

SENATE FINANCE COMMITTEE

April 17, 2015

1:54 p.m.

[1:54:14 PM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 1:54 p.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

Cynthia Franklin, Director, Alcoholic Beverage Control Board, Department of Commerce, Community and Economic Development; Chris Hladick, Commissioner, Department of Commerce, Community, and Economic Development; Bruce Schulte, Spokesman, Coalition for Responsible Cannabis Legislation, Juneau; James Barrett, Self, Juneau; Kate Burkhart, Executive Director, Advisor Board on Alcoholism and Drug Abuse, Department of Health and Social Services, Juneau; Andy Mills, Legislative Liaison, Department of Administration; Kathy Lea, Chief Pension Officer, Division of Retirement and Benefits, Department of Administration; Lacey Sanders, Legislative Analyst, Legislative Finance Division.

PRESENT VIA TELECONFERENCE

Kirsten Myles, Vice President, Alaska Cabaret, Hotel, Restaurant and Retailers Association, Anchorage.

SUMMARY

CSHB 105(FIN)

AIDEA: BONDS;PROGRAMS;LOANS;LNG PROJECT

CSHB 105(FIN) was SCHEDULED but not HEARD.

CSHB 123(JUD) am

ESTABLISH MARIJUANA CONTROL BOARD

SCS CSHB 123(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal notes from the Department of Commerce, Community and Economic Development and the Department of Administration.

CSHB 213 (JUD) was HEARD and HELD in committee for further consideration.

HB 135 PUBLIC EMPLOYEE ROTH CONTRIBUTIONS

HB 135 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN1 (ADM).

HB 176 REPEAL ST EMPL SALARY INCREASE

CSHB 176(FIN) was REPORTED out of committee with a "do pass" recommendation and with three previously published fiscal impact notes: FN1 (AJS), FN2 (GOV), and FN3 (LEG).

#hb123

CS FOR HOUSE BILL NO. 123(JUD) am

"An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

1:55:10 PM

CYNTHIA FRANKLIN, DIRECTOR, ALCOHOLIC BEVERAGE CONTROL BOARD, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, testified that the bill would create a

Marijuana Control Board; the board would consist of 5 members and would be served by the same agency as the Alcoholic Beverage Control Board (ABC), with shared staff and resources. She stated that the fiscal note reflected the cost of regulating marijuana in the state, the actual money expended for the creation of the board, and other costs associated. She asserted that the administration strongly believed that regulating marijuana in a safe and responsible manner was an accomplishable goal through passage of the legislation. She shared that the board would be comprised of individuals representing the areas of; Public Safety, Public Health, the marijuana industry, rural representation, and an individual from the public or a second representative of the marijuana industry. She said that the board would be subject to a sunset review.

[1:57:57 PM](#)

AT EASE

[1:59:00 PM](#)

RECONVENED

CHRIS HLADICK, COMMISSIONER, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT, testified that the department supported the legislation. He believed that a board needed to be established quickly in order to realize the voter's initiative.

[2:00:02 PM](#)

Ms. Franklin spoke to the sectional analysis (copy on file):

**Section 1:** Amends Title 4 naming the director of the Alcoholic Beverage Control Board as the director of the Marijuana Control Board. Establishes the process for appointment and removal of the director.

**Section 2:** Establishes the 5 member Marijuana Control Board in Title 17 with designated seats for public health, rural, public safety, and industry.

**Section 3:** Establishes terms of office for board members and chair, sets out requirements for board meetings and provides for board member per diem. Outlines the powers and duties of the board to propose and adopt regulations, establish qualifications for

licensure, review applications for licensure, hear appeals from the actions of the director, reduce the area of a licensed premise, and to adopt regulations according to AS 44.63. Establishes the board's enforcement powers as mirroring those of the Alcoholic Beverage Control Board outlined in AS 04.06.110. Provides for appointment and removal of the director and establishes the duties of the director.

**Section 4:** Adds a new subsection prohibiting marijuana establishments from being registered if individuals who have been convicted of a felony within the last five years or who are currently serving probation or parole for a felony are an owner, officer, or agent of the establishment.

