

HOUSE FINANCE COMMITTEE
February 1, 2017
1:32 p.m.

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CALL TO ORDER

Co-Chair Seaton called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Paul Seaton, Co-Chair
Representative Les Gara, Vice-Chair
Representative Jason Grenn
Representative David Guttenberg
Representative Scott Kawasaki
Representative Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Dan Stickel, Assistant Chief Economist, Tax Division, Department of Revenue; Ky Clark, Economist, Tax Division, Department of Revenue; Alexei Painter, Analyst, Legislative Finance Division; Brandy Johnson, Self, Juneau; Jacob Wilson, Alaska Correctional Officers Association, Juneau; Kathie Wasserman, Alaska Municipal League, Juneau; Scott Carson Public Safety Employees Association, Juneau; Commissioner Dean Williams; Representative Charisse Millet. Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue;

PRESENT VIA TELECONFERENCE

Lonnie Miller, Self, Delta Junction; Carol Dunlap-Austin, Self, Delta Junction; Bonnie Wolstad, Self, Fairbanks;

Megan Lister, Self, Petersburg; Jason Holmgren, Wasilla Police Department, Wasilla; David Duncan, Kodiak Police Department; Lisa Albert-Konecky, Self, Wasilla; Doug Massie Public Safety Employees Association, Wasilla; Shaun Kuzakin, Public Safety Employees Association, Juneau; Steven Czajkowski, ALASKA State Trooper, Anchorage; Jake Metcalfe, Public Safety Employees Association, Anchorage; Anne Moen Self, Eagle River; Arn Salao, Anchorage Police Department, Anchorage; Darcy Perry, Anchorage Airport Police Department, Anchorage; Dan Grimes, Alaska State Fire Association, Soldotna;

SUMMARY

HB 23 INS. FOR DEPENDS. OF DECEASED FIRE/POLICE

HB 23 was HEARD and HELD in committee for further consideration.

INDIRECT EXPENDITURE REPORTS: DEPARTMENT OF REVENUE

INDIRECT EXPENDITURE REPORTS: LEGISLATIVE FINANCE DIVISION

Co-Chair Seaton reviewed the agenda for the meeting. He indicated that the committee would be hearing public testimony for HB 23 at 2:30 p.m. He invited testifiers from the Department of Revenue (DOR) to come forward.

^INDIRECT EXPENDITURE REPORTS: DEPARTMENT OF REVENUE

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DAN STICKEL, ASSISTANT CHIEF ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, introduced himself.

KY CLARK, ECONOMIST, TAX DIVISION, DEPARTMENT OF REVENUE, relayed that he was the project manager for the Indirect Expenditure Report (IER) produced by DOR.

Mr. Stickel thanked the committee for the opportunity to present the department's IER. He introduced the PowerPoint presentation: "Overview of DOR's Indirect Expenditure Report, Preliminary Report for FY 2011-FY 2015" (copy on file). He would be presenting opening comments and would turn the presentation over to Mr. Clark to discuss the legislation that established the IER and an overview report that came out of DOR. At the end of the presentation, he

would make some recommendations and considerations in looking at indirect expenditures. He thought it would be helpful to provide the same information that was requested by the Senate Finance Committee. He mentioned that there were 2 IERs. The first report was published in July 2016 by DOR. The report detailed information about every indirect expenditure (IE) for every agency and department in the state. The second report was published in December 2016 by the Legislative Finance Division (LFD) also called the "Indirect Expenditure." It provided a detailed examination of only certain departments. He clarified that DOR's report was talking about the DOR report released in July 2016.

Mr. Stickel reviewed slide 2: "Overview":

- Indirect Expenditure Report Legislation Overview
 - Bill provisions, DOR* requirements, Legislative Finance Division requirements
- DOR Indirect Expenditure Report
 - Process and methodology for producing the DOR Indirect Expenditure Report
 - Overview of the DOR Indirect Expenditure Report
 - Future Plans
- Recommendations/Considerations

Mr. Stickle turned the presentation over to Mr. Clark.

Mr. Clark began with slide 4: "Indirect Expenditure Report Overview":

- Passed in 2014 and signed on July 7, 2014 (House Bill 306)
- Requires DOR to submit a report to the Legislature biennially on July 1 detailing indirect expenditures of all agencies in the State (AS 43.05.095)
- Requires the Legislative Finance Division to provide a report to the Legislature on the indirect expenditures of certain agencies before the start of Legislative Session following the release of DOR's biennial report

Mr. Clark elaborated that in the LFD's report they recycled through every IE within a 6-year timeframe.

- The first DOR Indirect Expenditure Report was released the day after the bill was signed, July 8, 2014
- The second DOR Indirect Expenditure Report was released July 1, 2016

Mr. Clark continued to slide 5: "Indirect Expenditures Defined":

Indirect expenditure: Any foregone revenue by the state designed to encourage an activity to benefit the public in the form of a credit, exemption, deduction, deferral, discount, exclusion, or other differential allowance.

As defined by AS 43.05.095(d):

- An express provision of state law that results in foregone revenue for the state by providing:
 - A tax credit or other credit
 - An exemption, but does not include federal tax exemptions adopted by reference in AS 43.20.021
 - A discount
 - A deduction, but does not include costs incurred in the ordinary course of business that are deducted in the calculation of a tax under this title or in the calculation of a royalty or net profit share payment for a lease issued under AS 38
 - A differential allowance

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Mr. Clark reviewed slide 6: "DOR Indirect Expenditure Report":

- Released July 1, 2016 by DOR
- Provides details on 231 indirect expenditures across 11 departments and agencies, including 78 provisions administered by DOR
- A cooperative effort between 10 departments and other participating agencies, coordinated by DOR
- Followed process established in 2014, with improved presentation and some refinements

Mr. Clark relayed that the department improved the presentation of the physical report. The report began with

an introduction detailing the process and the approach of DOR. The department also improved the consistency of the reporting methodology used internally and externally.

