

HOUSE FINANCE COMMITTEE

April 11, 2016

1:36 p.m.

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CALL TO ORDER

Co-Chair Thompson called the House Finance Committee meeting to order at 1:36 p.m.

MEMBERS PRESENT

Representative Steve Thompson, Co-Chair
Representative Dan Saddler, Vice-Chair
Representative Bryce Edgmon
Representative Les Gara
Representative Lynn Gattis
Representative David Guttenberg
Representative Scott Kawasaki
Representative Cathy Munoz
Representative Lance Pruitt
Representative Tammie Wilson

MEMBERS ABSENT

Representative Mark Neuman, Co-Chair

ALSO PRESENT

Jane Pierson, Staff, Representative Steve Thompson; Gene Therriault, Deputy Director, Statewide Energy Policy Development, Alaska Energy Authority, Department of Commerce, Community and Economic Development; Kathy Wasserman, Alaska Municipal League; Laura Stidolph, Staff, Representative Kurt Olson; Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit; Sara Chambers, Administrative Operations Manager, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Konrad Jackson, Staff, Representative Kurt Olson; Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

Karl Kassel, Mayor, Fairbanks North Star Borough; Tracy Barickman, Alaska Real Estate Commission, Mat-Su.

SUMMARY

HB 118 MUNI ENERGY IMPROVEMNT ASSESSMNTS/BONDS

CSHB 118 (FIN) was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note by the Department of Commerce, Community and Economic Development.

HB 290 EXTENDING THE REAL ESTATE COMMISSION

HB 290 was REPORTED out of committee with a "no recommendation" recommendation and with a new accompanying zero fiscal note by the Department of Commerce, Community and Economic Development.

HB 375 ELECTRONIC TAX RETURNS & REPORTS

CSHB 375 (FIN) was REPORTED out of committee with a "do pass" recommendation and with a new accompanying zero fiscal impact note by the Department of Revenue.

Co-Chair Thompson reviewed the agenda for the day.

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#hb118

HOUSE BILL NO. 118

"An Act adopting the Municipal Property Assessed Clean Energy Act; authorizing municipalities to establish programs to impose assessments for energy improvements in regions designated by municipalities; imposing fees; and providing for an effective date."

Vice-Chair Saddler MOVED to ADOPT the proposed committee substitute for HB 118, Work Draft (29-GH1021\P). There being NO OBJECTION, it was so ordered.

JANE PIERSON, STAFF, REPRESENTATIVE STEVE THOMPSON, reviewed the changes to the Committee Substitute by reading from a prepared statement:

Sec 1: No change

Sec 2: No change

Sec 3: New section allowing second class boroughs to authorize PACE financing under non area wide powers

Sec 4: Renumbered section with no change

Sec 5: Renumbered section with the following changes:

- Page 3, line 17
Modifies language to allow PACE financing to be implemented within a region of a municipality determined by the municipality through a public process.
- Page 3, lines 30 - 31
Modifies language to allow PACE financing to be implemented within a region of a municipality determined by the municipality through a public process.
- Page 4, line 24 through Page 5, line 3
Replaces proposed AS 29.49.050 with language that allows a municipality wishing to authorize PACE financing to do so by designating an area of the municipality as a region for the program. The area designated may include the entire municipality, a single subset, or subsets of the municipality. However, the entire PACE program must be contained within the boundary of the municipality.
- Page 5, line 15
Requires a municipality proposing to implement PACE financing to provide a description of the boundaries for the proposed program. Re-letter the remaining subsections of AS 29.49.060 with no change.
- Page 6, line 17
Requires that a map of the proposed PACE financing program boundary be included in the mandatory report that must be made available to the public before a PACE program can be

initiated. Renumber the remaining subsections of proposed AS 29.49.070 with no change.

- Page 10, lines 9 - 10
Adds language to acknowledge that PACE assessment payments may come in from regions within the municipality.
- Page 11, line 7, Page 11, line 10 and Page 11, line 13
Clarifies that the prohibited acts established in proposed AS 29.49.160 will apply to a PACE financing program whether it is offered in a portion of the municipality or the entire municipality.