[2:01:31 PM](#)

Ms. Franklin continued with the sectional analysis:

**Section 5:** Defines board in AS 17.38.900(1) to mean the Marijuana Control Board created by this act.

**Section 6:** Defines "director" as the director of the Alcoholic Beverage Control Board and Marijuana control board. Defines "registration" to mean registration or licensure as determined by regulation.

**Section 7:** Amends the duties of the Department of Commerce, Community, and Economic Development to include providing clerical and administrative support for the Marijuana Control Board.

**Section 8:** Places the Marijuana Control Board on the list of entities whose procedural hearings are held by the Office of Administrative Hearings.

**Section 9:** Provides for a sunset date.

**Section 10:** Amends uncodified law for initial appointment of board members.

**Section 11:** Provides for transition regulations such that if the Alcoholic Beverage Control Board adopts any regulations before the Marijuana Control Board is created, those regulations can be implemented,

enforced, amended or repealed by the Marijuana Control Board and provides that regulations adopted by the board in any transition period take effect after the effective date of the act.

**Section 12:** Provides for an immediate effective date.

[2:02:48 PM](#)

AT EASE

[2:03:33 PM](#)

RECONVENED

Senator Bishop understood that four new law enforcement positions would be established as a result of the bill.

Ms. Franklin responded that the fiscal note reflected the addition of three additional officers to the five existing officers currently employed by the ABC Board.

[2:04:18 PM](#)

Senator Dunleavy asked whether there would be a representative of the federal government present on the board.

Ms. Franklin replied that the guidance provided by the federal government in the Coal Memorandum provided that the state must strictly regulate marijuana. She said that the hope was that a scheme would be established that was strict enough to appease the federal government. She added that the federal government would not be providing assistance in regard to establishing or enforcing the regulations.

[2:05:07 PM](#)

Vice-Chair Micciche opined the lack of a seat on the board for urban representation. He worried that urban areas might not be properly represented.

Ms. Franklin stated that the rural area component of the board had been inspired by the current composition of the ABC Board, which had the minimum requirement that there be one representative from a rural area to assure bush Alaska had a voice on the statewide board. She said that the other designations did not have geographic components, only

background components, and people filling those positions could be from urban areas of the state.

[2:06:53 PM](#)

Vice-Chair Micciche about the five-person board. He lamented that there was not a requirement that one of the positions be filled by an urban representative.

Ms. Franklin stated that the composition and size of the proposed board was designed to mirror the ABC board. She said that the designated seats represented changes that had been negotiated through the stakeholder process in reviewing Title 4 and issues related to alcohol regulation. She warned that solely designating seats for industry representatives could lead to an industry dominated board; the Public Safety and Public Health seats were inspired by the Title 4 work, and all of the seats would be subject to legislative confirmation.

[2:08:50 PM](#)

Co-Chair MacKinnon queried the sunset date of June 30, 2017 reflected on page 6, section 9. She wondered whether the date provided for enough time for auditors to collect data to use in evaluating the success of the program.

Ms. Franklin responded that the version that had passed out of the house had reflected a sunset date of June 30, 2018; the change in the date had been made in the committee substitute (CS) out of Senate Labor and Commerce Committee. She understood that the change had been made because the board was new and should have an earlier review date. She shared that HB 116 had just passed through the committee and set the sunset date for the ABC Board for June 30, 2018, which could result in the two boards, living under one agency, but being audited a year apart. She added that auditing work generally began in advance of the sunset date and that licenses might not be in place in time of the 2017 date. She asserted that the department would prefer that the dates aligned, but did not want to see the bill held up over the sunset date.

Co-Chair MacKinnon stated that she had wanted to highlight the difference between the house and senate proposals.

[2:11:46 PM](#)

Co-Chair MacKinnon OPENED public testimony.

[2:12:25 PM](#)

BRUCE SCHULTE, SPOKESMAN, COALITION FOR RESPONSIBLE CANNABIS LEGISLATION, JUNEAU, testified in support of the bill. He believed that a dedicated marijuana control board would be crucial to the successful development of marijuana regulations. He asserted that the industry would pay off the cost of the legislation several times over. He discussed the fiscal note and suggested that the tax revenue from the marijuana industry could be in the range of \$7 million per year, increasing to \$23 million annually by 2020. He stated that the ballot measure established a 9 month regulatory process that began on February 24, 2015. He said that no regulations had been established, but the timeline had not changed, leaving only 7 months to complete the regulatory work. He reiterated that the bill was critical to the successful implementation of Ballot Measure 2.