Mr. Clark scrolled to slide 8: "Methodology - Internally":

- Surveyed all Tax Division workgroups and all divisions within DOR to ensure complete list
- Developed tax database reports to generate DOR data for the Indirect Expenditure Report
- Developed consistent definition for "Fiscal Year" given that tax types are mostly on a monthly, quarterly, or calendar year basis
 - Necessary because of time lag in receiving information for certain tax types (corporate, mining, et cetera)
 - Production tax not impacted by this issue, since we receive detailed monthly data for production tax.

Mr. Clark conveyed that the department had a dedicated economist and several other employees that contributed to the report. He also mentioned that the department developed a tax database reporting system, which made it easier for the department to generate the data needed to compile certain information required in statute. The database also made it easier to find specific numbers for reporting and to be more accurate. He noted that one of the issues the department had during the production of the first IER was defining the term "Fiscal Year." The first report was released in 2014 and was produced under some very difficult time constraints. The department did not clearly define all of the terms in the report. In FY 14 "Fiscal Year" was described as returns the state received during the fiscal year. The definition was redefined in the most recent report for FY 16.

Mr. Clark moved to slide 9: "Methodology- Internally":

- Internally: Addressing Fiscal Year Issue, cont.
 - Determined that the Fiscal Year includes any tax periods beginning during the fiscal year, using the "tax period beginning" date
 - For example: FY* 2015 corporate tax data will include any returns for periods

beginning July 2014 - June 2015 (primarily 15 calendar-year returns)

- Similar to how federal tax data is reports by the Internal Revenue Service
- Because of new parameters, some FY 2015 DOR data is "unavailable"
 - Some fiscal year filer returns are not received until spring 2017
 - For example, a corporate tax return beginning June 2015, with extension, would be due in March, 2017

Mr. Clark gave two different reasons the department needed to define "Fiscal Year" within the report. First, the department wanted a consistent definition for "Fiscal Year" across the different tax types within the Tax Division. A consistent definition was also used because of time lags in receiving tax returns. Developing a definition for "fiscal year" was necessary internally to produce a more complete and consistent report.

Mr. Stickel added that one of the issues the department had was that in looking at the returns received in a given year there might be 2 returns from a certain company or no returns from a certain company. In order to address the timing issue, the department looked at how the data was reported and what best practices were used in other states. For instance, when the Internal Revenue Service (IRS) reported federal tax return data they looked at all returns for a given tax year. The latest data they had out was from 2014 or 2015; the latest full tax year the IRS had received all tax returns. It was similar to the way the state was reporting tax credit data. He relayed that FY 14 represented all tax returns for years that began during the fiscal year. For instance, a corporate tax return for calendar year 2014 due at the end of 2015 would be the beginning of FY 16. He remarked that it got a little complicated. He also highlighted that in looking at the IER, the FY 15 data was incomplete for several IEs due to the definition of FY 15, which included the calendar year 2015 tax returns that were not due until the end of 2016 or potentially the beginning of 2017 with an extension.

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Vice-Chair Gara was aware of the amount of work the department had done to generate the report. He wanted to

see the largest expenditures in the order of amount. He wondered if DOR's report had a section that showed from largest to smallest.

Mr. Stickel responded that the department had not included that information in the report that was published. However, he had a slide towards the end of the presentation that listed the top 8 categories of IEs. He was happy to do some sorting and provide the information.

Vice-Chair Gara indicated he would not request it unless another member wanted it as well.

Co-Chair Seaton thought the information would be helpful for the subcommittee.

Mr. Clark moved to slide 10: "Methodology- Externally":

Externally:

- DOR met with other departments and agencies and sent out a survey for the report
- Each agency examined their operations to identify indirect expenditures and report the required information
- A few departments identified provisions that did not actually meet the definition of an "indirect expenditure"
 - Submissions from other departments and agencies are not independently verified

Mr. Clark indicated that the following slide provided a few examples of IE that did not meet the definition.

Mr. Clark turned to slide 11: "Methodology- Externally cont.":

Examples of provisions not meeting definition of "Indirect Expenditure":

- Alaska Housing Finance Corporation (AHFC)
 - Identified one potential indirect expenditure; reduced loan rates. But, it was part of their normal operations and not "required by statute." Statutorily, AHFC can set the rates.
- Department of Commerce, Community, and Economic Development (DCCED):

- Has certain licensing fees set by statute to cover program costs that were reduced for residents vs. non-residents. It was determined not be foregone revenue, because the fee differential does not affect total revenue.
- University of Alaska (UA):
 - Addressed tuition waivers to employees and dependents; they are a part of the employee's benefit package, so are not considered foregone revenue.
 - Non-resident vs. Resident tuition; UA is not discounting the resident tuition rate, rather the out-of-state student is paying a non-resident surcharge (so no foregone revenue).

Mr. Clark relayed that the University of Alaska (UA) was not necessarily discounting the resident tuition rate. Rather, the resident tuition rate was being used as the base rate. A non-resident surcharge was applied to tuition. There was no foregone revenue because the resident tuition rate was considered the base rate.

Co-Chair Seaton asked whether the senior tuition waiver counted in the report.

Mr. Stickel responded that UA had been broadly granted fee-setting authority by the legislature. There was no explicit provision in state law that required a discount. It would not qualify under the statutory definition of IE.

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Representative Guttenberg asked if UA had worked on the IER.

Mr. Stickel responded that UA participated in a discussion with DOR. It was determined that, since UA had fee setting authority, any discounts provided within the university did not meet the statutory definition of IE.

Co-Chair Seaton clarified that the legislature asked the university to identify the fees. They might expect reductions in general fund funding if they had IEs. He encouraged the testifiers to move to the recommendations portion of their presentation. Committee members could read through the methodology slides on their own, as time was running short.