Ms. Pierson referred to a legal opinion (copy on file) dated April 2, 2015 in the member's backup packets. She indicated the memo explained why the changes in the Committee Substitute (CS) was necessary.

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Representative Guttenberg asked what the term "municipal" encompassed. He asked whether a borough was included in the definition. Ms. Pierson believed so but deferred to Mr. Therriault for the answer.

Representative Kawasaki asked about local improvement districts. He wondered whether the municipality would determine a PACE (property assessed clean energy program) area through a public process or would the municipal government act on behalf of the property owners.

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GENE THERRIAULT, DEPUTY DIRECTOR, STATEWIDE ENERGY POLICY DEVELOPMENT, ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY, ALASKA ENERGY AUTHORITY, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, answered Representative Kawasaki's question. He explained that the public process was delineated in the legislation. When a municipality was considering a PACE program it must pass a resolution detailing the location and how the program would be run. The information would be included in a public report and ultimately, a local government had to adopt an ordinance to initiate the program.

Representative Guttenberg asked about the term "municipality" used in the legislation and wondered what the term encompassed. Mr. Therriault had consulted with the Department of Law (DOL) and assured that the terminology in the bill "struck the balance correctly."

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Representative Wilson offered that the bill provided additional power to a second class borough. She wondered whether the municipality then had the ability to add a tax to the PACE area. Mr. Therriault responded in the negative. He explained that the program allowed an individual property owner to use the financing mechanism and repay the loan through a voluntary property tax assessment. He noted that the mechanism was similar to a utility assessment except that the assessment was only levied for the individual property owner in the program. He emphasized that the bill allowed for a contractual arrangement between a property owner and municipality to levy an extra assessment on the individual's property in order to repay the loan. Representative Wilson asked whether the legislation was expanded to include residents. Mr. Therriault responded that the bill restricted the PACE program to businesses rather than residents. He added that in the Fairbanks North Star Borough the program was intended to assist businesses convert to natural gas when an expanded supply was available. He delineated that some states were attempting to expand the program to residential properties and experienced problems with the secondary lending market purchasers of residential property loans. The authority decided to avoid any issues with residential property and focused on businesses. Representative Wilson asked whether the program was a voluntary mechanism rather than any type of "forceful action." Mr. Therriault replied that the program was completely voluntary for both the municipality and the individual businesses.

Representative Gattis communicated that the program applied to the building owner rather than the business owner unless they were the same. She viewed the program as advantageous to both the business and property owner.

Representative Munoz asked whether the municipality was the entity repaying the lending institution. Mr. Therriault confirmed that if the source of the loan was a private bank that entered into a contractual agreement with the

municipality then the local government would pay the bank. Another mechanism a municipality could employ would be a revenue bond that would be repaid via the local government. The program allowed the local government the flexibility to search for federal sources of money, private lenders, or revenue bonding at low interest rates and pass the opportunity on to the business owner.

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Co-Chair Thompson OPENED public testimony.

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KATHY WASSERMAN, ALASKA MUNICIPAL LEAGUE, spoke in favor of the legislation. She added that under state law the term "municipalities" included boroughs and cities. The league strongly supported the legislation as a tool that helped businesses and included "safeguards."

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KARL KASSEL, MAYOR, FAIRBANKS NORTHSTAR BOROUGH (via teleconference), urged members to support HB 118. He strongly endorsed the legislation. He noted the support of the communities and mayors of Fairbanks and North Pole. He voiced that the bill helped businesses move forward with cleaner energy and gas conversions as well as fostering an economic "boost" for the communities.

Co-Chair Thompson CLOSED public testimony.

Mr. Therriault relayed that in the past year AEA and AIEDEA had been looking for additional non-state sources of money that could assist energy conversion in the state. He relayed that according to Senator Murkowski's office, the Rural Utility Service (RUS) division of the United States Department of Agriculture was in the process of writing a letter of support. The RUS approved the PACE mechanism as one of the favored programs to access federal loan funds. He reported that AEA was actively looking and identified a source of funding with a zero interest rate for a local government and another that carried a 2 percent to 2.5 percent interest rate.