[2:15:59 PM](#)

KIRSTEN MYLES, VICE PRESIDENT, ALASKA CABARET, HOTEL, RESTAURANT AND RETAILERS ASSOCIATION, ANCHORAGE (via teleconference), testified in support of the bill. She stated that resources should not be taken from the ABC Board in order to regulate marijuana.

[2:17:41 PM](#)

JAMES BARRETT, SELF, JUNEAU, testified in support of the bill. He said that the legislation would buy Alaskans safety education, industry direction for law enforcement, the ability to benefit from a new international market, lower litigation costs, and put the state in compliance with the federal government, for less than \$2 per Alaskan resident.

[2:18:43 PM](#)

KATE BURKHART, EXECUTIVE DIRECTOR, ADVISOR BOARD ON ALCOHOLISM AND DRUG ABUSE, DEPARTMENT OF HEALTH AND SOCIAL SERVICES, JUNEAU, testified in support of the legislation. She discussed the importance of not diverting resources from the ABC Board in order to manage marijuana. She related that the state's investment in prevention efforts

related to alcohol had proven successful. She furthered that the "two board, one staff" model was effective because the Alaska Mental Health Board and the Advisory Board on Alcoholism and Drug Abuse used the same model with positive results. She concluded that the bill met the Public Safety and Public Health concerns related to implementation of Ballot Measure 2 in a fiscally responsible way.

[2:21:28 PM](#)

Co-Chair MacKinnon CLOSED public testimony.

HB 123 was HEARD and HELD in committee for further consideration.

#hb135

HOUSE BILL NO. 135

"An Act establishing a Roth contribution program for the public employees' deferred compensation program; and providing for an effective date."

[2:22:10 PM](#)

ANDY MILLS, LEGISLATIVE LIAISON, DEPARTMENT OF ADMINISTRATION, explained that the legislation would allow for a Roth 457 contribution option for state employees. He relayed that state employees could currently pay into deferred compensation, which allowed them to save additional money, for disbursement at the time of retirement. The deferred compensation option was a pre-tax option, with taxes being paid at the time of distribution. He said that the Roth 457 would allow for a post-tax option, giving the employee the ability to not be taxed at pay out. He stated that the option would be allowed for diversification in retirement choices and was optional. He explained that in January of 2011 the federal government began offering the option. He added that the option would be useful given the uncertainty of future taxation rates due to the federal deficit.

[2:25:06 PM](#)

KATHY LEA, CHIEF PENSION OFFICER, DIVISION OF RETIREMENT AND BENEFITS, DEPARTMENT OF ADMINISTRATION, reviewed the sectional analysis (copy on file):

**Section 1.** AS 39.45.050 is repealed and reenacted to provide for a post-tax Roth investment option in the public employees' deferred compensation plan and clarifies that state and federal income tax is not deferred under this option. The section establishes if no positive election is made for a Roth investment, contributions will be deemed to be on a pre-tax basis. This allows the pre-tax target date options to continue as the default option for the plan if the member makes no investment election. The section establishes dollar limitations in accordance with Internal Revenue Code rules and allows the Administrator of the plan to establish rules and procedures governing the election process by participating employees.

**Section 2.** AS 39.45.060 adds a definition of "Roth" contributions to have the meaning under 26 U.S.C. 402A(c)

**Section 3.** Establishes an effective date of July 1, 2015.

[2:26:10 PM](#)

Senator Bishop asked for more information on how the plan would be taxed.

Mr. Mills explained that the bill would allow the investment to be taxed now; at the time of retirement the money set aside, plus earnings, would be tax free.

[2:26:56 PM](#)

Senator Dunleavy understood that the bill would not limit the investment tools that could be used, such as investing in high risk stocks.

Mr. Mills replied that all of the options currently offered by the state would be available to the plan.

[2:27:39 PM](#)

Co-Chair MacKinnon OPENED public testimony.

Co-Chair MacKinnon CLOSED public testimony.

[2:28:34 PM](#)

AT EASE

[2:29:56 PM](#)

RECONVENED

Co-Chair MacKinnon discussed housekeeping and the suggested a break in the meeting to discuss the course of action pertaining to the legislation on the agenda.