Mr. Clark skipped to slide 14: "Future Plans":

- Reaching out to the Office of Management and Budget and the Legislative Finance Division concerning the next Indirect Expenditure Report
- Compiling feedback and suggestions which may be incorporated into the next report in Summer 2018
- Discussion with agencies of their ability to provide more information for certain indirect expenditures

Mr. Clark mentioned DOR being very open to receiving feedback from the committee in order to create a report that catered to the needs of all of its users. The department's goal was to produce the best possible report within the department. Mr. Stickel would be reviewing the department's recommendations.

Mr. Stickel detailed slide 16: "Recommendations/Considerations":

- DOR was asked to provide the committee with recommendations regarding indirect expenditures
- DOR identified several areas for the committee to consider:
 - House Bill 155 from 2015-2016
 - Largest indirect expenditures overall
 - Largest indirect expenditures by department
 - Review of recommendations produced by the Legislative Finance Division
 - Indirect Expenditures were reviewed in both January 2015 and January 2017
 - Fee Setting Authority

Mr. Stickel reported that in the other body the department was asked to make some recommendations about what the legislature should focus on regarding IEs. The Department of Revenue was not recommending changes or termination of any of the IEs. He relayed that there were 5 different areas for the committee to look at. He was aware that the committee was planning to look at IEs for each department in the subcommittee process.

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Mr. Stickel explained slide 17: "House Bill 155 from 2015-2016."

Mr. Stickel relayed that the bill from the previous year, HB 155 [Legislation introduced in 2015 - Short Title: FEES; WAIVERS; CREDITS; DEDUCTIONS; TAXES], passed the House but did not pass the Senate. He indicated that the bill would have repealed 4 tax-related IEs. He reviewed the four items on the slide:

The following indirect expenditures were addressed in a proposed bill:

- Tobacco Products Tax
 - Gives a four-tenths of one percent deduction to cover the expense of account and filing the return for the tobacco tax
 - FY 2015 revenue impact of \$54,053
- Cigarette Tax
 - Gives a discount of up to \$50,000 as compensation for affixing stamps to packs of cigarettes
 - FY 2015 revenue impact of \$360,326
- Motor Fuel Tax
 - Gives a timely filing credits of 1% of the total monthly tax due to a maximum of \$100
 - FY 2015 revenue impact of \$62,590
- Large Passenger Vessel Gambling Tax Deduction
 - Allows a deduction of federal and municipal taxes paid from gambling gross income
 - Revenue impact is unknown

Mr. Stickel added that although the revenue impact of the large passenger vessel gambling tax deduction was unknown, he confirmed that it would have a negative revenue impact.

Co-Chair Seaton reported that Representative Thompson introduced bills addressing IEs, which were read across the floor earlier in the present day.

Mr. Stickel continued to slide 18: "Largest Indirect Expenditures":

- Oil & Gas Tax Credits (FY16 = \$598 million)
- Mining License Tax - Depletion Deduction (FY14 = \$32 million)

- Insurance: all programs - Lower Tax Rate (DCCED*) (FY15 = \$13 million)
- Insurance: all programs - Deduction from premiums written for claims paid (DCCED*) (FY15 = \$13 million)
- Commercial Passenger Vessel Taxes - Tax Reduction for Local Levies (FY15 = \$13 million)
- Multiple Tax Programs - Film Production Credit (FY15 = \$9 million; credit phasing out under current law)
- Motor Fuel Tax - Foreign Flight Exemption (FY15 = \$8.6 million)
- Sport Fishing, Hunting & Trapping Senior Discount (FY15 = \$6.8 million)

Mr. Stickel detailed slide 19: "Recommendations from Legislative Finance":

- There are recommendations made by Legislative Finance Division in both their 2015 & 2017 Indirect Expenditure Reports
- 2015 Report
 - Recommended 17 indirect expenditures be terminated
 - Recommended 33 indirect expenditures be reconsidered
 - Recommended 24 indirect expenditures be reviewed
 - Recommended 37 indirect expenditures be continued
- 2017 Report
 - Recommended 2 indirect expenditures be terminated
 - Recommended 13 indirect expenditures be reconsidered
 - Recommended 3 indirect expenditures be reviewed
 - Recommended 48 indirect expenditures be continued

Mr. Stickel relayed that the Legislative Finance Division in the 2015 report identified 74 IEs for review, reconsideration, or termination. In the most recent report, the division identified an additional 18. Overall LFD had identified over 90 IEs that they recommended the legislature look at in some fashion.

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Mr. Stickel discussed slide 20: "Fee Setting Authority":

- Legislature has granted fee setting authority to certain agencies, for example:
 - Department of Transportation and Public Facilities
 - Alaska Marine Highway (AMHS): foregone revenue related to AMHS discounts amounted to over \$4.7 million in FY 2015
 - University of Alaska
 - Scholarship awarding authority
 - Western Undergraduate Exchange
 - Senior Citizen Tuition Waiver
 - A comprehensive review would likely identify other examples
- Discounts offered by agencies with fee setting authority may not qualify as "indirect expenditures" since they are not an "express provision of state law"

Mr. Stickel reported that fee-setting authority had come up a few times in producing DOR's IER. There were several agencies and departments where the legislature had granted fee-setting authority to the individual departments. Since the definition of IE followed in statute specified that, there must be an express provision of state law to grant a creditor a discount. If the agencies with fee-setting authority offered a discount, there was not an express provision of state law, which appeared to meet the definition of IE. He used the Alaska Marine Highway System (AMHS) as an example of an agency able to set fees for passengers and to offer discounts to children and seniors. The University of Alaska could award scholarships and had a senior citizen tuition waiver. It was likely that a comprehensive review into fee-setting authority would identify other departments that had similar issues going on. He was happy to answer any questions.

Vice-Chair Gara asked who kept track of the annual number of cruise ship passengers that visited Alaska.

Mr. Stickel responded that the department the data was reported on cruise ship tax returns.

