

**ALASKA STATE LEGISLATURE
HOUSE STATE AFFAIRS STANDING COMMITTEE**

February 6, 2007

8:03 a.m.

MEMBERS PRESENT

Representative Bob Lynn, Chair
Representative Bob Roses, Vice Chair
Representative John Coghill
Representative Kyle Johansen
Representative Andrea Doll
Representative Max Gruenberg

MEMBERS ABSENT

Representative Craig Johnson

COMMITTEE CALENDAR

HOUSE BILL NO. 21

"An Act relating to the proper disposal of the state flag."

- MOVED CSHB 21(STA) OUT OF COMMITTEE

HOUSE BILL NO. 48

"An Act amending the powers of the board of trustees of the Alaska Retirement Management Board to authorize purchase and sale of transferable tax credit certificates issued in conjunction with the production tax on oil and gas; and providing for an effective date."

- MOVED CSHB 48(STA) OUT OF COMMITTEE

HOUSE BILL NO. 75

"An Act relating to driver's licenses and alcohol awareness testing."

- HEARD AND HELD

Subcommittee on Ethics: Report

PREVIOUS COMMITTEE ACTION

BILL: HB 21

SHORT TITLE: DISPOSAL OF STATE FLAG

SPONSOR(S): REPRESENTATIVE(S) HARRIS, HAWKER, DAHLSTROM, WILSON

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) STA
02/01/07 (H) STA AT 8:00 AM CAPITOL 106
02/01/07 (H) Heard & Held
02/01/07 (H) MINUTE(STA)
02/06/07 (H) STA AT 8:00 AM CAPITOL 106

BILL: HB 48

SHORT TITLE: RETIREMENT BOARD PURCHASE PPT CREDITS
SPONSOR(s): REPRESENTATIVE(s) SEATON, KELLY

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) STA, FIN
02/06/07 (H) STA AT 8:00 AM CAPITOL 106

BILL: HB 75

SHORT TITLE: DRIVERS LICENSE: ALCOHOL AWARENESS/MINOR
SPONSOR(s): REPRESENTATIVE(s) RAMRAS

01/16/07 (H) PREFILE RELEASED 1/5/07
01/16/07 (H) READ THE FIRST TIME - REFERRALS
01/16/07 (H) STA, FIN
02/06/07 (H) STA AT 8:00 AM CAPITOL 106

WITNESS REGISTER

PETER FELLMAN, Staff
to Representative John Harris
Juneau, Alaska

POSITION STATEMENT: Presented HB 21, on behalf of
Representative Harris, joint prime sponsor.

VERN JONES, Chief Procurement Officer
State of Alaska
Division of General Services
Department of Administration
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 21.

REPRESENTATIVE PAUL SEATON
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 48, as a joint prime sponsor.

JERRY BURNETT, Legislative Liaison/Director
Division of Administrative Services
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Offered the department's perspective on HB 48.

JANE PIERSON, Staff
to Representative Jay Ramras
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented HB 75 on behalf of Representative Ramras, prime sponsor.

DUANE BANNOCK, Director
Division of Motor Vehicle
Department of Administration
Anchorage, Alaska

POSITION STATEMENT: Reviewed driver's license eligibility requirements and answered questions.

ACTION NARRATIVE

CHAIR BOB LYNN called the House State Affairs Standing Committee meeting to order at [8:03:16 AM](#). Representatives Roses, Coghill, Johansen, Doll, and Lynn were present at the call to order. Representative Gruenberg arrived as the meeting was in progress.

HB 21-DISPOSAL OF STATE FLAG

CHAIR LYNN announced that the first order of business was HOUSE BILL NO. 21, "An Act relating to the proper disposal of the state flag."

[8:04:35 AM](#)

REPRESENTATIVE JOHANSEN moved to adopt the committee substitute (CS), Version 25-LS0137\E, Bullock, 2/1/07, as a work draft. There being no objection, Version E was before the committee.

[8:05:04 AM](#)

PETER FELLMAN, Staff to Representative John Harris, on behalf of Representative Harris, joint prime sponsor, explained that HB 21 is before the committee again in order to address the questions of Representative Doll regarding the size and proportions of an official state flag. He pointed out the committee packet should

include the standard proportions of the U.S. flag and the state flag. Mr. Fellman clarified that the size of the flag doesn't matter but rather if the proportions are accurate, then it's an official state flag. Therefore, Version E was changed to specify that the flag "may be respectfully retired by fire." He noted that the committee packet should also include the U.S. flag code in which Section 176(k) specifies: "The flag, when it is in such condition that it is no longer a fitting emblem for display, should be destroyed in a dignified way, preferably by burning."

CHAIR LYNN noted the word "may" is permissive rather than mandatory.

