

SENATE FINANCE COMMITTEE  
March 23, 2015  
9:04 a.m.

9:04:28 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Anna MacKinnon, Co-Chair  
Senator Pete Kelly, Co-Chair  
Senator Peter Micciche, Vice-Chair  
Senator Click Bishop  
Senator Mike Dunleavy  
Senator Lyman Hoffman  
Senator Donny Olson

MEMBERS ABSENT

None

ALSO PRESENT

Laura Pierre, Staff, Senator Anna MacKinnon; Elizabeth Nudelman, Director, School Finances and Facilities, Department of Education and Early Development; Senator John Coghill; German Baquero, Staff, Senator Coghill; Marty Hester, Deputy Director, Division of Insurance, Department of Commerce, Community and Economic Development; Erin Shine, Staff, Senator Anna MacKinnon.

PRESENT VIA TELECONFERENCE

David Nees, Self, Anchorage; Linda Hulbert, Self, Fairbanks; Matthew Blattmachr, Vice-President, Alaska Trust Company, Anchorage; Douglas Blattmachr, President and CEO, Alaska Trust Company, Arizona.

SUMMARY

SB 15      LIFE INSURANCE POLICY PREMIUM TAX

SB 15 was HEARD and HELD in committee for further consideration.

SB 30 MARIJUANA REG;CONT. SUBST;CRIMES;DEFENSES

CS SB 30 (FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from the Department of Administration; one new zero fiscal note from the Department of Corrections; one new zero fiscal note from the Department of Law; one new zero fiscal note from the Department of Public Safety; one new zero fiscal note from the Alaska Judiciary System; and one new fiscal impact note from the Department of Commerce, Community and Economic Development.

SB 64 SCHOOL BOND DEBT REIMBURSEMENT

SB 64 was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate fiscal note from the Department of Education and Early Development.

#sb64

SENATE BILL NO. 64

"An Act relating to school bond debt reimbursement; and providing for an effective date."

9:05:30 AM

LAURA PIERRE, STAFF, SENATOR ANNA MACKINNON, explained SB 64. She said that SB 64 would sunset the school bond debt reimbursement program for five years, and would reduce the rates. Currently, the reimbursement rates were 70 percent for a standard construction or new build on a school; and 60 percent on non-standard expansion and construction.

Ms. Pierre discussed the Sectional Analysis (copy on file):

Section 1: Amends AS 14.11.014, adds new subsection (d) Sunsets the bond debt reimbursement provisions for school construction and major maintenance for five years, January 1, 2015 - July 1, 2020.

Section 2: Amends AS 14.11.100(a) Page 6, line 21 restricts reimbursement of bonds authorized after January 1, 2015. Page 7, lines 1 - 11, deletes language relating to bonds authorized after May 1, 2015.

Section 3: Amends AS 14.11.100(a) Page 12, line 17 - Page 13, line 2 inserts language relating to bonds authorized on or after July 1, 2020. (18) For projects approved under AS 14.11.100 (h), (i), and (j)(2) - (5) the reimbursement would be 50 percent.

(19) For projects approved under AS 14.11.100 (h), (i), and (j)(2), (3), and (5) the reimbursement would be 40 percent.

Section 4: Amends AS 14.11.100, adds a new section (s) Restricts the Commissioner from approving an application for bond debt reimbursement between January 1, 2015 - July 1, 2020

Section 5: Amends AS 14.11.102, adds new section (c) Restricts the Commissioner from approving an application for bond debt reimbursement between January 1, 2015 - July 1, 2020

Section 6: Repeals sections 1, 4, and 5 of this act on July 1, 2020

Section 7: Retroactivity clause

Sections 1, 2, 4, and 5 of this act are retroactive to January 1, 2015

Section 8: Section 3 of this act takes effect July 1, 2020

Section 9: Sections 1, 2, 4, 5, and 7 of this act take effect immediately

[9:08:49 AM](#)

Senator Olson remarked that the bill was a positive move toward addressing the shortfall in revenue. He wondered how the bill affected the construction of the Kivalina School as related to the Kasayulie Case. Ms. Pierre replied that the only school with projects on a potential ballot was the

Anchorage School District, and their election would be April 7, 2015. The Anchorage School District would not receive reimbursement for the bonds, if the bill were signed and passed into law prior to the election. She did not know how the other school districts' bond packages were structured.

Senator Olson wondered if the bill affected the Kivalina School construction. Ms. Pierre replied that the legislation did not affect the Kivalina School construction.

Senator Bishop wondered if there would be any new budget requests for new projects.

ELIZABETH NUDELMAN, DIRECTOR, SCHOOL FINANCES AND FACILITIES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, explained that the timeline eligibility throughout the legislation was voter authorization. Some of the voter-authorized bonds were not yet applied to the department, and some had not yet sold all of the bonds. The legislation stated that the commissioner may not approve and application for indebtedness authorized by the qualified voters of the municipality.