Vice-Chair Gara recalled that Mr. Stickle noted there would be a \$13 million savings if the state did not allow municipal taxes to be deducted from the cruise ship tax. He asked him to provide the annual number of visitors for the

previous 5 years and the annual total cruise ship revenue over the same period.

Mr. Stickel was happy to provide the information.

Co-Chair Seaton thanked Mr. Stickle for his presentation. He invited LFD staff to the table. He also conveyed that Representative Guttenberg had joined the meeting.

^INDIRECT EXPENDITURE REPORTS: LEGISLATIVE FINANCE DIVISION

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ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, introduced the PowerPoint presentation: "Overview of Legislative Finance Division Indirect Expenditure Reports" (copy on file). He mentioned that the division had both the 2015 and 2017 reports in an excel format if committee members were interested. An electronic version would allow members to sort them any way they preferred and to hide data fields they did not want to see. He was happy to provide them to the committee.

Mr. Painter reviewed slide 2: "Agencies in 2015 Report":

- Commerce, Community and Economic Development
- Fish and Game
- Health and Social Services
- Labor and Workforce Development
- Revenue

Mr. Painter relayed that LFD issued its report following the publication of DOR's version. The finance division covered only select agencies each time. In the division's first report in 2015, the departments that were covered included the Department of Commerce, Community and Economic Development (DCCED), the Department of Fish and Game (DFG), the Department of Health and Social Services (DHSS), the Department of Labor and Workforce Development (DOL), and the Department of Revenue.

Mr. Painter continued to slide 3: "Summary of 2015 Recommendations":

- Terminate: 17 provisions

- Total known revenue impact of \$5 million (in FY14)
- Three provisions had unknown revenue impact
- Modify or review: 59 provisions
- Continue: 37 provisions
- No recommendation: 25 provisions

Mr. Painter indicated that the number of provisions the division recommended modifying or reviewing seemed high because in the report there were a couple of areas LFD advocated the restructuring of entire fee schedules. The Department of Fish and Game's fee structure was decades old and, LFD recommended a full review. In fact, the legislature studied the structure and legislation passed in the prior year. The mining license tax, largely unchanged since statehood, also needed an appraisal. It was difficult to select areas of the tax that might need review because the entire tax structure potentially needed modification. There were 25 provisions that had a "no recommendation." Either the Legislative Finance Division could not identify the provisions as IEs, or they had already terminated by the time LFD released its report. When LFD was reporting on past fiscal years, the results were sometimes delayed.

Mr. Painter discussed slide 4: "2015 Report Key Points":

- Did not review oil tax credits, which had been modified a year before

Mr. Painter explained that the report was prepared in the fall of 2014. At the time, the oil tax structure was undergoing a referendum, as it had been modified by the legislature the prior year. He reported that the division did not feel it was appropriate to assess the structure because it was new and without data. He continued to read the slide.

- 1 "terminate" item (obsolete exploration incentive) repealed in HB 247
- 4 other "terminate" items were in HB 155, which passed House in 2016 but not Senate
- 6 "terminate" items are in Corporate Income Tax
- 3 "terminate" items are in Commercial Fisheries Entry Commission

Mr. Painter scrolled to slide 5: "Agencies in 2017 Report." He relayed that the report in the current year was delivered on the first day of session. It covered 6 agencies and the education tax credit administered by DOR and scheduled to sunset in 2018. The Legislative Finance Division felt that a more in-depth review was warranted. The division had not made a recommendation in 2014 because the tax credit had been modified earlier in the year. He read the list of departments that fell under review:

- Administration
- Education and Early Development (including Alaska Student Loan Corporation and Alaska Commission on Postsecondary Education)
- Environmental Conservation
- Natural Resources
- Transportation
- Judiciary
- Plus review of the Education Tax Credit, which is scheduled to sunset at the end of 2018.

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Mr. Painter reviewed slide 6: "Summary of 2017 Recommendations":

- Terminate: 2 provisions
 - Unknown revenue impact
- Modify or review: 13 provisions
- Continue: 56 provisions
- No recommendation: 6 provisions

Mr. Painter explained that the reason for the higher number of recommended continuations was because many of the agencies being reviewed had more routine deductions. He provided an example. The Division of Motor Vehicles had fee waivers for disabled veterans. Another example was senior discounts to parks and museums. The division did not feel they were worthy of termination. The breakdown was somewhat different. In the division's next report in 2019, the statute dictated that LFD would review all remaining agencies. At present, based on where expenditures had been identified, there were no other agencies to review. He anticipated the 2019 report would consist of only 1 page.

In 2021, the division would begin again with DOR and the other departments that were included in the 2015 report.

Mr. Painter advanced to the final slide, slide 7: "2017 Report Key Points":

- Some items do not have revenue generation as a goal ("fix-it" tickets)
- Others have authority to set fee structure (Marine Highway)
- Remainder are mostly routine (senior discounts, fee waivers for disabled veterans, etc.)
- Some provisions in DEC and DNR could be reviewed

Mr. Painter elaborated that in the 2017 report there were several items where revenue was not a goal. The largest example was fix-it tickets. In the Judiciary when a person received a fine for having a headlight out, they would receive a ticket. If the person had their headlight fixed, they could get the ticket waived. The goal was to get a person to fix their headlight rather than making money for the state. While it was technically foregone revenue, the division did not consider getting rid of fix-it tickets. There were other examples where the legislature delegated authority for fee structures including AMHS. There were some provisions in the Department of Environmental Conservation (DEC) and the Department of Natural Resources (DNR) that needed further review. He made himself available for questions.

Representative Wilson asked whether the administrative costs for fix-it tickets were covered.

Mr. Painter did not know the answer but would find out.

Representative Wilson appreciated him getting back to her. She noted that the state did not want to have to absorb the administrative costs but wanted a person to fix their issue.

Representative Guttenberg referred to page 3 of the presentation regarding the summary of 2015 recommendations. He pointed to the 3 provisions of which their impact was unknown. He wondered if the provisions had non-revenue impacts. He wanted to know if LFD had discussed or looked at the non-revenue impacts.