Vice-Chair Saddler asked who was offering the zero percent interest rate. Mr. Therriault responded that RUS was

offering a zero percent interest rate loan and the pool of money nationwide was \$70 million to \$80 million. He stressed the importance for municipalities to obtain access to repayment mechanisms that lowered the default rate on loans.

Vice-Chair Saddler reviewed the new zero fiscal note from the Department of Commerce, Community and Economic Development (DCCED).

Vice-Chair Saddler MOVED to REPORT CSHB 118 (FIN) out of committee with individual recommendations and the accompanying fiscal note(s). There being NO OBJECTION, it was so ordered.

CSHB 118 (FIN) was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note by the Department of Commerce, Community and Economic Development.

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AT EASE

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RECONVENED

#hb290

HOUSE BILL NO. 290

"An Act extending the termination date of the Real Estate Commission; and providing for an effective date."

[1:59:24 PM](#)

LAURA STIDOLPH, STAFF, and REPRESENTATIVE KURT OLSON, read from a prepared statement:

Before you today is HB290, this legislation extends the termination date of the Real Estate Commission to June 30, 2018.

Each year the Division of Legislative Audit reviews state boards and commissions to determine if they should be reestablished per AS 24.44. The Division of Legislative Audit reviewed the activities of the Real Estate Commission. The purpose of this audit was to determine whether there is a demonstrated public need

for the board's continued existence and whether it has been operating in an effective manner.

As the members noted in their review of the audit in their packets, it is the opinion of our auditors, the board is serving the public's interest by effectively licensing real estate brokers, associate brokers, and salespeople.

As the members also may have noted from the audit, there were two recommendations. First, the commission's chair and the DCCED Division of Administrative Services director should work together to procure a masters, errors & omissions policy. Second, the Division of Corporation, Business, and Professional Licensing should take action to ensure cases are actively investigated.

To speak to the recommendations, Kris Kurtis of Legislative Audit is here, Sara Chambers Director of the Division of Corporations, Business and Professional Licensing with the Department of Commerce, Community & Economic Development, and Nancy Davis, the Chair of the Commission is online from Sitka.

In closing, the Real Estate Commission serves an important role by improving operations and industry practices by modifying and adopting regulations.

Thank you for your support of this legislation.

Representative Kawasaki asked about the original audit recommendation. He wondered why the board extension was only two years. Ms. Stidolph replied that the audit recommended that the commission procure a master errors and omissions insurance policy and if accomplished recommended a 6 year extension. If the policy was not acquired, a four year extension was suggested. She related that the sponsor decided to reduce the extension to two years because the policy was an important part of the commission's statutory requirement that should be obtained in a reasonable amount of time.

Representative Guttenberg asked why the commission did not obtain the policy. Ms. Stidolph responded that in 2008, HB 357 (Real Estate Licensees/Recovery Fund) [CHAPTER 113 SLA

08 06/26/2008] the House Labor and Commerce Committee sponsored a bill that changed the real estate surety fund. She delineated that the fund was changed to the Real Estate Recovery fund that allowed consumers via an administrative hearing to receive up to \$15 thousand in damages. The legislation mandated that each realtor would have to obtain the insurance policy in order to protect the public. However, a clause in the bill stated that if the commission did not obtain the umbrella policy coverage, individual salespersons did not have to procure the policy either. Since 2010, when the bill regulations were written, disagreement ensued about whether the regulations were "too prescriptive." The regulations stated that the maximum premium for the insurance policy was \$300, which was too low. She commented that after six years of bureaucratic wrangling the solution to require the commission to obtain the masters policy was warranted.

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Vice-Chair Saddler wondered whether there were any other measures that addressed the situation. Ms. Stidolph indicated that there was currently SB 158 in the House Labor and Commerce Committee, which dealt with real estate broker licenses. The committee was offering an amendment to repeal the provision in HB 357 that mandated the commission to obtain the umbrella policy. Vice-Chair Saddler asked for clarification. Ms. Stidolph further explained that each individual would be required to obtain the policy until the commission obtained the policy. Vice-Chair Saddler asked what the timeline was and how it comported with the two year extension of the commission. Ms. Stidolph indicated that the repeal would occur in 2018. The date granted the industry time to obtain the insurance and gave the real estate commission more time to procure the policy. Vice-Chair Saddler asked what would happen in the 2 year timeline with adoption of the amendment. Ms. Stidolph answered that all real estate salesperson and brokers would operate under the policy within two years and in 2.5 years a master policy would be obtained by the commission.