DAVID NEES, SELF, ANCHORAGE (via teleconference), testified in support of the legislation.

Co-Chair MacKinnon CLOSED public testimony.

[9:16:58 AM](#)  
AT EASE

[9:18:36 AM](#)  
RECONVENED

[9:18:48 AM](#)

Co-Chair MacKinnon discussed the retroactive effective date. She remarked that there was some concerns about the legality of the retroactive date of January 1, 2015, and how it affected language consistent with statute.

Ms. Pierre explained that she had some discussion regarding the retroactive effective date. The legislative legal department suggested an effective date of May 1, 2015, which reflected current state statute. The statute stated

that districts could issue bond debt from October 2006 through May 1, 2015. She announced that legislative legal did not express concern regarding the retroactive date, so long as the legislation were signed and passed by the Anchorage election on April 7, 2015.

Senator Olson asked if the administration was in favor of the legislation. Ms. Pierre responded that there was a scheduled meeting with the governor to discuss the bill.

Co-Chair MacKinnon announced that local communities currently had the ability to indebt the state to an amount that the community determines, rather than what the state determines.

Senator Dunleavy felt that SB 64 was responsible legislation. He believed that the legislature often invited lawsuits, but he felt the fear of litigation should not be a driving force behind supporting a bill.

[9:23:30 AM](#)

AT EASE

[9:23:59 AM](#)

RECONVENED

[9:24:06 AM](#)

Senator Olson agreed with the focus of the legislation. He remarked that school construction was important, but also very expensive. He felt that the legislation was prudent.

Senator Dunleavy stressed that there was no guarantee that the state would provide funding, because it was always subject to appropriation. Co-Chair MacKinnon agreed with that assertion.

Vice-Chair Micciche stated that the fiscal note related to debt service.

[9:25:51 AM](#)

AT EASE

[9:26:52 AM](#)

RECONVENED

Vice-Chair Micciche expected the bill to have zero fiscal impact on the state.

Vice-Chair Micciche MOVED to REPORT SB 64 out of committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

SB 64 was REPORTED out of committee with a "do pass" recommendation and with one new indeterminate fiscal note from the Department of Education and Early Development.

[9:28:03 AM](#)

AT EASE

[9:33:09 AM](#)

RECONVENED

#sb15

SENATE BILL NO. 15

"An Act relating to the tax on policy year premiums for life insurance policies; relating to single and group life insurance policies; and relating to other types of insurance policies that insure the life of one or more individuals."

[9:33:09 AM](#)

SENATOR JOHN COGHILL, SPONSOR, explained that the legislation would install eight-tenths of a percent instead of one-tenth of one percent on policies that exceeded \$100,000. He stated that the issue was broad to his attention as he was dealing with some trust legislation for estate planning. He remarked that the bill came by way of request, dealing with some of the people that were involved in state planning.

GERMAN BAQUERO, STAFF, SENATOR COGHILL, remarked that the legislation would only affects the tax collected on life insurance policies that exceed \$100,000 by changing the tax from one-tenth of a percent to 0.08 percent. The legislation also added an applicability that would affect all future life insurance policies from December 31, 2015. He shared that there was a zero fiscal note that was from the Division of Insurance. He read from the second page of the fiscal note:

The reduction in tax is expected to have a negligible fiscal impact on the Division, as the amount of premium that is subject to this tax is very small. The potential increase as a result of additional premium sales is expected to negate any reduction in revenues, if not increase the tax revenues beyond what they previously.

[9:38:16 AM](#)

Senator Coghill Alaska had been a main player in the trust investment strategy in the U.S. He remarked that other states had followed Alaska's strategy in trust investments. He felt that legislation would attract further investment by reducing the tax rate.

Senator Olson wondered how the change affected the policy purchaser or the policy pay out recipient. Senator Coghill stated that legislation would have very little effect on the purchaser or recipient.

Senator Olson surmised that the purchaser would not see an increase in the cost of the premium. He further wondered if there were consumer groups that would be affected by the change. Senator Coghill responded that the estate planning industry felt the legislation was a benefit to beneficiaries by the lower tax rate.

Co-Chair MacKinnon looked at the South Dakota rates. She wondered how Alaska compared to all states. She remarked that the rate was reduced at the request of the insurance companies. Therefore the insurance companies benefitted from the change. She felt that Alaska could obtain addition policies that had been lost over some of the years. She wondered if Alaska wanted to be number one in the insurance industry. Senator Coghill deferred to Mr. Baquero.

Mr. Baquero explained that the intent of the legislation was to remain competitive with the other states.

