderland said he did not know but imagined that the rate of growth was 50% higher.

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Representative Kelly referenced the flow chart credit indicator and asked about those numbers. [Attachment not Available]. Mr. Sunderland pointed out that processors using credit, don't always get their projects approved. He understood that there have been disputes over syntax of the language, which has resulted in the inclusion of modifications for a binding predetermination.

PUBLIC TESTIMONY CLOSED.

Representative Gara requested a review by the Department of Revenue for how the credit system works and the amount it generates for the State.

TIM COTTONGIM, FISH GROUP MANAGER, TAX DIVISION, DEPARTMENT OF REVENUE, provided members a chart, "Salmon Product Development Tax Credits, Calendar years 2003-2006". (Copy on File). The handout indicates the amount of credits allowed. The tax is imposed on anyone that processes raw resources in the State for purposes of resale. The mentioned tax credit is specifically for salmon processed in the State and can only be claimed for 50% of the tax on the salmon processed in Alaska. The spreadsheet indicates that approximately \$2.8 million dollars in credits have been claimed each year.

Representative Gara asked if the \$2.8 million dollars in FY06, was a reduction in the tax or dollars that would qualify for the 50% tax credit. Mr. Cottongim replied it had been generated and would qualify.

Representative Gara referenced the \$1.4 million dollars taken off the total tax, leaving the number for the Salmon Processing Tax.

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DAN STICKEL, ECONOMIST, DEPARTMENT OF REVENUE, explained that the total investment expenditures that qualified for the tax in FY06 was \$5.8 million dollars. That amount resulted in \$9 million dollars in credits claimed. A final audit has not occurred; however, it is anticipated that the total credits allowed will be around \$2 million dollars.

Representative Gara asked the approximate amount of the Salmon Processing Tax. Mr. Stickel replied that for FY06, there was approximately \$12.7 million dollars fisheries tax received.

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Representative Kelly inquired if the credit was still needed.

Representative Thomas understood that in order to continue forward with product development, the legislation needs to pass. He advised, when equipment is purchased, it becomes taxed by local borough assemblies. The processors continue to pay property tax on the equipment.

Co-Chair Meyer noted the new fiscal note.

Vice-Chair Stoltze MOVED to REPORT CS HB 321 (FSH) out of Committee with individual recommendations and with the

accompanying fiscal note. There being NO OBJECTION, it was so ordered.

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CS HB 321(FSH) was reported out of Committee with a "do pass" recommendation and with a new fiscal note by the Department of Revenue.

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#HJR2

HOUSE JOINT RESOLUTION NO. 2

Proposing an amendment to the Constitution of the State of Alaska requiring an affirmative vote of the people before any form of gambling for profit may be authorized in Alaska.

REPRESENTATIVE NANCY DAHLSTROM, SPONSOR, advised that some Alaskans may consider gambling to be a harmless pastime; however, those costs are underestimated in relationship to human suffering. HJR 2 would amend the Alaska Constitution to require an affirmative vote of the people before any form of gambling for profit can be authorized in Alaska.

Studies have shown that about 2.5 million Americans are pathological gamblers and another 3 million are problem gamblers. The compulsive gamblers have high rates of suicide, depression, mania, alcohol and drug abuse and arrest rates. According to the American Insurance Institute, gambling is the main cause of white collar crime and is the third leading cause of individual bankruptcy in America. Though the human suffering caused by compulsive gambling may be borne by a minority of the population, the overall economic and social costs are shared by all. She urged support for HJR 2.

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Vice-Chair Stoltze asked the definition of gambling for profit & how that would affect gambling for non-profit. He questioned if a secondary party could be involved, which he thought might restrict charitable gaming. Representative Dahlstrom responded that the resolution does not change anything already in place.

Vice-Chair Stoltze stated that the language appeared ambiguous, regarding inclusion of an approval vote by municipalities.

REPRESENTATIVE HARRY CRAWFORD, SPONSOR, advised that language had been included during the last committee of referral, for the local option as well.

Vice-Chair Stoltze understood the option, but wanted further information regarding the intent. Representative Crawford thought that both were needed. Vice-Chair Stoltze did not think both were intended; he worried that about the proposed language was unclear and could become a constitutional amendment.

Representative Crawford read the referencing language: "A majority vote of the qualified voters of the State"; the language following that: "Approved by the municipality". He believed that language could address concerns voiced by Representative Stoltze.

Vice-Chair Stoltze reiterated his question. He asked if it was intended for a municipal vote or if it meant that a local assembly could pass an ordinance or the mayor, an edict. He recommended another threshold be used.

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Representative Dahlstrom explained that in version\M, as changed in the House Judiciary committee, Line 10, uses the word "any". She added that the sponsors had worked with Jerry Luckhaupt at Legislative Legal to draft the language.

Co-Chair Chenault advised that members have the version\K before them. Representative Dahlstrom explained the differences in which Line 10, "any" was deleted and the reason for that deletion, is the insertion of the language:

"The addition of the word 'any' on Line 10, may lead to unintended consequences. If the Legislature passed a law allowing for-profit gambling, in any municipality with a population of one thousand or more, the decision is ratified by the voters, then it may be legal in other municipalities".

"Any" was deleted and "each" was inserted. She emphasized that the intent is that no gambling expansion statewide. If a municipality chooses to vote on it, each individual municipality would vote, if they have a voting population over 1,000.

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Representative Crawford added that the legislation requires a majority vote of the entire State. He inquired if Representative Stoltze would like to see a majority vote also within each municipality. Vice-Chair Stoltze demanded to know what was meant by the language as written. Representative Crawford thought he had clarified what he meant. Vice-Chair Stoltze replied what is meant and what has been said are not in sync, reiterating the ambiguity. He asked if it was intended that a voter approval

requirement be placed at the local level. Representative Crawford replied that was the intent. Representative Dahlstrom agreed. Vice-Chair Stoltze asked what "yes" meant.