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KRIS CURTIS, LEGISLATIVE AUDITOR, ALASKA DIVISION OF LEGISLATIVE AUDIT, reported that the audit recommended a 6 year extension because at the time Legislative Audit understood that the commission could procure the policy by

January 2016. She spoke to the recommendations. The first recommendation regarded obtaining the master policy and the second recommendation requested that the Division of Corporations, Business, and Professional Licensing (DCBPL) chief investigator take action to ensure cases were investigated and completed in a timely manner. She noted 29 cases of "significant periods of inactivity" in a sample of 36.

Representative Kawasaki asked when the next audit was required with only a two year extension. Ms. Curtis relayed that the division would conduct the audit in the spring or summer of 2017. Representative Kawasaki asked about the cost of the audit. Ms. Curtis responded that the audit would be succinct and short having just completed an audit. However, she was unable to guarantee the possibility of a short audit. Representative Kawasaki cited the audit report that identified 36 of the 235 open investigative cases and that 29 of the cases had periods of inactivity ranging from 124 to 1,669 total days. He noted that some cases were closed due to the length of investigation. He thought the situation appeared "problematic." He wondered why the investigations took so long. Ms. Curtis replied that the finding was consistently discovered within DCBPL. She communicated that in the current case "excessive time lags were due to inadequate monitoring and insufficient oversight to ensure investigations were completed timely." Representative Kawasaki thought the DCBPL was not serving the "major public purpose" of the board. He expressed concern with the excessive timelines. Regardless of the issues, he announced that he would offer a conceptual amendment that would increase the extension "by a couple of years."

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Representative Guttenberg offered that he was "troubled" by both recommendations. He wondered what the "mechanical problem" was that kept the commission from obtaining the master policy. Ms. Curtis explained that she had heard various different reasons why the policy was not obtained but that "no one could really answer the why." She recently discovered that the original legislation was "flawed" and not in line with a policy that actually was possible to procure. She added that "no one could really pinpoint" why it took since 2008 and still no real progress was made to procure the policy. She shared that recently the commission

and the division, in response to the audit made great effort towards obtaining the policy.

Representative Guttenberg asked about the second recommendation regarding the timing and inactivity of the investigations. He wondered whether a correlation existed between the functioning of the board and the two recommendations. Ms. Curtis clarified that he was asking whether the "efforts of the board impacted the recommendations." Representative Guttenberg deduced that regarding the first recommendation the commission was "unfocused" and decide what to do in the face of a muddled statute and recently sprang into action because of the sunset. The second recommendations had to do with the inactivity regarding complaints. He wondered whether the board was "functional." Ms. Curtis responded that the board was functioning and able to serve the public interest. She commented that Legislative Audit would not recommend the extension if the audit determined the board was not functional. She noted that the investigative lags were "reflective" of a "lack of good case management" and constantly experienced the problem. She reminded the committee that the audit was "looking backward" and currently the issue could have been resolved.

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Vice-Chair Saddler asked whether the licensing fees covered the commission's costs and investigations. Ms. Curtis responded in the affirmative and confirmed that the board had a surplus of \$274 thousand as of March 2015. Vice-Chair Saddler wondered how much of the surplus would remain after the master policy was obtained and whether the cost would affect the licensing fees. Ms. Curtis expected that some indirect costs would be incurred in obtaining the policy but the expense would not impact the surplus. Vice-Chair Saddler asked whether the indirect costs were due to the policy premium. Ms. Curtis answered that the licensee would pay the premiums to the board under the umbrella policy. Vice-Chair Saddler reiterated whether the surplus would pay the premiums. Ms. Curtis replied that the licensees would participate and collectively pay for the policy. She suggested that Vice-Chair Saddler clarify the question for the department. Vice-Chair Saddler mentioned the audit's unfavorable findings of the investigator. He asked whether the investigator was a staffer or contractor. Ms. Curtis responded that the investigators were employees of the

DCBPL and sometimes an investigator was assigned to a specific board and others were shared among boards. Vice-Chair Saddler had heard in the past that some investigators were independent contractors. Ms. Curtis answered in the negative.