Mr. Painter responded that it depended on why there was no revenue impact. He used the example of Sub Chapter "S" corporations, partnerships not subject to Alaska's state income tax but considered corporations. There were no known revenue impacts for "S" Corporations because they did not have to file taxes with the state. The Department of Revenue could only provide estimates rather than determining actual revenue impacts. Estimates were not reported in the IER. However, they were used in LFD's recommendation to terminate the provision. A significant amount of revenue could be realized. Some of the amounts could be estimated, however, there were reasons the division could not get them. The Department of Revenue sometimes had confidentiality concerns because of too few taxpayers. The state might not know the amount for all years. In making recommendations, LFD tried to assess the revenue impact as best as possible through estimates or other sources.

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Representative Guttenberg spoke of the difficulty of measuring the effectiveness of policy because accessing information for a group of three or less taxpayers was protected by confidentiality provisions.

Co-Chair Seaton asked about DOR having any problems with someone wanting to claim certain benefits, information of which would be disclosed.

Mr. Painter responded that DOR would be able to speak to their confidentiality rules better than he could. He noted that LFD could not provide a recommendation for some areas due to a lack of information. There was no known revenue impact or any other real known information about certain impacts.

Co-Chair Seaton wanted to hear from someone from DOR. He was trying to ascertain if revenue reasons played a role.

Co-Chair Seaton referred to slide 4. He wondered if there were too few items in the corporate income tax category to have data.

Mr. Painter responded that that there were enough taxpayers to have data. He supposed that was the reason there were more firm recommendations than in oil and gas policy or

mining tax policy where there were very few. He offered there were a number of things that were likely obsolete. He explained that the tax had not been modified since the repeal of the personal income tax in 1980. The division had a list of items that could be addressed in corporate income tax reform if the legislature chose. Some items did not get reported.

Co-Chair Seaton asked Mr. Painter to provide the information for the subcommittee process.

Representative Wilson asked about a dollar amount and timeline for outstanding film tax credits.

Mr. Painter deferred to DOR.

Co-Chair Seaton thanked Mr. Painter and invited DOR to come to the table for additional questions.

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Representative Wilson was aware that the film tax credit program had ended but wondered about the outstanding balance and associated timeframe.

Mr. Stickel responded that the time limit for receiving credits was January 1, 2019. A company could still apply their credits after that time. The program total was capped at \$300 million. He did not have the potential outstanding credit balance but would get back to the committee with the information.

Co-Chair Seaton asked about the 6 items recommended for termination under the corporate income tax. He wondered about DOR's position with someone wanting to claim an IE.

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, responded that currently under Alaska state statute all of the information on a tax return was confidential by law. The department reported aggregated information. The commissioner had indicated there were other states that made information public regarding taxpayers who applied for specific tax credits. There were cases the State of Alaska would support implementing a similar policy. In some instances, transparency would improve programs. He argued it would make sense for some

IEs. The administration would be happy to discuss the issue.

Co-Chair Seaton asked if the department would provide a list of items in which a transparency policy could be applied. He encouraged a focus on the corporate income tax and any others that would lend transparency and more effectiveness to the program. It would be helpful information for the committee to decide whether to extend or terminate the program.

Representative Guttenberg referred to the second item on slide 18. He asked about the purpose of the depletion deduction for the mining license tax.

Mr. Stickel responded that the mining license tax was a net income-based tax. The depletion deduction was a deduction from the net income to allow for the costs of developing a resource. It was either a percentage-based depletion of 10 percent of revenue for a coalmine or 15 percent of revenue for the more common metal mines. The percentage of revenue could be deducted when calculating net income on which the tax was based. There was also an opportunity for a cost base depletion similar to a depreciation schedule.

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Representative Guttenberg wondered about the foreign flight exemption pertaining to the motor fuel tax. He was under the impression that there were economic zone issues dealing with flights going into international airports.

Mr. Burnett explained that the state had a specific statutory provision exempting tax on flights that originated in or were traveling to foreign countries. There were other complications to consider such as removing the statutory provision, federal rules, economic zones, and the ability to import bonded fuel. The question was more complicated than what was considered in the IER.

Co-Chair Seaton asked Mr. Burnett to bring a breakdown of where the credits were being applied to the subcommittee meeting.

Mr. Stickel answered that it was defined in statute. The Department of Revenue reported expenditures every 2 years.

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AT EASE

[2:29:13 PM](#)

RECONVENED

#hb23

BILL NO. 23

"An Act relating to major medical insurance coverage under the Public Employees' Retirement System of Alaska for certain surviving spouses and dependent children of peace officers and firefighters; and providing for an effective date."

^PUBLIC TESTIMONY

[2:29:13 PM](#)

Co-Chair Foster OPENED Public Testimony.

[2:30:51 PM](#)

BRANDY JOHNSON, SELF, JUNEAU, spoke in support of HB 23. She read a prepared statement (copy on file):

For the record, my name is Brandy Johnson. I am testifying in support of HB 23 on behalf of myself, my three daughters, my deceased husband, Scott Johnson, surviving families of past and future line of duty death state troopers as well as law enforcement officers in the state of Alaska.

On May 1st, 2014, my husband, Scott Johnson and Gabe Rich were murdered while in the performance of their job in Tanana, Alaska.

Scott's job was that of a Sgt. with the Alaska State Troopers. He had worked as a state trooper for over 21 years with a total of over 23 years vested in the Public Employees Retirement System (PERS). He could have retired with 20 years of service. However, Scott and I decided he should work another 5 years to gain the medical benefits for our family at the 25-year mark as a Tier II employee. It was while trying to obtain this promised benefit goal that Scott was ambushed and killed. Scott would have retired this

past October with major medical benefits for himself and our family.