[2:31:08 PM](#)

RECESSED

[3:13:15 PM](#)

RECONVENED

#hb135

HOUSE BILL NO. 135

"An Act establishing a Roth contribution program for the public employees' deferred compensation program; and providing for an effective date."

[3:13:40 PM](#)

Vice-Chair Micciche discussed the fiscal note.

Vice-Chair Micciche MOVED to report HB 135 out of Committee with individual recommendations and the accompanying fiscal note. There being NO OBJECTION, it was so ordered.

HB 135 was REPORTED out of committee with a "do pass" recommendation and with one previously published zero fiscal note: FN 1(ADM).

[3:14:51 PM](#)

AT EASE.

[3:16:14 PM](#)

RECONVENED

#hb176

CS FOR HOUSE BILL NO. 176(FIN)

"An Act repealing state employee salary schedule increases; and providing for an effective date."

[3:16:32 PM](#)

Vice-Chair Micciche spoke to the three fiscal notes.

Co-Chair MacKinnon solicited comments from the committee.

[3:18:47 PM](#)

Co-Chair Kelly said that all state employees would forego the 2.5 percent cost of living adjustment (COLA) for an anticipated savings of \$9.2 million. He asserted that the legislature was not breaking any promises through the passage of HB 176, or the budget action the committee had taken, but in certain financial situations the legislature had to take action to protect the state's reserves and spend less money. He stressed that no employee would be experience a reduction in pay, they would be foregoing a raise due to a shortfall of revenue.

[3:21:29 PM](#)

Co-Chair MacKinnon added that the committee appreciated all of the state employees, but that the fiscal crisis made the committee action a necessity.

[3:21:59 PM](#)

Vice-Chair Micciche MOVED to report CS HB 176(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 176 was REPORTED out of committee with a "do pass" recommendation and with three previously published fiscal notes: FN1 (AJS), FN2 (GOV), and FN3 (LEG).

[3:22:29 PM](#)

AT EASE

[3:23:30 PM](#)

RECONVENED

#hb123

CS FOR HOUSE BILL NO. 123(JUD) am

"An Act establishing the Marijuana Control Board; relating to the powers and duties of the Marijuana Control Board; relating to the appointment, removal, and duties of the director of the Marijuana Control

Board; relating to the Alcoholic Beverage Control Board; and providing for an effective date."

[3:24:13 PM](#)

AT EASE

[3:25:20 PM](#)

RECONVENED

LACEY SANDERS, LEGISLATIVE ANALYST, LEGISLATIVE FINANCE DIVISION, explained the two new fiscal notes that would be attached to the legislation. The first note was from the Department of Commerce, Community and Economic Development and was informational only; four full-time positions and the cost of \$1,574,400 in general funds reflected on the note was included in the governor's FY16 budget. She stated that funding for the Alcohol Beverage Control Board was included in the Capital Budget as a multi-year supplemental item.

[3:27:04 PM](#)

Ms. Sanders explained the second new fiscal note was for the Department of Administration and was informational only; the fiscal note had originally included \$10,000 of inter-agency receipts and had been zeroed out for FY16. She explained that the department could use unbudgeted inter-agency receipts for 2016.

[3:27:36 PM](#)

Co-Chair MacKinnon referred to an earlier question concerning Page 6, line 21 concerning the sunset date of the board. She related that the chairman of Senate Labor and Commerce supported the change in the sunset date.

Vice-Chair Micciche moved to MOVED to ADOPT Amendment 1, 29-GH1110\S.1, (Martin, 4/17/15), (copy on file).

Page 6, line 21:  
Delete "2017"  
Insert "2018"

There being NO OBJECTION, it was so ordered.

[3:28:37 PM](#)

Vice-Chair Micciche MOVED to report SCS CSHB 123(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SCS CSHB 123(FIN) was REPORTED out of committee with a "do pass" recommendation and with two new fiscal notes from the Department of Commerce, Community, and Economic Development and the Department of Administration.

3:29:03 PM

AT EASE

3:30:42 PM

RECONVENED

Co-Chair MacKinnon discussed housekeeping.

#

ADJOURNMENT

3:31:33 PM

The meeting was adjourned at 3:31 p.m.