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SARA CHAMBERS, ADMINISTRATIVE OPERATIONS MANAGER, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT,

Co-Chair Thompson understood that the division was "in charge" of investigators and investigations. Ms. Chambers answered in the affirmative. Co-Chair Thompson asked why the problem with investigators repeatedly happened over the years. Ms. Chambers confirmed that the problem had been identified over the "last few years." She detailed that the scope of the audit was 2010 through 2015. In the summer of 2014, the division hired a new chief investigator that created a management shift. The new manager had put into place some new policies and procedures and supervisory restructuring in an attempt to resolve the issues that were due to a lack of management in a particular unit prior to 2014. She suspected that the samples in the audit were prior to late 2014. She blamed the issue on a "management oversight responsibility." She pointed out that the new measures resulted in a reduction in caseload and turnaround time.

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Representative Guttenberg hoped that the situation was remedied. He asked about conflicting statutes that interfered with the commission obtaining a master policy. He wondered what mechanism was preventing the board from purchasing the policy. Ms. Chambers explained that the statute required individual licensees to carry the policy but the commission was not required by use of the word "may." However, the other clause stated that individuals were not required to carry the policy until the commission obtained an umbrella policy. She summarized that individual brokers and salesperson were not required to obtain the policy until the commission procured an umbrella policy yet everyone was required to obtain it and the commission was not required to procure the umbrella policy all at the same time. She could not speak to the situation prior to her

involvement in mid-2014 but "sensed that someone was dragging their feet." She reported that she "dug in" to remedy the situation and was hopeful that the policy could be attained by January 2016. The "intent to bid" process was initiated and the department received "zero response" from the market. She indicated that the premium level set in statute was far too low and the potential bidders were concerned that they did not have enough information regarding the brokers and agents they would be covering to assess the risk. In response, the division reexamined the regulation setting process to evaluate resetting the premium. She stated that the insurance process was complex and the procurement process was unusual. The policy covered individuals and was not just "a simple contract with the state."

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Representative Guttenberg restated his concern that action only took place when the commission was bumping up against the sunset date. He agreed that the insurance policy sounded complex. He wondered whether the two year extension was an adequate amount of time to clear up the issue. He asked her to comment on the 2-year sunset. Ms. Chambers shared her concern that the length of time was not adequate due the short time period before the new sunset audit would commence.

Vice-Chair Saddler asked about the reasons for the shortcomings with the investigation process and whether she was confident the issue was remedied. Ms. Chambers was very confident in the actions and progress of the investigators under the new management. She referred to a detailed department response on page 26 of the audit that provided great feedback. She delineated that prior to the restructuring, the investigations unit had one manager to 19 investigators. The department added a level of senior investigators working under the chief to allow "more hands-on" supervision and accountability to meet guidelines. She reported that a new guideline was that every 30 days an investigator reviewed her caseload and worked with management to discern why any inactivity occurred and how to address it. She relayed that other audit's results and end of fiscal year statistics proved that the remedy was working.

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Co-Chair Thompson OPENED public testimony.

