

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

January 25, 2007

1:34 p.m.

MEMBERS PRESENT

Senator Johnny Ellis, Chair

Senator Gary Stevens

Senator Con Bunde

MEMBERS ABSENT

Senator Bettye Davis

Senator Lyman Hoffman

COMMITTEE CALENDAR

SENATE BILL NO. 24

"An Act relating to the amount of the state's business license fee."

HEARD AND HELD

SENATE BILL NO. 39

"An Act relating to the amount of the state's business license fee."

HEARD AND HELD

SENATE BILL NO. 41

"An Act repealing the fee imposed on the sale of studded tires."

HEARD AND HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 24

SHORT TITLE: BUSINESS LICENSE FEE

SPONSOR(s): SENATOR(s) WILKEN

01/16/07	(S)	PREFILE RELEASED 1/5/07
01/16/07	(S)	READ THE FIRST TIME - REFERRALS
01/16/07	(S)	L&C, FIN
01/25/07	(S)	L&C AT 1:30 PM BELTZ 211

BILL: SB 39

SHORT TITLE: BUSINESS LICENSE FEE

SPONSOR(s): SENATOR(s) WIELECHOWSKI

01/16/07 (S) PREFILE RELEASED 1/5/07
01/16/07 (S) READ THE FIRST TIME - REFERRALS
01/16/07 (S) L&C, FIN
01/25/07 (S) L&C AT 1:30 PM BELTZ 211

BILL: SB 41

SHORT TITLE: REPEAL STUDDERED TIRE FEE
SPONSOR(S): SENATOR(S) WIELECHOWSKI

01/16/07 (S) PREFILE RELEASED 1/5/07
01/16/07 (S) READ THE FIRST TIME - REFERRALS
01/16/07 (S) L&C, TRA, FIN
01/25/07 (S) L&C AT 1:30 PM BELTZ 211

WITNESS REGISTER

SENATOR GARY WILKEN
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Sponsor of SB 24 and co-sponsor of SB 39.

DANA OWEN
Staff to Senator Ellis
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Commented on the committee substitutes for SB 24, SB 39 and on SB 41.

RICK URION, Director
Division of Corporations, Business and Professional Licensing
Department of Commerce, Community & Economic Development
PO Box 110800
Juneau, AK 99811-0800

POSITION STATEMENT: Supported the committee substitutes to SB 24 and SB 39.

GREG WAITSCHICK
Alaska Tire World
Anchorage AK

POSITION STATEMENT: Supported SB 39 and SB 41.

SENATOR BILL WIELECHOWSKI
Alaska State Capitol
Juneau, AK 99801-1182

POSITION STATEMENT: Co-sponsor of SB 39 and sponsor of SB 41.

JOHANNA BALES, Supervisor
Excise Audit
Tax Division
Department of Revenue
PO Box 110400
Juneau, AK 99811-0400

POSITION STATEMENT: Supported SB 41.

ACTION NARRATIVE

CHAIR JOHNNY ELLIS called the Senate Labor and Commerce Standing Committee meeting to order at [1:34:12 PM](#). Present at the call to order were Senators Stevens, Bunde and Ellis.

SB 24-BUSINESS LICENSE FEE
SB 39-BUSINESS LICENSE FEE

[1:39:42 PM](#)

CHAIR JOHNNY ELLIS announced SB 24 and SB 39 to be up for consideration as the first order of business. He invited Senator Wilken, sponsor of SB 24 and co-sponsor of SB 39, and Senator Wielechowski, co-sponsor of SB 39, to comment on them.

[1:41:01 PM](#)

SENATOR GARY WILKEN, sponsor of SB 24, referenced his sponsor statement saying it repeals a 2003 law that increased the fee for a business license to \$100 annually and reestablishes it at \$25 per year. In the face of a possible \$800 million budget deficit in 2003, the legislature increased these fees from \$25 to \$100 per year. SB 24 recognizes that the financial picture for the state of Alaska is dramatically different than four years ago and now the GF balance is estimated to be \$1.35 billion for FY '07. So, it is appropriate that the fee for a business license return to \$25 per year, the level it was from 1949 to 2003. He said:

The cost of processing a business license is covered by an annual fee of \$25. The use of technology has streamlined both the initial application and the renewal process. Percentages of licenses purchased and renewed online has increased from 14 percent in 2003 to 36 percent in 2006. This positive trend has proven to be cost effective for the Division of Occupational Licensing. In addition, it is important to note that the number of people applying for a business license in 2003, the last year before the fees were increased to \$100, total \$74,599 applicants. In three short

years the number of applicants has decreased 9.7 percent. The State of Alaska should encourage the expansion of small businesses, not discourage the growth. Setting the business license fee at \$25 annually will demonstrate that the State of Alaska is business friendly and welcomes new small business.