[8:07:17 AM](#)

REPRESENTATIVE DOLL [moved to adopt] Amendment 1, which simply updates the language to reflect that Alaska is already the forty-ninth star in the national emblem. Amendment 1 read:

Page 1, line 1, following "**Act**":

Insert "**relating to the state flag; and**"

Page 1, following line 2:

Insert a new bill section to read:

"* **Section 1.** AS 44.09.020 is amended to read:

Sec. 44.09.020. State flag. The design of the official flag is eight gold stars in a field of blue, so selected for its simplicity, its originality, and its symbolism. The blue, one of the national colors, typifies the evening sky, the blue of the sea and of mountain lakes, and of wild flowers that grow in Alaskan soil, the gold being significant of the wealth that lies hidden in Alaska's hills and streams.

The stars, seven of which form the constellation Ursa Major, the Great Bear, the most conspicuous constellation in the northern sky, contains the stars which form the "Dipper," including the "Pointers" which point toward the eighth star in the flag, Polaris, the North Star, the ever constant star for the mariner, the explorer, hunter, trapper, prospector, woodsman, and the surveyor. For Alaska the northernmost star in the galaxy of stars represents Alaska, [AND WHICH AT SOME FUTURE TIME WILL TAKE ITS PLACE AS] the forty-ninth star in the national emblem. The flag of the Territory of Alaska is the official flag of the state. The standard proportions and size

graphically delineated herein shall be used in the manufacture of the official flag of Alaska. The stars shall be the color of natural yellow gold and the field of blue shall be of the same shade of blue used in the official manufacture of the national emblem of the United States. The design, standard proportions, and size are as follows:

(THE DESIGN, STANDARD PROPORTIONS, AND SIZE OF THE STATE FLAG ARE SET OUT IN THE PRINTED STATUTES.)"

Page 1, line 3:
Delete "**Section 1**"
Insert "**Sec. 2**"

[8:07:58 AM](#)

CHAIR LYNN objected for discussion purposes.

MR. FELLMAN, in response to Representative Johansen, related that Representative Harris agrees with Amendment 1.

CHAIR LYNN removed his objection. There being no further objection, Amendment 1 was adopted.

[8:09:06 AM](#)

VERN JONES, Chief Procurement Officer, State of Alaska, Division of General Services, Department of Administration, informed the committee that the division is responsible for 13 buildings, most of which are located in Juneau. The maintenance staff raises and lowers the flags in most of the state office buildings. He related the division's support of HB 21. In fact, the division is already retiring the state flag as it does the U.S. flag and thus, HB 21 wouldn't impact the division.

REPRESENTATIVE COGHILL expressed gratitude for the actions already taken by the division.

[8:10:32 AM](#)

REPRESENTATIVE COGHILL moved to report CSHB 21, Version 25-LS0137\E, Bullock, 2/1/07, as amended, with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 21(STA) was reported from the House State Affairs Standing Committee.

The committee took an at-ease from [8:11:39 AM](#) to [8:13:16 AM](#).

HB 48-RETIREMENT BOARD PURCHASE PPT CREDITS

[8:13:32 AM](#)

CHAIR LYNN announced that the next order of business was HOUSE BILL NO. 48, "An Act amending the powers of the board of trustees of the Alaska Retirement Management Board to authorize purchase and sale of transferable tax credit certificates issued in conjunction with the production tax on oil and gas; and providing for an effective date."

[8:13:47 AM](#)

REPRESENTATIVE PAUL SEATON, Alaska State Legislature, presented HB 48, as joint prime sponsor. First, the bill would allow the Alaska Retirement Management (ARM) Board to purchase the transferable tax credit allowed under the Petroleum Profits Tax (PPT) passed last year. He reviewed some of the history of the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS) and the unfunded liability that has resulted from those systems. He said the proposed legislation offers ways of decreasing that unfunded liability; one of those ways is to increase the return on the investments made by the ARM Board.

CHAIR SEATON reviewed that the duty of the ARM Board is to invest the money and be the fiduciary responsible for all the assets of both PERS and TRS. He indicated that the proposed legislation would authorize the ARM Board to "act like an oil company" - purchasing transferable credits earned by another oil company and reimbursing them from the State of Alaska. He emphasized, "This is absolutely neutral as far as the cost to the State of Alaska."

[8:16:37 AM](#)

REPRESENTATIVE SEATON directed attention to a handout in the committee packet, entitled, "Tradable Capital Investment Tax Credits - 43.55.023(a)-(h)." He said, for example, a new company or company with no current production of oil, would not owe PPT taxes. If that company were to invest \$100 million in capital, that money would create \$20 million of capital credit - an incentive to get people to develop. However, until oil is flowing, the company would not be able to do anything with those credits. He indicated that the bill would allow that company to

apply for a certificate "that makes those tradable." The tradable tax credits, he said, could then be bought by one of the four big [oil] producers in the state. Those producers would write that \$20 million off against their tax bill, as long as the amount did not exceed 20 percent of their total tax bill for the year.

REPRESENTATIVE SEATON said the bill also provides a plan for a net operating loss tax credit. If a company has a net operating loss - not enough production to offset the credits earned by operations - that can also be made a tradable tax credit to be bought by another oil company to write off against its tax credit, he said.