Co-Chair Chenault interjected that the intent of the constitutional amendment is to have a majority vote of the citizens of the State to introduce gaming anywhere in the State. Also, it is intended that municipalities exceeding on thousand voting residents would have to have a majority vote within their municipality in order to have it, even though the citizens of the State said it was allowable. Representative Dahlstrom affirmed.

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Representative Hawker noted consequences associated under the federal Indian Gaming Act, mandating unrestricted gaming anywhere and already allows gaming statewide. He asked the consequences of opening up unrestricted Indian gaming. Representative Crawford replied that the legislation does not intend to open up gaming anywhere in the State. If qualified voters in the State say it is okay to open it up for profit gaming, could open up an allowance for Indian gaming.

Representative Hawker inquired about the secondary qualification and approval by the municipality. He was curious if there was a conflict between the Indian Gaming Act and State authority. Representative Crawford explained that the previous Committee realized that the language could be vetoed at the local level. He thought it would not preclude Indian gaming.

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Co-Chair Chenault clarified for the record that the bill did not contain a population requirement as currently written.

Representative Nelson noticed that whenever Committee members address gaming, Indian gaming is brought up and becomes the "bogey man". She questioned that heightened level of concern. Representative Dahlstrom explained that her concern was with gambling or gaming of any sort, anyplace in Alaska. The legislation has nothing to do with race or culture. Anything that already exists, will continue to be allowed. She worried about the effect for future generations and the costs to society.

Representative Nelson asked Representative Hawker about his concern. Representative Hawker apologized if he was seen to have racist views. He was concerned about the possibility of establishing a conflict between federal statute and State Constitutional authority. He thought it could result in

some form of litigation to further clarify the relationship between the State and the federal government.

Representative Crawford noted urgency for the initiative to be on the ballot, August 2008. He pointed out that the initiative would establish a five person gaming commission. He referenced Page 3, Section 05.18.030, Number 3, which clarifies that authorization of gaming activities pursuant to Section 05.18.100. The commission could authorize any future gaming activities. He stated he opposes gambling activity on moral and economic grounds and that Alaska can not absorb for profit gaming, which shrinks the economy and over the long-term, the social costs keep growing.

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Representative Gara asked if it was intended that the municipalities vote. Representative Crawford explained, it is intended for any municipality to hold a public vote and decide upon the issue for their area. Representative Gara agreed with the comments expressed by Vice-Chair Stoltze, referencing language on Page 1, Line 9, "ratified by a majority vote of the qualified voters of the State". He recommended the language "ratified by a majority vote of the qualified voters in the municipality", be added, guaranteeing that it is a public vote.

Representative Gara added that requiring local vote of one thousand or more is not fair to the smaller municipalities. He recommended retaining current language including a uniform rule for all municipalities.

[3:40:56 PM](#)

Representative Dahlstrom acknowledged that language would be acceptable.

Vice-Chair Stoltze understood that the intent was to substitute the legislative role with the public role on a State & local level. Representative Dahlstrom said yes.

Vice-Chair Stoltze inquired that once the initiative was on the ballot, by asking voters approval, could the requirement be met. Representative Crawford responded that the initiative sets up a gaming commission. The legislation is about regulating what currently exists. Vice-Chair Stoltze understood it was about expanded gambling and did not want to see the language clouded.

AT EASE: [3:44:06 PM](#)

RECONVENE: [3:44:28 PM](#)

Representative Crawford explained that the people could pass the initiative and the constitutional amendment, legalizing the ability for the Commission to set up gambling by passing the initiative and the Constitutional amendment. He stated that the amendment would supersede the initiative. The initiative does not legalize gambling; it legalizes the ability for the commission to set up gambling and would not contradict the will of the people.

[3:45:31 PM](#)

Representative Dahlstrom advised that following conversation with Legislative Legal, Mr. Luckhaupt clarified that the Constitution does supersede statute.

Representative Hawker questioned if "municipality" should be used rather than "political subdivision". Representative Gara advised that a statutory definition of municipality could become imposed. He was not sure but thought that municipality would be covered by statute, yet, did not know if municipality was defined anywhere else in the Constitution. Representative Dahlstrom asked if municipality could include a political subdivision. Representative Gara did not know.

[3:47:36 PM](#)

Representative Gara asked about moving a conceptual amendment. Co-Chair Chenault requested that a fully drafted amendment be prepared for the next Committee meeting.

Representative Dahlstrom offered to work with Co-Chair Meyer's staff to address the intent.

Representative Gara asked to clarify comments made by Vice-Chair Stoltze, understanding that he did not intend to remove the right to vote. He advised that only the populace, through their own vote, can remove that.

[3:50:07 PM](#)

DEBBIE JOSLIN, (TESTIFIED VIA TELECONFERENCE), EAGLE FORUM ALASKA, testified in support of HJR 2. She concurred with comments made by Representative Dahlstrom and the ills that occur with gambling. She recommended that language be added to Line 10 "approved that even when there is a statewide vote, municipalities should be allowed to vote independent of that vote.

[3:53:18 PM](#)

PUBLIC TESTIMONY CLOSED.

Co-Chair Chenault inquired if a majority vote would be required at the municipal level. Representative Crawford commented that initially, a 60% majority vote was required; however, during the process, language was changed to a simple majority. He clarified that he preferred the 60%.

HJR 2 was HELD in Committee for further consideration.

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[3:54:45 PM](#)

ADJOURNMENT

The meeting was adjourned at 3:54 P.M.