[9:43:11 AM](#)

Co-Chair MacKinnon did not know if the lower taxes would be good for the state. She remarked that the policies were slightly reduced, but noted that the only people that advocated for the legislation were the insurance companies. Mr. Baquero replied there was no opposition for the

legislation. There was only support from the insurance industry.

Co-Chair MacKinnon noted that South Dakota taxed on annuities, but Alaska did not. She looked at insurance policies under \$100,000, Alaska was taxing at two-tenths of a percent higher than South Dakota. She wondered why there was not a reduction on the under \$100,000. Mr. Baquero replied that reducing the tax for under \$100,000 was also a policy issue.

Senator Coghill furthered that the issue was mostly related to estate planning in the trust industry.

[9:46:38 AM](#)

LINDA HULBERT, SELF, FAIRBANKS (via teleconference), testified in support of the legislation. She felt that the insurance industry in Alaska should be competitive.

MATTHEW BLATTMACHR, VICE-PRESIDENT, ALASKA TRUST COMPANY, ANCHORAGE (via teleconference), testified in support of the legislation. He remarked that the insurance companies may benefit from increased business, but the legislation also benefitted the consumer. He stated that the legislation was proposed to change the structure of the larger policies.

Senator Olson wondered how to reduce the "frenzy" between Alaska and South Dakota. Mr. Blattmachr replied that it was a valid concern, which is why the state was only matching the rate in South Dakota. He furthered that it was possible that South Dakota may lower their tax structure, but shared that it was highly unlikely because their tax structure had been established for a number of years.

Vice-Chair Micciche wondered if the bill required an annual review. Mr. Blattmachr responded that he did not know if there would be an annual review. He stated that the issue was monitored by the industry.

[9:54:30 AM](#)

Vice-Chair Micciche wondered if there were people that would switch their date of service, because of tax policy. Mr. Blattmachr replied in the affirmative. He stated that trust accounts were created to purchase life insurance policies.

DOUGLAS BLATTMACHR, PRESIDENT AND CEO, ALASKA TRUST COMPANY, ARIZONA (via teleconference), spoke in support of the legislation.

Co-Chair MacKinnon CLOSED public testimony.

MARTY HESTER, DEPUTY DIRECTOR, DIVISION OF INSURANCE, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that he was available for questions.

Co-Chair MacKinnon wondered why Alaska wanted to be number one on a taxation issue. Mr. Hester responded that it was a policy decision. He explained that he was available to speak to the differences in premiums from the previous years versus the small amounts.

Co-Chair MacKinnon asked if he had the current spreadsheet. Mr. Hester replied that he had the updated spreadsheet.

[9:58:13 AM](#)

AT EASE

[9:59:12 AM](#)

RECONVENED

[9:59:18 AM](#)

Co-Chair MacKinnon looked at a spreadsheet titled, "Life Insurance Companies Licensed in the State of Alaska" (copy on file). She queried the difference in the premiums. Mr. Hester replied that he had done calculations on 2013 and 2011, because they were the smallest and largest years. He explained that in 2011, if the premium tax was reduced to a 0.08 percent, the difference to the state collection would have been \$88,656. In 2013, the state would have collected a difference of \$15,961. The amount of the collected taxes would vary depending on the premium amount. He explained that the increase in 2011 was due to a policy that was written in excess of \$300 million.

Co-Chair MacKinnon wondered if he said \$3 million or \$300 million. Mr. Hester replied that it was \$300 million.

Senator Dunleavy wondered if the bill would translate into state investment in which companies would hire more people.

Mr. Hester responded that he did not know the business plans of the companies.

Senator Dunleavy stressed that he would like to know if the companies would pursue instate hire. Ms. Hulbert replied that the Alaska Trust Act passed in 1967 required that one must have a major asset in Alaska in order to set up a trust. The Alaska Trust, and the premium tax bills had added financial capacity to Alaskan banks, as well as attracted many individuals to invest in the state.

Co-Chair MacKinnon wondered if the Alaska Trust Company located in Alaska. Mr. Blattmachr replied that the corporate headquarters were located in Alaska.

Co-Chair MacKinnon remarked that there was a letter which stated that 362 life insurers were licensed to do business and none were domiciled in the state. She asked for more information. Mr. Hester replied that a domesticated insurer was an insurance company that was based in Alaska. He stated that Alaska had seven domesticated insurers, and the majority were property and casualty insurers. He stated that the life insurers were domesticated in other states and were admitted to write in any state they decide to conduct business.

[10:05:49 AM](#)

Senator Olson felt suspicion when the corporations attempted to speak in favor of consumers. He wondered if there was an effect on the consumers. Mr. Hester responded that the premium must reflect the risk if the premium was less, and the premium taxes were built into the price of the premium. He stressed that each risk must be determined on its own merit.