REPRESENTATIVE SEATON continued:

There was a lot of concern that the oil company that you're selling this to might say, "Gee, well we'll give you 70 cents on the dollar, and then we'll turn them in and make - as somebody that didn't do the exploration, that didn't do the investment - ... 30 percent of the tax credit, without doing any of the work." Well, the big thing is that it reduces their incentive and their refund on their exploration. So, [the] ... PPT ... generated another thing that you could do with these tax credits: ... If you had \$100 million of combined net operating loss and capital, ... at 20 percent, you would generate \$20 million, and you could go to the Department of Revenue, they would give you the certificate, and you'd say, "I want to cash this in." And, under the provision of PPT, up to \$25 million per company, the state would directly reimburse them the full face value.

[8:21:12 AM](#)

And it's important to remember that whether they have it reimbursed or they sell these to another company and the other company reimburses it, the State of Alaska always pays 100 percent of the full face value of the certificate. So, what this bill does: it lets the retirement board act like a purchasing oil company - like one of the big three or four - and say, "We will offer you 92 percent of the face value of the tax credit," and then it allows them to get reimbursed from the Department of Revenue for the full face value, making 8 percent.

We wanted to make sure that we did not have the state in a bad financial position and get boxed into making these reimbursements. So, there is a condition on this bill that says the commissioner of [the Department of] Revenue has to certify that the state's financial position is such that he will reimburse it. So, first of all, this bill allows the ARM Board to do it, and it also allows the commissioner of [the Department of] Revenue to say, "Now's not the time, don't buy that."

Now, we would think there'd have to be some coordination, but I want you to remember that the commissioner of [the Department of] Revenue ... [has] a designated seat on the ARM Board. So, before the ARM Board makes this [decision], one of their members basically has to certify - and that's the commissioner of [the Department of] Revenue - that the state is in a position where they would do this.

Now, 8 percent is ... basically what the ARM Board tries to make as their target for investment, but that's on an annual basis. So, if you make 8 percent, you buy it at 92 percent - and we're fixing that in the statute so they're not getting into a bidding war and all those kinds of things - if you buy it at 92 percent you get it for 100 percent, it's 8 percent. Of course, if you did that at the beginning of the month and got the return at the end of the month, that's 12 times 8 percent, or a 96 percent return. Now, of course, if you're doing it in an overnight or a two-day transaction, that increases tremendously. So, that's how this investment can increase the percentage that the ARM Board will make on its investment. It's totally going to be dependent on how much exploration we get; it's totally going to be dependent on how much credit we get; but remember that right now ... we're just doing oil. If ... there's a gas line that comes on line, and we get this massive exploration, we could be looking at a lot of money that could be turning over in these tax credits, as long as the commissioner of [the Department of] Revenue certifies that ... we have ample tax revenue coming in to offset this Because remember, it's offset against that Petroleum Profits Tax that the companies are paying, and this is a credit against

that amount of taxes that are coming in. It could be significant and it could help reduce the unfunded liability. So, that's the entire purpose of this bill, and that's the mechanism at work. I know it's pretty hard to explain the unfunded liability and the PPT and all those things in a short time, and I'd be perfectly happy to answer questions, and the Department of Revenue is here, as well, if you have other questions that I can't answer.

[8:24:37 AM](#)

REPRESENTATIVE SEATON said the Department of Revenue has pointed out that the bill omitted exploration tax credits, which he said had been in place for many years and were extended through the year 2016 in the PPT legislation; therefore, [language for] a conceptual amendment is available in the committee packet to include those credits.

REPRESENTATIVE SEATON said the bill would also help "the small guys" by establishing a floor related to expected reimbursement. The floor is 92 percent of the investment tax credit.

[8:26:51 AM](#)

REPRESENTATIVE DOLL said 92 percent seems rather generous, and she asked Representative Seaton how he arrived at that amount.

REPRESENTATIVE SEATON responded that 92 percent seemed like a fairly good number, because 8 or 8.25 percent is the target percentage rate used by the ARM Board in bargaining. He said, "... We don't want to get into a bidding war, but we want to establish a good floor, and we want to make something that has the potential for reducing the unfunded liability." He reiterated that the commissioner has control and the state "is still on the hook ... for the Department of Revenue, for offsetting oil taxes at 100 percent of the face value of the tax credit."

[8:30:15 AM](#)

REPRESENTATIVE SEATON, in response to a request from Representative Roses, reiterated his explanation of the compounding effect.

REPRESENTATIVE ROSES stated:

My understanding is you aren't going to sell this every month. You're going to buy these credits, which is an annual credit. Is that correct? So, ... if you had \$20 million, you buy that at 92 percent. That means that you're gaining 8 percent, which would be \$1.6 million. And so, the only thing the ARM Board is going to do with that additional \$1.6 million is invest it into what they already have, which is gaining 8.25 percent a year. So, you're only going to get 8 percent on the \$1.6 million, because you had to spend the other \$18.4 million in order to get that \$1.6 [million]. So, you've withdrawn \$20 million out of your investments to buy the credit, for which you're getting an additional \$1.6 [million] return. So, you're really only going to get 8 percent on the 8 percent, which would be .64 percent. So, ... you're not going to get 96 percent. I mean, if we did that, we could cure our unfunded liability in two years.