TRACY BARICKMAN, ALASKA REAL ESTATE COMMISSION, MAT-SU (via teleconference), supported HB 290. She reported having 20 years of experience in the industry and was a commissioner on the board. She relayed that she was also a subject matter expert on a national level for Pearson Vue [Testing Services of Philadelphia, Pennsylvania contracted by the Real Estate Commission of Alaska]. She noted that she was sitting in for the chair of the commission, Nancy Davis who had medical issues. She supported the extension. She recounted that the commission operated well within its budget due to adequate licensing fees and was not a burden the state's budget. She worked with the state's investigator to review complaints as a result of a transaction or licensees interaction with the public. She reported that most complaints were legitimate and in many cases licensees were disciplined through education, fines, and at times suspension or revocation of their license. She stated that without the board the only recourse for consumer complaints was through litigation and the consumer might not have the resources to take a case to court. She believed the scenario would allow improper actions to continue. She noted that the audit failed to recognize the remedies that were already established in response to the investigative inactivity. The 65 case backlog took place from 2011 through 2014 and the new investigator had cleared all of the cases. Currently the investigator had 23 cases with the oldest dating back from 2015. She indicated that the commission constantly improved industry standards via the modification and adoption of regulations. She communicated that the low premium set in statute and a lack of historical data prohibited the board from procuring the master policy. She suggested that the simple solution was to remove AS 8.88,172 sub paragraph (e). The statute eliminated the requirement of the umbrella policy. Once that was established the insurance companies could gather the historical data. She stressed that the low premium estimate of \$300 was not practical. The premium should be \$1,200 to \$20,000 per year depending on the size of the brokerage and what services were offered. She added that property management coverage even was more expensive.

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Co-Chair Thompson CLOSED public testimony.

Ms. Stidolph noted that the Labor and Commerce Committee was offering additional provisions to another bill that removed the requirement to carry the Errors and Omissions insurance in two years. The provision was expected to rectify the situation.

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Representative Kawasaki commented that the committee should not discuss other legislation. He did not have a problem with extending the date of the sunset. He believed that the short period of time for the sunset burdened the audit division. He offered the following conceptual amendment.

Representative Kawasaki MOVED Conceptual Amendment 1 extending the sunset year from 2018 to 2022.

Representative Kawasaki WITHDREW Conceptual Amendment 1.

Representative Kawasaki MOVED Conceptual Amendment 2 extending the sunset year to 2020.

Representative Wilson OBJECTED for discussion.

Representative Wilson read from the audit Findings and Recommendations:

... However, the legislation also required errors and omissions insurance as a condition of real estate licensure. The new insurance requirement has not successfully protected the public because the commission has not obtained a master policy and licensees have continued to practice without this important consumer protection in place.

Representative Wilson believed that the finding pointed out that an important aspect of consumer protection was lacking. She felt that the pressure of a sunset would bring about a resolution to the problem. She maintained her objection to the amendment.

Vice-Chair Saddler shared Representative Wilson's concerns. He also expressed some concerns regarding the problems with the commission's investigations. He acknowledged that some improvements were put into effect but felt the two year sunset was warranted.

Representative Wilson MAINTAINED her objection.

A roll call vote was taken on the motion.

IN FAVOR: Kawasaki

OPPOSED: Munoz, Pruitt, Saddler, Wilson, Edgmon, Gattis, Guttenberg, Thompson.

The MOTION FAILED (1/8).

Representative Gara and Representative Neuman were absent from voting.

Vice-Chair Saddler reviewed the fiscal impact note. He noted that new zero Department of Commerce, Community and Economic Development fiscal note that appropriated the amount of \$8.7 thousand dollars and was included in the governor's budget request.

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Vice-Chair Saddler MOVED to REPORT HB 290 out of committee with individual recommendations and the accompanying fiscal note(s).

There being NO OBJECTION, it was so ordered.

HB 290 was REPORTED out of committee with a "no recommendation" recommendation and with a new accompanying zero fiscal note by the Department of Commerce, Community and Economic Development.

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AT EASE

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RECONVENED

#hb375

HOUSE BILL NO. 375

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; and providing for an effective date."

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KONRAD JACKSON, STAFF, REPRESENTATIVE KURT OLSON, introduced the bill that required the electronic submission of a tax return or report with the Department of Revenue (DOR). He noted that the governor introduced six tax bills that all included provisions for electronic submissions of tax returns and reports. He stated that electronic submission of documents had become commonplace and was a time saving and cost cutting measure for both the taxpayer and the state. He furthered that there were only two sections that made substantive changes to current statute; the first authorized electronic filing and the second assessed a civil penalty for failing to file electronically.

Co-Chair Thompson observed that Section 1 of the bill allowed for a waiver if a taxpayer did not have access to computers. Mr. Jackson deferred the question to the department. Co-Chair Thompson wondered how the taxpayer would apply for a waiver. Mr. Jackson deferred the question to the department.