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SENATOR WIELECHOWSKI, co-sponsor of SB 39, read the sponsor statement and said his presentation was similar to Senator Wilken's. He added that he talked to people in his district, specifically small hobby shop owners and day care providers, who were concerned about the amount of the business fee. He noted in particular the 10 percent drop in the number of business licenses - from 74,599 in 2003 to 67,321 in 2006. He wanted to do everything he could to encourage small businesses.

1:45:05 PM

SENATOR BUNDE opposed both bills saying:

If some businesses are in such desperate straights that they can't maintain themselves in business for \$75 a year, we'd probably do them a favor by asking them to get out before they are completely upside down.

He also said that the fee would be over \$200 by now if it had been increased for inflation. His biggest concern was that the state would lose \$4 million to \$5 million if this bill is adopted and speculated that it would likely return to a deficit position again. He also didn't see a correlation between the amount of the fee and the number of licenses going down and discouraging legitimate businesses. Some people just don't bother to buy one.

1:48:14 PM

SENATOR BUNDE said the department has little enforcement capability to require someone to buy a business license and suggested putting more money into enforcement.

1:49:32 PM

SENATOR WILKEN related a little history. He believes that the cost causer should be the cost payer and when he introduced the bill for the governor in 2003, it was represented that processing an application for a business license costs \$100 and that the state was losing money. He has found that now through

technology and economies of scale it costs less than \$25. He emphasized:

The amount of money isn't important, but we should hold dear the theory wherever we are in government that the cost causer is the cost payer and indeed we are making money off the \$25 license....

1:51:11 PM

DANA OWEN, Staff to Senator Ellis, said he discussed the identical committee substitutes with the sponsors and Mr. Urion. He explained that they establish the business license fee at \$25 per year with an effective date of October 1, 2008. For the interim they establish a procedure whereby people who now pay \$100 per year can buy a two-year license for \$125 [instead of \$200] and people who pay \$50 per year can buy a two-year license for \$75 [instead of \$100].

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RICK URION, Director, Division of Corporations, Business and Professional Licensing, supported both bills before the committee.

1:54:11 PM

SENATOR STEVENS asked if he thought a \$100 fee discouraged business owners from buying a license.

MR. URION replied that he assumed it did because since the fee went up, the numbers of compliance went down.

SENATOR BUNDE remarked that the numbers could have gone down through updating of records and asked if \$25 would pay for an investigator to follow up on those who don't buy the licenses.

MR. URION replied yes that \$25 would pay for an investigator.

SENATOR BUNDE asked if he would need more than one investigator.

MR. URION replied that his one investigator that handles business license cases found that about half the people who advertise in the Anchorage and Fairbanks phone books don't have business licenses and that his case load is endless.

SENATOR BUNDE thought if the business license fee produced more money, he could have more efficient investigations and perhaps better compliance which would bring in more money. Mr. Urion agreed.

[1:56:50 PM](#)

CHAIR ELLIS remarked that his interaction with the Palin administration has been excellent so far and she meant it when she said she didn't have interest in pride of authorship on these important pieces of legislation - and everyone agreed that was refreshing.

[1:57:57 PM](#)

CHAIR ELLIS asked Mr. Urion if he supported the committee substitute.

MR. URION replied that he supported it, but took issue with the effective date. He explained that business licenses expire annually at the end of a year, unlike the state's fiscal year, and his division had just finished a renewal period. Some people renewed for one year and some renewed for two years. So, some licenses won't expire until December 31, 2008. For that reason he wanted to change the effective date so he wouldn't have to go through a refund situation, which would be very costly. He also didn't want any constituents to be mad because they paid \$100 for a license and now it costs \$25. He starts renewals for the licenses that expire in December in October.