REPRESENTATIVE ROSES said, as a former member of the ARM Board, he supports [HB 48], because one of the strategies that the board looks for is additional ways to make investments. He concluded, "It's not going to be a huge cash cow, but it certainly is another way to leverage and make the target investment slightly above the 8 percent."

[8:32:25 AM](#)

REPRESENTATIVE SEATON said both the ARM Board and a former commissioner of the Department of Revenue have informed him that "they have cash coming in all the time from the deposit," and thus would not be "taking any investments out." He said the transactions will be one-day or perhaps overnight. He said, "... If it turns out as a gas line goes forward that there's \$3 or \$4 million, and you make 8 percent on \$3 or \$4 million overnight, that's a pretty good return; that really can help your investment." He emphasized that if the state can marginally increase its return on investment, it will help the outlying years considerably. He offered further details.

[8:35:26 AM](#)

REPRESENTATIVE COGHILL asked why this plan would be more attractive than "other market forces."

[8:36:03 AM](#)

REPRESENTATIVE SEATON, in response to a question from Representative Coghill, offered an explanation of the market dynamics. He said, "What we're doing is saying [to] those small guys, 'If our economic situation is good, we'll guarantee you that ... you, as the person that made the investment, can get 92 percent of the face value of the tax credit.'" He added:

So, only oil companies ... can use this, and only oil companies that are making a profit in Alaska, and they can only use them to 20 percent of their tax liability. So, with such a small group of players you can see how the market dynamics could be that people would say, "Yeah, we'll buy them from you, but ... we want to make a higher return on that." And so, we could be rewarding not the people that are making the investment, but just people that have petroleum product status.

[8:39:00 AM](#)

REPRESENTATIVE COGHILL asked how fast the credit can be passed around that it would remain valuable, especially if a high value is going to be set on the credit and then be passed off.

REPRESENTATIVE SEATON explained that a "small player" would make an investment and then apply to the Department of Revenue for a credit certificate. He said, "Now, no other small player is going to buy that, because they've got nothing to do with it; they've got nothing to write it off again. The only [person] that can use that is somebody that's paying petroleum profits tax or the \$25 million cash refund from the state - and that's limited to \$25 million per year." He said the small player could hold the money, but most companies want to get the cash so that they can reinvest it. He added, "Anyone can buy these - that's the law - but it can only be written off against the petroleum profits tax."

[8:41:55 AM](#)

REPRESENTATIVE SEATON, in response to a question from Representative Coghill, said the state is the buyer. In response to a follow-up question from Representative Coghill, he offered his understanding that there are 14 small companies operating in Alaska, and those companies currently could be generating net operating losses. He said a company with a net operating loss less than \$25 million will "go for the 100 percent." The company with net operating loss and capital

credits totaling more than \$25 million has two choices: hold it or sell it to another company. He said, "If I sell it, I'm going to take whatever they're going to give me for it. And in the past, that's been somewhere around 90 percent - some have been less." He mentioned an amendment that would allow exploration tax credit. He said, "The reason I say ... it establishes a floor [is] because we just say you can buy it at 92 percent. We're not getting into the bidding war with [ExxonMobil Corporation] and [ConocoPhillips Alaska, Inc.] ...; we don't want to make the ARM Board negotiate or anything else."
[8:44:56 AM](#)

REPRESENTATIVE COGHILL asked, "Would the 92 percent ever be a real market buyout?"

[8:45:49 AM](#)

REPRESENTATIVE SEATON stated:

Our information is that ... they have been willing to buy these credits for ... 90 percent and keep 10 percent Or, because now somebody has an option. If ExxonMobil Corporation will only give them 80 percent, they can come to the ARM Board and, if the Commissioner of Revenue agrees, the ARM Board could purchase it at 92 percent, the unfunded liability gets reduced somewhat, and we also direct at least 92 percent of the money to the people that made the investment.

REPRESENTATIVE COGHILL asked, "Why would anybody ever do it at 92 percent if the market flow was at 88 percent, for example?"

CHAIR SEATON responded that the reason is money. He explained as follows:

You've spent \$100 million, and you've got \$20 million dollars-worth of credit. And you want as much of that \$20 million back in your pocket as you can. If you sell it to the ARM Board, you get 92 percent; if you sell it to [ExxonMobil Corporation], you only get 88 ... or 85 percent. So, you, as small explorer, you're not going to sell it to another explorer, because they won't pay you anything for it - they can't use it. All they can do is resell it to somebody else. Now, you have the possibility that one small company would be there, would get a tax credit certificate, would

sell it to another one for 50 percent, and the other guys would sell it to the ARM Board for 92 percent. I mean, nobody's preventing anything like that, but ... the marketability of these is for cash and to reimburse you for ... expenses that you have incurred. And you ... want ... the most of that money you can [get] back. That's why I say when we raised the direct credit back up to ... \$25 million, it took away some of the usefulness of this tool for the normal exploration amounts that are going on with a lot of these small companies now, because it's less than the \$25 million. And, I mean, if I was a small company, there's no way I would sell it to the ARM Board for 92 percent if I can just turn it in to the Department of Revenue for 100 percent. I mean, you want the money in your pocket.