Representative Munoz asked how the waiver process would work. She favored the benefits of electronic filing but was concerned about the segment of the population that was "disadvantaged" by the requirement.

Vice-Chair Saddler wondered what electronic meant. He asked whether the method included a fillable form or an electronic PDF format. Mr. Jackson responded that the basic language in the bill referred to a form prescribed by the department.

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JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, responded that the department envisioned the waiver process to include a paper form the taxpayer filled out to request a waiver. He reported that currently all tax payers were businesses or corporations. The department expected a very small number of waiver requests.

Representative Munoz asked whether the bill included employment security taxes. Ms. Burnett responded that employment security taxes were filed through the Department of Labor and Workforce Development (DOLWD). Representative Munoz wondered what percentage of current tax payers used

paper filing. Ms. Burnett replied that the department only recently introduced electronic filing for businesses and corporate filing had already mandated electronic filing.

Representative Kawasaki asked what the percentage of filers that filed by paper was. Mr. Burnett responded that the department was transitioning out of paper filing. He did not have statistics and expected that very few taxpayers would choose paper filing due to the convenience of electronic filing. Representative Kawasaki asked about the satisfactory evidence requirement in the bill in order to receive a waiver. Mr. Burnett responded that satisfactory evidence would entail not having the ability or practicality to access the internet.

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Representative Kawasaki referred to Section 7 that contained the transitional provisions. He recounted that DOR will adopt regulations for implementation of electronic filing. He wondered how long the time was between the passage of the bill and when electronic filling would be implemented. Mr. Burnett expected the regulations would be quickly implemented but was not sure of the specifics. Representative Kawasaki wanted to ensure that the transition time was sufficient and allowed tax payers' time to adjust and prepare for the change. Mr. Burnett commented that the regulation process would implement a time period. He explained that the state did not have a large number of tax payers in any area other than corporate tax payers. He ensured the committee that the department would engage in some kind of outreach. He did not anticipate any issues in the transition. Representative Kawasaki mentioned that the waiver system included a civil penalty and wondered whether the bill contained "typical language" when dealing with tax filing. He preferred that penalties would be deferred until after the first set of electronic filing was due. Mr. Burnett relayed that "it was typical for a taxing agency to have mandatory language." Representative Kawasaki wondered about the zero fiscal note. He was under the impression that electronic filing saved time and money and did not see savings reflected in the fiscal note. Mr. Burnett answered that most taxpayers were already filing electronically. He noted that over the past several years the department "ramped down" staffing levels as the electronic system came online. He indicated that the effect on budgetary savings was gradual and were currently difficult to define. He

offered that when the Permanent Fund Division instituted electronic filing staffing decreased from over 100 to over 70 employees.

Vice-Chair Saddler wondered whether the bill was necessary. Mr. Burnett responded that legislation was necessary because some taxpayers were just not willing to file electronically. He voiced that "there was no business reason" for a taxpayer not to file electronically and the few paper filers affected efficiency. Vice-Chair Saddler asked about the digitization of forms and asked if the taxpayer's information was sent directly into the department's database. Mr. Burnett replied in the affirmative. He expounded that the department had a web portal and information went directly into the system.

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Representative Edgmon related that broad based taxes were on the horizon and asked whether there would be any need to provide some exceptions for rural communities without access to reliable internet. Mr. Burnett answered that how DOR handled individual taxes would be examined as a separate issue. Representative Edgmon indicated that if the state implemented an income tax electronic filing would certainly aid the department especially with non-residents filing. He thought an exemption for smaller rural communities should be an option. Mr. Burnett replied that the legislation allowed for a regulatory process as a means for the department to deal with the issue of income taxes.

Representative Guttenberg was happy to see the state move forward electronically. However, he was concerned with internet accessibility. He remarked that if he personally had to go through a portal to complete his filing he would unlikely not be able to complete it. He felt that the state was "not up to speed" in terms of having sufficient internet service in Alaska; much of the state had inadequate or dysfunctional internet service.