I had asked the state troopers assisting me after Scott was killed if I had health insurance. I initially was told I was set for life by one Lieutenant. However, that was not the case. I was later told that my family's benefits would expire at the end of the month. I was disappointed and angry. My choices were to pay \$1, 150 per month for the retirement major medical health care that we would have received in a year and a half at no cost as a retirement benefit or \$1, 700 for full coverage COBRA.

What is frustrating, is that the person who shot my husband to death and his father who desecrated my husband's dead body, while incarcerated, have medical care available at no cost to them as their families also has free health care.

I felt Scott's last three years of service were all for nothing.

Scott always took his responsibilities very seriously to protect the people of Alaska. I had believed upon his death, the State would also take responsibility to now take care of his family. Graciously, the State of Alaska has these past two and a half years until the gap in law could be resolved.

Our family has paid the price for this benefit. We have paid into the PERS retirement system; we have paid with the endless callouts. Whether it be a K9, SERT, homicide calls or one of the many other emergency responses Scott was involved with. This is called, to give of yourself for the sake of others.

I am here today asking for your support of HB 23. This bill is more than what I have advocated the legislature for as a health benefit. This bill provides full coverage health insurance that takes care of young surviving families that need well child checkups. The retirement health care plan was not a long-term solution. It was a "band-aide" so to say and a safety net in case of a major medical emergency. It did not take care of the family.

This legislation will ensure that another surviving spouse does not have to experience what I have. They will have the assurance that their children will be taken care of if there was a health emergency.

Thank you for your time and your consideration of this important legislation.

2:34:43 PM

JACOB WILSON, ALASKA CORRECTIONAL OFFICERS ASSOCIATION, JUNEAU, spoke in favor of HB 23. He read a prepared statement (copy on file):

My name is Jacob Wilson. I represent the 930 Correctional Officers in the State of Alaska. Last year we provided a letter of support for what was then SB 4002. We were encouraged that Officers' families would no longer be hit twice if their husband or wife was killed in the line of duty: first by the death, and second by the loss of health insurance. The fact is that Correctional Officers put their lives on the line every day, just like any other Alaska Public Safety Officer. Their families are just as important.

A few days ago Correctional Officers became aware that they were no longer included in the new version of this Legislation. While we are happy to see at least some of our public safety families covered, it was a tough blow to see other law enforcement officers in the State covered because they are the ones who ... "run to the fire". With all due respect, Correctional Officers don't run to the fire, they live in it. The dangers Correctional Officers face are the same that every other Officer in the State of Alaska faces. Police Officer and Troopers may arrest the criminals, but it is Correctional Officers who keep them behind bars every hour of every day.

This would not substantially increase the cost of this legislation. While every year Correctional Officers are assaulted, some permanently disabled, we have been very fortunate not to have lost any Correctional Officer in an institution as a result of an assault. Because of this, I believe that the fiscal impact of covering our Officers would be minimal, but the impact

on morale for the Officers would be immeasurable. It would give them peace of mind knowing that should they fall in the service of their State and give their life protecting Alaskans, their families would have insurance coverage.

In closing, I would like to say we support HB 23 and hope that it passes. That being said, please include Correctional Officers in this legislation.

We also appreciate Commissioner Dean Williams' support of including Correctional Officers in this bill.

Please feel free to contact me if you need any additional information.

Mr. Wilson reported that earlier in the day in Delaware there was a hostage take over. Four correctional officers were being held hostage. He encouraged legislators to contact the association with any questions.

Co-Chair Seaton asked Mr. Wilson to provide a copy of his written testimony.

[2:38:45 PM](#)

Vice-Chair Gara suggested that the bill could cover every state employee. He asked where the legislature should draw a legal line.

Mr. Wilson responded that any of the four officers being held in Delaware could pass. When officers went into a correctional facility, they were aware of the risks they were taking. Alaska had been fortunate not to have a death. However, there were deaths at the national level. Some of Alaska's officers had been permanently disabled. Any of the related injuries could have led to death. He reiterated that when a person signed up to serve in Alaska in a public safety role, they were cognizant of the risks. He would leave the decision up to the legislature as to where to draw the line. He thought correctional officers should be included in the bill.

Vice-Chair Gara appreciated that correctional officers went to work every day in dangerous environments.

Co-Chair Foster agreed that correctional officers lived in danger every day.

2:41:14 PM

KATHIE WASSERMAN, ALASKA MUNICIPAL LEAGUE (AML), JUNEAU, opposed the unfunded mandate accompanying the legislation. The burden would fall on the shoulders of municipalities without a way of determining their costs. She asked for additional detail about administrative costs noted in the bill. She explained that insurance costs were handled differently for different law enforcement employees. She urged members to consider that municipalities were losing revenue sharing and had already encountered many cost transfers from the state. She conveyed the difficulty of the municipalities taking on new expenses. She noted that prior to the meeting she had spoken with a community that reported owing about \$300,000 to the state. She posed a question about how municipalities were expected to handle their debt. She wondered what would happen if, at some point, the municipalities became unable to provide insurance costs promised to survivors. She asked if the state would provide assistance. She restated that the municipalities could not face an unfunded mandate, particularly without knowing the exact cost. She needed additional information before AML could take a firm position on HB 23.

Representative Kawasaki asked if AML had considered what would happen if an option-in or option-out clause was included for municipalities.

Ms. Wasserman thought that most communities had taken responsibility when similar situations had arisen. She thought communities would be responsible. She cited Fairbanks as one of the communities that was already contributing without a mandate in place. She mentioned that Hoonah had also stepped up to the plate. She believed most communities would step up without a mandate in place.

Representative Kawasaki explained that a municipality's premium would be based on its size. He asked for her feedback about size.

Ms. Wasserman indicated AML had discussed the issue with Representative Josephson's office. She explained that the size breakdown was a vague set of lines used by the league.

She relayed that there seemed to be a dividing line between large and small communities. The league had moved it between 7,500 to 10,000 people.