[8:49:05 AM](#)

REPRESENTATIVE COGHILL remarked, "I know you're not going to be able to see this in a vacuum because of various different agreements that oil companies would have on exploration or operation."

REPRESENTATIVE SEATON reiterated that the language of the bill is totally permissive.

[8:51:31 AM](#)

REPRESENTATIVE COGHILL said he is attempting to figure out the benefit to the state.

[8:52:04 AM](#)

CHAIR LYNN asked what the worst-case scenario would be in passing the proposed legislation.

REPRESENTATIVE SEATON proffered:

The only down-side to this is if you were one of the large producers that had a large tax bill, you would not be able to leverage small companies that were investing to sell you their tax credit at a very reduced rate. So, if you were a large company that had a lot of PPT, you might not want there to be ... an effective floor on what you would offer these small companies.

CHAIR LYNN commented that the bill gives "the small guy" choice.

[8:53:09 AM](#)

REPRESENTATIVE DOLL said she understands the advantages the bill would bring to the small company, and she stated her support of HB 48.

REPRESENTATIVE COGHILL said he would like to know if the legislation would change the dynamics to investment incentive.

[8:53:58 AM](#)

REPRESENTATIVE SEATON responded that the bill would increase the investment incentive for small operators, because they would know that "above the \$25 million, they can at least get 92 percent of their credits back." He offered further details. In response to a comment from Chair Lynn, he confirmed that the legislation expands the market, but without costing the State of Alaska one dime. He highlighted the zero fiscal note.

REPRESENTATIVE SEATON, in response to a concern expressed by Representative Coghill, said he wants to ensure that the credits are only applied against the PPT, in case "something goes bad for us for a year or two." He concluded that HB 48 is a method of making tax credits valuable to the person who makes the investment in Alaska and tries to get back the most amount of money, while creating a reasonable return for the state, [which could have a positive effect on the unfunded liability].

[8:58:30 AM](#)

JERRY BURNETT, Legislative Liaison/Director, Division of Administrative Services, Department of Revenue, offered the department's take on HB 48. He said the sponsor effectively and accurately portrayed the bill and the effects it would have on the state and the ARM Board. He stated the department's belief that the bill has merit as a vehicle to increase the revenue to the ARM Board, with little cost to the state's general fund. Furthermore, he recognized that the bill would provide a floor for investment credits, which could enhance small oil producers' abilities to utilize exploration credits, which would in turn enhance exploration and production in Alaska.

[9:00:03 AM](#)

MR. BURNETT, in response to a question from Representative Johansen, explained that the fiscal note is zero for operating costs and the revenue effects are indeterminate. He said there may be a cost related to a timing issue, wherein the department could make a payment to the ARM Board more quickly than it was getting reduction in revenue from an oil company as a result of the use of a tax credit. In that scenario, he explained, there would be a difference in investment results from the general fund relative to the ARM Board investment results.

[9:01:03 AM](#)

REPRESENTATIVE ROSES opined that timing is the issue, because the ARM Board has caps on the dollar amount that can be invested at any one particular investment group, and it must shift dollars into liquid assets until such time as it can find a better investment. At that point, the money invested takes some time to build. He said, "But with this type of a purchase option, you get an instant return on your money, as opposed to waiting for that investment to start to grow." He said that's why he likes "this option."

MR. BURNETT told Representative Roses that the department sees the transaction as being "fairly, nearly, instantaneous."

[9:02:44 AM](#)

CHAIR LYNN closed public testimony.

[9:02:52 AM](#)

REPRESENTATIVE ROSES [moved to adopt] Conceptual Amendment 1, which read as follows [original punctuation provided]:

Page 2, line 4: after "43.55.023" insert "and
43.55.025"

Page 2, line 5: after "43.55.023(f)" insert "and
43.55.025"

[9:03:32 AM](#)

REPRESENTATIVE SEATON said Amendment 1 would allow exploration tax credits, which was a suggestion from the Department of Revenue.

[9:03:48 AM](#)

CHAIR LYNN asked if there was any objection to [Amendment 1]. There being none, it was so ordered.

[9:03:59 AM](#)

REPRESENTATIVE COGHILL moved to report HB 48, as amended, out of committee with individual recommendations and the accompanying fiscal notes. There being no objection, CSHB 48(STA) was reported out of the House State Affairs Standing Committee.

The committee took an at-ease from [9:04:22 AM](#) to [9:06:25 AM](#).

HB 75-DRIVERS LICENSE: ALCOHOL AWARENESS/MINOR

[9:06:30 AM](#)

CHAIR LYNN announced that the last order of business was HOUSE BILL NO. 75, "An Act relating to driver's licenses and alcohol awareness testing."

[9:06:56 AM](#)

REPRESENTATIVE JOHANSEN moved to adopt the committee substitute (CS) for HB 75, Version 25-LS0348\E, Luckhaupt, 1/26/07, as a work draft. There being no objection, Version E was before the committee.