Senator Olson surmised that consumer groups would be in favor of the legislation. Mr. Hester replied that he had not heard from any consumer groups regarding the legislation.

Vice-Chair Micciche noted that there was an estimated \$16,000 reduction in taxes. He wondered if there was an anticipated increase to make up the difference in revenue. Mr. Hester replied that there could one or many policies to make up the difference in revenue.

Vice-Chair Micciche wondered if there was a national trend for a reduction in life insurance policies. Mr. Hester replied that he was not aware of a trend, and agreed to provide more information.

Vice-Chair Micciche remarked that the state should understand the policy, and there should be some resistance.

SB 15 was HEARD and HELD in committee for further consideration.

[10:10:22 AM](#)

RECESSED

[12:14:00 PM](#)

RECONVENED

#sb30

SENATE BILL NO. 30

"An Act relating to controlled substances; relating to marijuana; relating to driving motor vehicles when there is an open marijuana container; and providing for an effective date."

[12:14:32 PM](#)

Vice-Chair Micciche MOVED to ADOPT the committee substitute for SB 30, Work Draft 29-LS0231\V (Martin, 3/13/15). Co-Chair MacKinnon OBJECTED for discussion.

ERIN SHINE, STAFF, SENATOR ANNA MACKINNON, explained the changes in the committee substitute. She stated that the committee substitute incorporated some of the amendments from March 12 and March 13. She looked at page 1, line 3, which deleted "relating to municipalities" as related to Amendment 4. She referred to page 3, lines 13 through 29, which incorporated Amendment 22: the promoting contraband amendment. She explained that currently, a controlled substance was not allowed in a prison. The change treated marijuana like alcohol, and lowered the penalty from a Class C felony to a Class A misdemeanor. She looked at page 5, lines 17 through 20, which incorporated Amendment 6 that changed the aggregate to usable marijuana. She referred to page 6, line 18, as related to Amendment 18 that was a technical fix that included misconduct involving a controlled substance. She looked at page 6, lines 24

through 25, which clarified that home possession levels were not applicable for criminal possession levels. She referred to page 7, lines 2 through 7, which removed manufacturers, because the initiative clearly allowed for manufacturing. She looked at page 7, line 28 through page 8, and line 1, which incorporated the usable marijuana. She referred to page 8, lines 6, 9, 12, and 19, which incorporated usable marijuana.

[12:22:45 PM](#)

Co-Chair Kelly remarked that the CS did not include the amendment that was previously adopted.

Co-Chair MacKinnon surmised that the committee substitute included all previously adopted amendments, except for one. Ms. Shine agreed.

Co-Chair MacKinnon REMOVED her objection. There being NO further OBJECTION, the proposed committee substitute was adopted.

Senator Hoffman MOVED to ADOPT Amendment 1, 29-LS0231\V.2, Martin, 3/19/15 (copy on file).

Co-Chair MacKinnon OBJECTED for discussion.

Senator Hoffman explained the amendment.

Co-Chair MacKinnon REMOVED her objection. There being NO further OBJECTION, Amendment 1 was adopted.

[12:27:23 PM](#)

AT EASE

[12:27:49 PM](#)

RECONVENED

[12:27:55 PM](#)

Vice-Chair Micciche discussed the attached fiscal notes.

[12:32:08 PM](#)

AT EASE

[12:34:42 PM](#)

RECONVENED

[12:34:49 PM](#)

Vice-Chair Micciche remarked that the Department of Public Safety (DPS) would identify other funding sources.

Senator Hoffman noted that the fiscal note from Department of Commerce, Community and Economic Development (DCCED) reflected that the governor had requested.

Co-Chair MacKinnon stated that there was a separate bill that address regulations.

Senator Dunleavy did not support adding more funds to the legislation, because of Alaska's current fiscal situation.

Co-Chair MacKinnon remarked that there was a similar bill that was currently in the legislative process.

Vice-Chair Micciche MOVED to REPORT SB 30 out of committee with individual recommendations and the accompanying fiscal notes.

CS SB 30 (FIN) was REPORTED out of committee with a "do pass" recommendation and with two new zero fiscal notes from the Department of Administration; one new zero fiscal note from the Department of Corrections; one new zero fiscal note from the Department of Law; one new zero fiscal note from the Department of Public Safety; one new zero fiscal note from the Alaska Judiciary System; and one new fiscal impact note from the Department of Commerce, Community and Economic Development.

[12:37:47 PM](#)

AT EASE

[12:38:54 PM](#)

RECONVENED

Co-Chair MacKinnon discussed the following day's agenda.

#

ADJOURNMENT

[12:39:34 PM](#)

The meeting was adjourned at 12:39 p.m.