Co-Chair Seaton was trying to determine the parameters of Ms. Wasserman's statement. He asked if she was interpreting the bill to say that each municipality would be paying a premium based on size or only after there was a death.

Ms. Wasserman responded that after talking with Representative Josephson's office, the fund would be initiated after a death. She indicated that some of the league members thought money would be set aside ahead of time and drawn from when needed.

Co-Chair Seaton asked if AML had a preference about paying a smaller amount over time or a larger amount after a fatal incident.

Ms. Wasserman reported that her members discussed the idea of each municipality contributing to one fund. There were some concerns about it being equitable. She added that her response was in light of the shortage of funds at present. She did not think it would be an issue under different circumstances.

2:49:24 PM

Representative Guttenberg remarked that the bill pertained only to police officers and firefighters. He asked if AML had looked at the benefit of pooling a larger group of employees.

Ms. Wasserman responded that AML had not specifically discussed the topic. She believed that Representative Josephson's bill included employees without Public Employees' Retirement System (PERS). She relayed that currently the municipalities were having difficulty paying into the current and previous PERS and TERS system. She reported that some of the small communities had not been able to pay their worker's compensation insurance.

Representative Wilson pointed out that some firefighters were hired as contractors rather than employees of municipalities and would not be covered under HB 23. She asked about the number of fire services areas where

firefighters were under contract rather than employees of municipalities.

Ms. Wasserman thought there were only two boroughs that had service areas - Fairbanks and Mat-Su. She noted that Village Public Safety Officers (VPSO) either worked for the state or for tribal organizations rather than for municipalities.

Representative Wilson clarified that the state had 6 fire service areas.

[2:53:19 PM](#)

Co-Chair Foster recognized that Amber Heinbaugh with the state trooper families at the Glennallen Legislative Information Office (LIO) was listening in.

SCOTT CARSON PUBLIC SAFETY EMPLOYEES ASSOCIATION, JUNEAU, spoke in support of HB 23. He felt the bill was very important. He relayed a personal story as a state trooper. He had been in a situation where he wanted someone to back him up. He spoke to being in Ketchikan as a trooper and responding to a call. He did not have the luxury of not going to a dangerous call when he was required to go. He wanted assurance for his family that they would be taken care of. He thanked the committee and asked members for their support.

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[2:58:26 PM](#)

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LONNIE MILLER, SELF, DELTA JUNCTION (via teleconference), supported HB 23. She thought it was right to take care of the families of firefighters and peace officers. She believed that they deserved the assurance that their families would be cared for if they gave the ultimate sacrifice in the line of duty. She opined that peace of mind for a surviving family member would be a small but necessary part of recovering after a grave and painful loss. She thanked members for their support of the legislation.

[3:00:33 PM](#)

CAROL DUNLAP-AUSTIN, SELF, DELTA JUNCTION (via teleconference), was an Alaska State Trooper. She was well aware of the dangers of the job. She spoke of having lost many friends in the line of duty. She thought it was important for the state to make things right. She stated that all gave some but some gave all.

[3:02:24 PM](#)

BONNIE WOLSTAD, SELF, FAIRBANKS (via teleconference), was the daughter and wife of retired Alaska law enforcement personnel. She relayed some of the close calls her father-in-law and husband both faced in the line of duty. She was extremely fortunate to have never received a call or knock at the door. She believed the legislation was headed in the right direction and very needed. However, she believed that all employees of the State of Alaska should be covered if killed while on the job. She provided a number of examples concerning equitability. She spoke of 5 Alaska Fish and Wildlife enforcement officers and 26 Alaska Department of Fish and Game employees that have died in the line of duty. She thought all state employees should be allowed to participate. She recommended monthly contributions or Alaska Supplemental Annuity plan (SBS) options. By allowing more employees to participate under HB 23, the survivor benefit would have more people paying into a fund and would be on a stronger financial footing. She urged the committee to amend the legislation.

[3:06:13 PM](#)

MEGAN LISTER, SELF, PETERSBURG (via teleconference), spoke in support of HB 23. She was the wife of an Alaska State Trooper with four young children. She thought it was the right thing to do. She expressed sadness that the bill had taken so long to get through the legislative process. She asked members to pass HB 23 once and for all. The bill provided peace of mind for the families of law enforcement officers and firefighters.

[3:08:42 PM](#)

JASON HOLMGREN, WASILLA POLICE DEPARTMENT, WASILLA (via teleconference), supported HB 23. He indicated he had been working in law enforcement in various municipalities for 14 years. He had been involved with some search teams and with

some very dangerous calls. The bill provided peace of mind to officers with families that their loved ones would be cared for if they died on the job. He supported HB 23 and urged others to support the bill as well.

[3:09:46 PM](#)

Co-Chair Foster recognized Commissioner Williams in the audience and Representative Millet.

DAVID DUNCAN, KODIAK POLICE DEPARTMENT (via teleconference), spoke in support of HB 23. He was a police officer in Kodiak. He agreed with previous testifiers that the bill was the right thing to do. He and his fellow officers went to work each day not knowing what to expect, yet, they did so diligently. The passage of the legislation would provide a huge relief to officers knowing that their families would be provided insurance benefits if they fell in the line of duty.

[3:11:15 PM](#)

LISA ALBERT-KONECKY, SELF, WASILLA (via teleconference), spoke in favor of HB 23. She reported knowing families with spouses that were injured in the line of duty. She spoke to the difficulty of getting health insurance. She thought the legislation was long overdue. Although doing the right thing would cost money, it was important to provide a peace of mind within the law enforcement community. She asked members to support HB 23.

[3:13:26 PM](#)

DOUG MASSIE PUBLIC SAFETY EMPLOYEES ASSOCIATION, WASILLA (via teleconference), spoke in favor of the legislation. He was a life-long Alaskan and presently an Alaska State Trooper within the Wildlife Division. He had served the State of Alaska for over 20 years. He relayed his personal perspective as a trooper having dealt with several line-of-duty deaths over the course of his career. He relayed a particular story about a rescue. He told of several thoughts that ran through his mind being the first responder at the scene waiting for others to arrive. He wondered if his family would be okay if he were the victim of the situation. He also wondered who would take care of them. He thought that surely the department and the state would take care of his family. He continued that HB 23 was

right and just, and was a small way of providing peace of mind for the families of those that paid the ultimate price in protecting Alaskans. He asked the committee to support passing the legislation.