Representative Munoz remarked that she was old fashion and still filed paper federal tax returns. She thought a longer exemption period might be better. She suggested a 3 or 5 year tome period for exemptions.

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Representative Gara thought an option to file by paper should remain due to the fact that in some places the capability to file online did not exist. Mr. Burnett agreed that a business might be located in a place without adequate internet service and reported that an exemption provision existed in the legislation.

Representative Pruitt asked whether business licenses were required to be filed online. Mr. Burnett was uncertain whether it was mandated. Representative Pruitt supported the legislation as a step in the right direction and believed electronic filing for many state purposes was the preferred method that increased efficiency and lowered costs. He wondered whether any of the state's online filing was required.

Representative Wilson asked whether the Department of Labor and Workforce Development could benefit from the same kind of bill.

Representative Gara thought that applying for a waiver was a cumbersome process and thought that the response might be slow and cause late filing. He wondered whether a taxpayer could just call and request a paper file. Co-Chair Thompson ascertained that the waiver process would be handled in regulations.

Mr. Burnett indicated that the bill authorized the department to design the regulations for the exemption process and could be handled as suggested by Representative Gara. Representative Gara interpreted Section 1 as prohibiting sending the form upon request without proving necessity. He believed that the department's administrative costs would be lowered if a paper copy would be provided upon request without employing staff time reviewing waiver criteria. He thought the process was "cumbersome."

Representative Gattis agreed with Representative Gara. She relayed from personal experience that sometimes paper filing was necessary or preferred. She wanted to ensure the waiver process was much easier until the online process was in more universal use in the state.

Co-Chair Thompson supported the legislation. He offered that electronic filing had already resulted in efficiency and cost savings for the department and HB 375 contained a provision to obtain a waiver when necessary.

3:20:25 PM

Co-Chair Thompson OPENED public testimony.

3:20:34 PM

Co-Chair Thompson CLOSED public testimony.

Representative Munoz MOVED Conceptual Amendment 1.

Representative Munoz moved conceptual amendment 1 related to page 2, line 4 extending the exemption period from two years to five years.

Representative Wilson OBJECTED for discussion.

Representative Munoz thought 2 years was onerous for some who needed to file via paper and would have to reapply for the waiver after only two years.

Representative Wilson WITHDREW her objection.

Representative Kawasaki shared Representative Munoz's concern. He was unsure whether the amendment was up to 5 years or extended for a full five years.

Representative Munoz WITHDREW Conceptual Amendment 1

Representative Munoz MOVED Conceptual Amendment 2 that applied to page 2, line 4 of the bill removing "2" and replacing it with "5". She clarified that the amendment extended the exemption period to 5 years.

Representative Kawasaki OBJECTED for discussion.

Representative Kawasaki related that the department had already experienced a savings with electronic filing and that it would take time for the exemption regulations to be written. He recognized the need to file paper returns but felt that 5 years was "too long a time period" to allow compliance. He opposed the amendment.

Representative Gara did not believe people were reading the statute correctly. He deduced that the exemption was only granted if a taxpayer was unable to file electronically and not because the taxpayer merely resisted change. He supported conceptual amendment 2.

Representative Wilson supported the amendment.

Vice-Chair Saddler indicated he favored the amendment.

A roll call vote was taken on the motion.

IN FAVOR: Guttenberg, Munoz, Saddler, Wilson, Edgmon, Gara, Gattis

OPPOSED: Kawasaki, Pruitt, Thompson

The MOTION PASSED (7/3).

Representative Neuman was absent from voting.

[3:26:40 PM](#)

Vice-Chair Saddler reviewed the zero fiscal impact note from DOR.

[3:26:59 PM](#)

Vice-Chair Saddler MOVED to REPORT HB 375 as amended out of committee with individual recommendations and the accompanying fiscal note(s). There being NO OBJECTION, it was so ordered.

CSHB 375 (FIN) was REPORTED out of committee with a "do pass" recommendation and with a new accompanying zero fiscal impact note by the Department of Revenue.

Co-Chair Thompson reviewed the agenda for the following day.

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ADJOURNMENT

[3:27:59 PM](#)

The meeting was adjourned at 3:27 p.m.