[9:07:07 AM](#)

JANE PIERSON, Staff to Representative Jay Ramras, Alaska State Legislature, presented HB 75 on behalf of Representative Ramras, prime sponsor. She paraphrased from the sponsor statement included in the committee packet, which read as follows [original punctuation provided]:

House Bill 75 continues my efforts to improve alcohol management and awareness in Alaska.

It stipulates that all drivers' licenses issued to a person under 21 years of age will expire within two weeks of the person's 21st birthday.

HB 75 will further require that a person turning 21 years of age or a person 21 years of age or older applying for a new license must take a test regarding alcohol safety and awareness, and laws related to

drinking and driving, prior to receiving an Alaska driver's license.

Once HB 75 takes effect, all drivers' licenses of Alaskans 21 years of age will reflect that they have passed the alcohol awareness and safety test when they are issued an adult license. The test will serve to relate the privilege of driving to the responsibility of consuming alcohol. The test will be designed by the Division of Motor Vehicles, and it is the sponsor's intent to have MADD participate in the process of designing this test.

HB 75 should also help cut down on minors consuming alcohol, since a license issued to a person over 21 years of age who has passed the test will look different than a license issued to a minor.

Please join me in supporting this important piece of legislation.

[9:08:51 AM](#)

CHAIR LYNN asked why a teenager would not take alcohol awareness testing when he/she gets a learner's permit.

[9:09:24 AM](#)

MS. PIERSON noted that there are already "a good number of questions on alcohol awareness" in "the basic test." In response to a follow-up question from Chair Lynn, she explained that under the bill, there would be two tests required: the basic test taken when applying for a permit or license, and an alcohol awareness test. The bill, she said, would also encompass people who have had their license revoked and are applying for a new license.

[9:10:32 AM](#)

MS. PIERSON, in response to questions from Representative Coghill, confirmed that a person coming in for a license at the age of 35 would have to take both a written test and an alcohol awareness test. However, she indicated that these tests would not have to be taken at every renewal of the person's driver's license.

[9:11:31 AM](#)

MS. PIERSON, in response to further questions, reviewed the changes made in Version E, Sections 1 and 2. She said the requirement in Section 1 of the original bill version was that a person renewing a license for the first time after the effective date of the bill would have to take a test; however, that language was removed. She said that change allows those whose licenses are in good standing to not have to take the alcohol awareness test when renewing their licenses. In Section 2, she noted, language was added to clarify the expiration and renewal of the license at age 21, because the original wording could have caused problems if the date fell on a weekend.

[9:12:35 AM](#)

MS. PIERSON, in response to a question from Representative Doll, said there is a one-time, \$5,000 set-up fee in order for the DMV to "re-input" the driver's license test machines. She deferred to the director of the DMV for further comment.

[9:13:20 AM](#)

REPRESENTATIVE JOHANSEN said he doesn't see how a provision that will ultimately require more people to go through the DMV will not result in the DMV coming before the legislature to ask for more money. He also questioned what level of education would be given for each test. He explained his concern is that waiting to educate and test on certain information until someone is older could mean that person has lost the chance to understand an important fact that could prevent him/her from drinking and driving.

CHAIR LYNN suggested the possibility of including a requirement for drug education in the bill.

MS. PIERSON said she thinks the bill's sponsor would consider language to that effect.

[9:15:42 AM](#)

REPRESENTATIVE JOHANSEN said he supports the concept of the bill, but he wants to see information related to his previously stated concern.

MS. PIERSON offered to provide a booklet, the information in which she said is also found online, and in that booklet is a large section on alcohol and alcohol awareness. She offered her

understanding that "when you get your permit, you actually take the test, and then you take a driver's test, and not another test when you get your license."

9:16:28 AM

REPRESENTATIVE DOLL surmised that the main intent of the bill is to have a different form of identification for the purpose of "carding." She stated, "The education component is there, but certainly you could put that same education component earlier on, as was mentioned."

MS. PIERSON concurred. She indicated that there is a perfect fit between the DMV and educating young people to be aware of the effects of alcohol.

9:17:15 AM

REPRESENTATIVE ROSES recalled that at one time, licenses for those underage had a different color background than licenses for people 21 and older.

MS. PIERSON differed to the director of the DMV for comment.

9:18:07 AM

DUANE BANNOCK, Director, Division of Motor Vehicles, Department of Administration, reviewed driver's license eligibility requirements and answered questions. At age 14, he said, a person is eligible for an instruction permit. The test required for that permit is called a written test, but is taken on a computer. He listed the following statutorily required skills tested: the ability to read and understand official traffic control devices; knowledge of safe driving practices; knowledge of the effects of alcohol and drugs on drivers and the dangers of driving under the influence; knowledge related to laws on drinking; knowledge regarding laws on financial responsibility, and knowledge of traffic laws and regulations.