[2:00:02 PM](#)

MR. URION said his other suggestion had to do with the transition language. He explained that half the business licenses expire this year and the rest next year - to even out the workload. He has 11 people who work with about 70,000 corporation and business licenses. He asked to be able to continue to spread that out and suggested for those whose licenses expire this year to have the choice of buying a two-year license in 2008 for \$125 or \$50 for an old-timer.

[2:02:13 PM](#)

SENATOR STEVENS moved to adopt CSSB 24 (L&C), 25-LS0203\E. There were no objections and it was so ordered.

SENATOR STEVENS moved to adopt CS SB 39(L&C), 25-LS0351\E. There were no objections and it was ordered.

SENATOR ELLIS announced that the committee would proceed to the markup phase of the discussion.

[2:03:50 PM](#)

SENATOR BUNDE moved to adopt Amendment A.1 to CSSB 39(L&C). He explained he drafted this amendment after consulting with Mr. Union who said there currently is not a lot of enforcement.

25-LS0351\A.1
Bannister

AMENDMENT 1

OFFERED IN THE SENATE
TO: SB 39 and SB 24

BY SENATOR BUNDE

Page 1, line 1, following "fee":

Insert "**and to a penalty for not obtaining a business license**"

Page 1, following line 2:

Insert new bill sections to read:

"* **Section 1.** AS 43.05.290(h) is amended to read:

(h) A person engaging in or attempting to engage in a business, trade, profession, or occupation for which a license is required under this title, who willfully fails to obtain the license, is guilty of a misdemeanor [,] and, upon conviction, is punishable by a fine of not more than \$2,000, or by imprisonment for not more than six months, or by both. **This subsection does not apply to a violation of AS 43.70.020.**

* **Sec. 2.** AS 43.70.020 is amended by adding a new subsection to read:

(e) A person who knowingly violates this section is subject to a civil fine of not more than \$300."

Page 1, line 3:

Delete "**Section 1**"

Insert "**Sec. 3**"

He said Amendment 1 would give the department a reasonable level of enforcement to use on someone who chooses to do business in Alaska without a business license.

[2:06:15 PM](#)

MR. URION commented that he asked his investigator what would most help him in his job and he answered, "A fine a simple civil fine." The fine today for not having a business license is a maximum fine of \$2,000 and/or six months in jail and the state

has never had any conviction under this penalty. His mission is to get people in compliance and he is not interested in fining people thousands of dollars. However, his investigator says that some people just thumb their nose at him; the amendment would encourage compliance and allow him "to sort of thump those people."

CHAIR ELLIS asked if he would be able to publicize this so that communities would know.

MR. URION replied that his investigators would know who to send the message to.

[2:07:40 PM](#)

SENATOR STEVENS remarked that "willfully fails" might open an area of contention and asked if it is necessary.

MR. URION replied that "willful" is existing language. New language uses a person who "knowingly" violates this section on line 14 of the amendment.

[2:09:12 PM](#)

SENATOR BUNDE asked if MR. URION had heard any complaints about the \$100 fee.

MR. URION replied the front desk receives a couple dozen complaints every year.

SENATORS WIELECHOWSKI and WILKEN indicated they had no comments on the amendments.

CHAIR ELLIS said he would hold the amendment for further public testimony.

GREG WAITSCHICK, owner of Alaska Tire World, first addressed SB 39. He asked why the state of Alaska should punish business owners by increased business license fees. He said the consumer ultimately pays more. He urged them to support SB 39.

Because of his time constraints Mr. Waitschick asked to be able to testify on SB 41; the Chair allowed him to do so.

[2:10:48 PM](#)

SB 41-REPEAL STUDED TIRE FEE

CHAIR ELLIS announced that he would interrupt testimony on SB 24 and SB 39 so the committee would take testimony on SB 41 from Mr. Waitschick, Alaska Tire World, because of his time constraints.

MR. WAITSCHICK asked, "Why does the State of Alaska need to tax the safety of our families during our winter months?" He said that studded tires add safety to everybody on the road. The \$440,000 raised by the tax is a very small amount considering the training curve and frustration it takes to use the online system. A percentage of his customers couldn't afford the added tax.