3:16:15 PM

SHAUN KUZAKIN, PUBLIC SAFETY EMPLOYEES ASSOCIATION, JUNEAU (via teleconference), supported HB 23. He read from a prepared statement:

I would like to thank the committee for taking the time to listen to me today. My name is Shaun Kuzakin, I am a resident of Juneau, Vice President of the Public Safety Employees Association DPS Chapter (represents Troopers and Court Service Officers), and a husband and father of 2. I am here today in support of HB 23.

"Officer shot and killed when she tried to confront a murder suspect of a local Walmart".

"Officer shot and killed while responding to a 911 call about an armed man outside a home in the Dallas suburb of Little Elm".

"A Louisiana Officer was shot and killed after he stopped to check on what he thought was a car accident".

"A Deputy Sherriff was shot and killed following a vehicle pursuit of a stolen vehicle".

These are actual headlines of in the line of duty deaths thus far in 2017. Reading these headlines cut through me like a dull blade. There is the anxiety of knowing that this can happen to any officer during the course of their career and a far deeper anxiety of knowing that your family must worry for you every day you put on the uniform and badge.

I have proudly worn the badge of the Alaska State Troopers on my chest for more than 15 years. Every day the men and women of Law Enforcement in our great state must have the courage to face dangerous calls. Those men and women will run towards the danger when others do not. They do it every day regardless of the danger because of a commitment to the service of the

people of Alaska. In our profession we talk about a warrior mentality, we train continuously, but we also know when certain calls are very dangerous. Honor, duty, and the drive to help others are what drive peace officers into that danger.

When an officer dies in the line of duty, families must adjust to life without their loved one. Often, the family is faced with the loss of the primary breadwinner. While there is no amount of money or financial support that can compensate for the loss of a loved one, we can honor their service and ensure their families are not forgotten by providing survivor benefits.

Please show your support for the men and women peace officers of our great state by passing this bill.

3:19:03 PM

STEVEN CZAJKOWSKI, ALASKA STATE TROOPER, ANCHORAGE (via teleconference), spoke in support of HB 23. He read a few headlines from the current day having to do with officers being killed in the line of duty. He explained that honor, duty, and the drive to help others were what drove peace officers into potential danger. He thought HB 23 would provide a bubble of safety for their peace of mind. He thanked the committee members for supporting the legislation.

3:20:57 PM

JAKE METCALFE, PUBLIC SAFETY EMPLOYEES ASSOCIATION (PSEA), ANCHORAGE (via teleconference), supported HB 23. He thanked Representative Josephson, Representative Millet, and others for supporting the legislation. He reported that PSEA had been advocating for the legislation for years. The organization thought the bill addressed an issue that should be a priority for the legislature to pass. Members of PSEA included the Alaska State Troopers and the police departments in several Alaskan communities. They went into danger every day, unlike other employees. The association believed that when an employer sent an employee into danger - like police officers and firefighters - it should be a priority for the state and the respective communities to take care of them and their families. He asked the committee, the House, and the Senate to pass HB 23.

[3:23:21 PM](#)

DAN GRIMES, ALASKA STATE FIRE ASSOCIATION, SOLDOTNA (via teleconference), spoke in favor of the legislation. He had worked in emergency services since 1981 as a firefighter and a law enforcement officer. He emphasized how much the passage of HB 23 would mean to the men and women who dedicated their lives to serving others. They served with the knowledge that on any given day they might have to give their lives to save another. He confirmed that the dangers of their work were real. He wanted to impress upon members that the same men and women who were willing to tackle evil and to sacrifice much for those in need, lived with the fear of leaving their loved ones without a provider. He saw HB 23 as an opportunity for the legislature to help make a difference. He urged members to support HB 23.

[3:26:06 PM](#)

ANNE MOEN SELF, EAGLE RIVER (via teleconference), supported HB 23. She was the widow of James Moen, a fallen Fish and Wildlife Protection Officer for the Alaska State Troopers. She spoke of her experience in seeking help after her husband's death. Her husband had been a Tier 1 employee and was able to receive help. She emphasized that she could not have gone out and immediately found full-time employment that would have provided adequate medical coverage for herself and her four children. Nor were her children ready to have their only surviving parent working full-time. She was saddened to find out that coverage for a fallen officer's family was no longer available. She encouraged members to do the right thing by passing HB 23.

[3:28:02 PM](#)

ARN SALAO, ANCHORAGE POLICE DEPARTMENT, ANCHORAGE (via teleconference), urged members to support HB 23. He shared that he had been shot in the line of duty and about his fears around whether his family would have been taken care of if he had died. He asked members to support the legislation.

[3:29:12 PM](#)

DARCY PERRY, ANCHORAGE AIRPORT POLICE DEPARTMENT, ANCHORAGE (via teleconference), spoke in favor of HB 23. She realized that her husband would not be covered if she were killed on

the job after hearing Brandy Johnson speak about her troubles 30 days after her husband died in the line of duty. She relayed that it was comforting to know a potential coverage would be available for his surviving family members. She thought that providing medical insurance was the least the state could provide for employees that protected the state.

Co-Chair Foster confirmed that there were no other testifiers online or in the committee room. He encouraged the public to provide their written testimony.

Co-Chair Foster CLOSED Public Testimony.

HB 23 was HEARD and HELD in committee for further consideration.

Co-Chair Foster asked members to submit any amendments by Friday afternoon at 5:00 PM.

#

ADJOURNMENT

[3:32:26 PM](#)

The meeting was adjourned at 3:32 p.m.