MR. BANNOCK said at age 16 a person is eligible for a provisional Alaska driver's license, and at that point he/she takes the skills exam, which is commonly referred to as the road test. A provisional driver's license limits the number and type of passengers and the hours of operation of the vehicle. Some states refer to that as a graduated driver's license. After six months with a provisional driver's license, and with parental consent, the person, who Mr. Bannock said could be 17 years old

by then, can return to the DMV and acquire a regular driver's license.

MR. BANNOCK told Representative Roses that the DMV no longer uses varying background colors to specify the type of license. He said when the division changed to digital licenses, it created a license for those under 21 years of age, which is laid out in a vertical format, which is different from the horizontal format of licenses given to those over 21. Clearly printed on the underage license are the words, "under 21 until," followed by the date of the person's twenty first birthday. Anyone who has been issued an underage license can return to the DMV after they turn 21, pay \$15, and they will be issued a new [horizontal] license.

[9:22:48 AM](#)

MR. BANNOCK, in response to a question from Representative Coghill, confirmed that a 20-year-old coming in to the DMV for the first time today would get a vertical format license that is valid for five years; however, that person could, upon turning 21 the next year, opt to come in to the DMV to be issued the horizontal card.

[9:23:50 AM](#)

MR. BANNOCK, in response to Chair Lynn, said the division supports HB 75. He said the DMV is anxious to work with MADD to establish the secondary test that would be called for by the bill. Relating to Representative Johansen's previous comment about future requests for funds, he said although customer time will increase, there will be no necessity for staff to work overtime. In response to Chair Lynn, he estimated that the test, which currently takes applicants 8.5 minutes to complete, will probably take 12.5 minutes with the additional questions added.

[9:26:23 AM](#)

MR. BANNOCK, in response to a question from Representative Coghill, offered the following example:

Instead of the 18-year-old getting the statutory five-year driver's license that we have today, the 18-year-old would get, arguably, a three-year driver's license, at which point in time they would come in after their twenty-first birthday, as per the

directive in Section 2 [of HB 75]. That's when they would take ... this second test that we're taking about in Section 1, and be issued then a five-year driver's license that would expire on their twenty-sixth birthday.

MR. BANNOCK, in response to a follow-up question from Representative Coghill, confirmed that should the bill pass, the extra time spent at the DMV will only pertain to those undergoing the lengthened test, not other patrons of the division.

MR. BANNOCK, in response to Chair Lynn, said the DMV would not object to incorporating questions about drug safety and awareness into the test that the bill would require.

[9:28:34 AM](#)

REPRESENTATIVE DOLL asked, "Each time someone comes in to renew, and in this case when they come in on their twenty-first birthday, is there a fee involved in that, in terms of what they pay to the DMV?"

MR. BANNOCK answered yes, by statute, a renewal fee is \$20.

REPRESENTATIVE DOLL suggested that that would mean additional income for the division.

MR. BANNOCK said that might be true. He explained as follows:

Without this law, the driver's license still expires. We are just altering the schedule at which time the driver's license expires. So, that's why I chose not to put that as additional revenue on my fiscal note.

[9:29:23 AM](#)

REPRESENTATIVE COGHILL noted that a DUI can be a result of the influence of more than just alcohol. He said the DMV has the right of revocation, and he asked, "Have you given some thought as to how you might explain those parameters on a test?"

[9:29:57 AM](#)

MR. BANNOCK said some of the subjects currently found on the exam test the person's knowledge of alcohol as a narcotic. He offered an example of a question: "What is the minimum

revocation period for your first offense for driving under the influence?" He said there would be a multiple choice for the answer. He predicted that the test that would be required from Section 1 of the bill would focus on the actual laws pertaining to a DUI and some of the physical effects of alcohol.

I envision ... the test that will come out of Section 1 is very concentrated on one of two different things: the actual laws pertaining to DUI, and perhaps ... some of the scientific effect of alcohol on the body.

MR. BANNOCK reiterated that he is looking forward to engaging with MADD for that groups input.

[9:32:10 AM](#)

MR. BANNOCK, in response to a question from Representative Roses, said he knows of at least nine states that issue the vertical format licenses for those under the age of 21.

[9:32:32 AM](#)

REPRESENTATIVE ROSES questioned why the committee wouldn't approach the concept of making it illegal to sell alcohol to anybody with a vertical driver's license if the intent of the bill is to capture those who are the potential drinkers. To do so, he said, would force those who want to buy alcohol to go to the DMV and get a new license at age 21. Those who have no intention of purchasing or drinking alcohol don't have to take the test; they can continue using their vertical driver's license until its expiration. He indicated that the bill would force those doing "the right thing" to have to conform because of those who are not doing the right thing. He said, "It's sort of like punishing the entire class because one student misbehaves."

[9:34:29 AM](#)

REPRESENTATIVE JOHANSEN asked Mr. Bannock if it would make any difference to the DMV, in terms of the division's operations, if the alcohol-emphasis testing were done at age 16 versus 21.