He next commented on the point-of-sale tire tax, or paying a tax when you purchase tires. He couldn't see why people would want to tax themselves more with the rising cost of energy and materials.

CHAIR ELLIS thanked him for his comments and indicated there were no questions from the committee.

SB 24-BUSINESS LICENSE FEE
SB 39-BUSINESS LICENSE FEE

CHAIR ELLIS brought the discussion back to Amendment 1 to CSSB 39 (L&C).

[2:14:37 PM](#)

SENATOR BUNDE moved to adopt Amendment 1 to CSSB 39(L&C). There were no objections and it was adopted.

[2:14:53 PM](#)

SENATOR BUNDE moved to adopt Amendment 1 to CSSB 24(L&C) as follows:

25-LS0351\A.1
Bannister

AMENDMENT 1

OFFERED IN THE SENATE
TO: SB 39 and SB 24

BY SENATOR BUNDE

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

Insert "**and to a penalty for not obtaining a business license**"

Page 1, following line 2:

Insert new bill sections to read:

"* **Section 1.** AS 43.05.290(h) is amended to read:

(h) A person engaging in or attempting to engage in a business, trade, profession, or occupation for which a license is required under this title, who willfully fails to obtain the license, is guilty of a misdemeanor [,] and, upon conviction, is punishable by a fine of not more than \$2,000, or by imprisonment for not more than six months, or by both. **This subsection does not apply to a violation of AS 43.70.020.**

* **Sec. 2.** AS 43.70.020 is amended by adding a new subsection to read:

(e) A person who knowingly violates this section is subject to a civil fine of not more than \$300."

Page 1, line 3:

Delete "**Section 1**"

Insert "**Sec. 3**"

There were no objections and it was so ordered.

[2:15:17 PM](#) at ease [2:15:40 PM](#)

SENATOR ELLIS said he would schedule the bills for the next meeting.

SB 41-REPEAL STUDDED TIRE FEE

[2:16:30 PM](#)

CHAIR ELLIS announced SB 41 to be up for consideration.

SENATOR WIELECHOWSKI, sponsor of SB 41, explained that this bill was proposed in 2003 at the request of Governor Murkowski. It proposed a new fee of \$5 per tire for the sale of studded tires with an effective date of July 1, 2004. In FY 2005, this tax generated \$436,440; in FY 2006, it generated \$446,771. After this bill was enacted, the legislature commissioned the University of Alaska to prepare a report; it was entitled "Socio-Economic Effects of Studded Tire Use in Alaska." The report found that studded tires do cause some rutting in the roads, but that they also create a significant increase in traction, braking and acceleration, which ultimately results in fewer accidents. An older Minnesota study also found a 100 percent increase in accidents when studded tires were banned

over a two-year period. With the current budget surplus he said it was time to put peoples' safety first.

JOHANNA BALES, Supervisor, Excise Audit, Department of Revenue (DOR), said she oversees the tire fee program and unlike other excise tax programs that are levied at the wholesale level, the tire fee is levied at the retail level and it affects a significant number of small businesses. Over the life of the tire fee, she has received numerous complaints from the small businesses about how onerous the record keeping is. In 2006 about 606,000 tires, both studded and plain, were sold in the state. Small businesses had to account for every single one of the tires; they are also required to make the determination as to whether or not that tire sale is taxable since the state has some exemptions. She said, "The program is confusing and burdensome for them." She concluded saying the department supports repealing the studded tire fee and the tire fee program as a whole.

[2:22:09 PM](#)

DANA OWEN, Committee Aide to the Labor and Commerce Committee, explained that CSSB 41(L&C), version 25-LS0355\C, removes the studded tire fee as the original bill does, but goes a step further and removes the entire program including the \$2.50 fee on regular tires.

SENATOR WIELECHOWSKI supported that change.

[2:23:37 PM](#)

SENATOR STEVENS asked if there is a cost associated with collecting the fee.

MS. BALES replied that this program has one full-time employee and the cost incurred is about \$56,000 per year.

CHAIR ELLIS asked if she had prepared her budget as if this bill had become law and she replied yes.

CHAIR ELLIS thanked her for her testimony said he would hold this bill over until Tuesday.

There being no further business to come before the committee, he adjourned the meeting at [2:25:42 PM](#).