MR. BANNOCK said he doesn't know. He continued as follows:

But let me just put in a plug for the concept of having a space/time continuum between the two tests. Quite frankly, it is this director's professional

opinion that that's where we get the added value. Instead of giving this test at age -- and remember, the majority of them are not 16, they're actually 14, that are taking the written test. So, they take a written test at 14, they take a driving test at 16, and then the way this bill lays it out, they would then take another written test later on so as to chop it up.

MR. BANNOCK said he takes Representative Roses comments to heart, and he admitted that he may have more experience with [the 14- to 18-year-old age group than "all of us combined." Notwithstanding that, he said the division envisions "creating some separation between them."

[9:36:02 AM](#)

REPRESENTATIVE COGHILL noted that the law views underage DUIs differently than legal-aged DUIs. He asked Mr. Bannock how he sees that from an administrative standpoint.

[9:36:42 AM](#)

MR. BANNOCK responded that a minor driving under influence is subject to a DUI. He said he does not know if HB 75 would have an impact on that law.

REPRESENTATIVE COGHILL asked, "Is that emphasized at all when you get to the driving test?"

MR. BANNOCK said the driving test is strictly on driving skills.

REPRESENTATIVE COGHILL indicated that he would like the committee to think about the previous comments of Representative Roses regarding the age requirements before passing out a "21-only bill." He suggested, "It might be a more appropriate time, at the driving skills level, to bring this up."

[9:38:07 AM](#)

REPRESENTATIVE ROSES said getting a driver's license is the first level of freedom children obtain. He indicated that that's when the [education and testing on alcohol awareness] needs to happen. He added, "And if we want to then add the language that then they take the test again at the first renewal, then you're getting a second bite of the apple, and I wouldn't have a problem with that, because then I think we

accomplish it on both ends. ... I love the concept; it's the implementation that I have little difficulty with."

[9:39:06 AM](#)

MS. PIERSON responded, "I think that would be fine with the sponsor, too, if we did it at 16 and again at 21."

[9:39:17 AM](#)

REPRESENTATIVE ROSES clarified that he doesn't want to see [the test given again] at age 21. He clarified:

What I would like to see is when they first get their driver's license, regardless of age, and then at first renewal. Because it is possible for somebody to not even get their driver' license until they're 18 or 19.

My oldest daughter didn't care anything about driving; she didn't get her license until she was 18. My first one couldn't wait and would have gotten it at 12 if she could have.

So, getting the second bite at the apple to me would be "upon first renewal" - so, don't put the age specific in that. So, if it's 16 and 21 or if it's 18 and 23, it doesn't make any difference; you get the second bite.

[9:39:57 AM](#)

REPRESENTATIVE COGHILL suggested that the bill be held in order to talk with the prime sponsor about language pertaining to the testing age and first renewal concept.

[9:40:19 AM](#)

CHAIR LYNN suggested that the one amendment could be made adding the testing of knowledge of other drugs.

CHAIR LYNN asked if there was anyone else to testify. [There was no response.]

[9:40:36 AM](#)

CHAIR LYNN moved to adopt [Conceptual] Amendment 1, as follows:

On page 1, line 9, between "alcohol" and "awareness":

Add "and drug"

CHAIR LYNN asked if there was any objection to [Conceptual] Amendment 1. There being none, [Conceptual] Amendment 1 was adopted.

[9:41:35 AM](#)

MS. PIERSON suggested that a similar amendment needed to be made further down the page.

[9:41:47 AM](#)

CHAIR LYNN moved to adopt Conceptual Amendment 2, as follows:

On page 1, line 12, between "alcohol" and "awareness":

Add "and drug"

CHAIR LYNN asked if there was any objection to Conceptual Amendment 2. [There being none, Conceptual Amendment 2 was adopted].

CHAIR LYNN announced that HB 75 was heard and held.

Subcommittee on Ethics: Report

[9:42:23 AM](#)

REPRESENTATIVE COGHILL offered an update on the work of the House State Affairs Standing Committee's subcommittee on ethics. He said assignments had been given out at the last meeting. Representative Roses was given the task of addressing Title 15 and keeping it "within the parameters of recording" [requirements]. Representative Gruenberg was assigned Title 39 - the Executive Ethics Act - while Representative Coghill said he has taken on the subject of Title 24, which is in regard to lobbyist recording and ethics requirements.

REPRESENTATIVE COGHILL said the subcommittee took various [ethics] bills and lined them up by subject and outlined how to proceed with amendments. He said Legislative Legal and Research Services has been inundated with requests for drafting amendments, and the results of that drafting have just today been delivered.

REPRESENTATIVE COGHILL said there will be a meeting of the subcommittee on Saturday, February 10, at which time the subcommittee will sift through the language of the statutes to determine where amendments may be necessary. He said the subcommittee will bring to the House State Affairs Standing Committee a committee substitute with recommendations, as well as amendments not utilized in the committee substitute.

CHAIR LYNN discussed scheduling possibilities.

9:47:04 AM

REPRESENTATIVES ROSES and GRUENBERG expressed appreciation for the diligence of their staff.

ADJOURNMENT

There being no further business before the committee, the House State Affairs Standing Committee meeting was adjourned at 9:48:13 AM.