

HOUSE FINANCE COMMITTEE

April 4, 2017

9:07 a.m.

9:07:39 AM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 9:07 a.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 Dan Ortiz
Representative Lance Pruitt
Representative Steve Thompson
Representative Cathy Tilton
Representative Tammie Wilson

MEMBERS ABSENT

Representative Scott Kawasaki

ALSO PRESENT

Representative Sam Kito III, Sponsor; Kris Kris Curtis, Legislative Auditor, Alaska Division of Legislative Audit; Janey Hovenden, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Rachel Bergngartt, Doctor of Vetrinary Medicine and Board Member; Ms. Kranendonk, Staff, Representative Harriet Drummond; Alexei Painter, Analyst, Legislative Finance Division; Ben Brown, Chairman, Alaska State Council on the Arts; Representative Matt Claman, bill sponsor; Owen Phillips, staff, Representative Claman; Ken Alper, Director, Tax Division, Department of Revenue; Representative Geran Tarr, Sponsor; Kelly Howell, Director, Division of Administrative Services, Department of Public Safety; Representative Colleen Sullivan-Leonard.

PRESENT VIA TELECONFERENCE

Eric Jayne, Doctor of Veterinarian, Hawaii; Brandon S. Spanos, Deputy Director, Tax Division, Department of Revenue; Paul Kendall, Self, Anchorage.

SUMMARY

HB 31 SEXUAL ASSAULT EXAMINATION KITS

CSHB 31(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note by the House Finance Committee for the Department of Public Safety and with a new zero fiscal note.

HB 137 ST. COUNCIL ON THE ARTS: PUBLIC CORP.

HB 137 was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes by the House Finance Committee for the Department of Education and Early Development.

HB 144 EXTEND BOARD OF VETERINARY EXAMINERS

HB 144 was HEARD and HELD in committee for further consideration.

HB 146 SCHOOL TAX; PFD PAYMENT FOR SCHOOL TAX

HB 146 was HEARD and HELD in committee for further consideration.

Co-Chair Foster reviewed the agenda for the meeting.

#hb144

HOUSE BILL NO. 144

"An Act extending the termination date of the Board of Veterinary Examiners; and providing for an effective date."

[9:09:29 AM](#)

REPRESENTATIVE SAM KITO III, SPONSOR, read the sponsor statement:

House Bill 144 extends the termination date for the Board of Veterinary Examiners until June 30, 2025.

Legislative Audit conducted their review of this board and determined that "the board is serving in the public's interest by effectively licensing and regulating veterinarians and veterinary technicians. The board monitors licensees and works to ensure only qualified individuals practice. Furthermore, the board develops and adopts regulations to improve the veterinarian and veterinary technician occupations in Alaska. In accordance with AS 08.03.010(c) (22), the board is scheduled to terminate on June 30, 2017. We recommend that the legislature extend the board's termination date to June 30, 2025."

The board currently oversees 784 active licensees and is made up of five members. State law requires four board positions be filled by licensed veterinarians that have been engaged in the practice of veterinary medicine in the state for at least five years prior to appointment. The remaining position is to be filled by an individual from the general public.

The continuation of the Board of Veterinary Examiners is important to the health and safety of Alaska's pets and livestock.

Thank you for your support of House Bill 144.

Representative Kito reported that an issue regarding lack of rural veterinary care was identified in the audit. The issue was indirectly related to the board and was not a primary function. He indicated that providing veterinary care in rural areas was fiscally difficult for veterinarians. The House Labor and Commerce Committee committed to meet during the interim to address possible options and formulate recommendations for improving rural veterinary care. The board sunset June 30, 2017 and needed approval to continue its licensing functions in the state.

[9:12:22 AM](#)

Representative Wilson ascertained that the board was in arrears for \$25.8 thousand and noted the audit recommendation to reduce fees. She wondered how the deficit was created. Representative Kito spoke to the bi-annual

license renewal cycle affecting the board's balance each year. The Department of Commerce, Community and Economic Development (DCCED) were required to review a board's accounting each year and adjust fees every other year, or each biennium, to keep reserves close to zero. Representative Wilson asked whether increasing fees was one of the audit findings. Representative Kito deferred the answer to the department.

[9:14:22 AM](#)

KRIS CURTIS, LEGISLATIVE AUDITOR, ALASKA DIVISION OF LEGISLATIVE AUDIT, summarized the findings of the audit. She reported that "the board is serving in the public's interest by effectively licensing and regulating veterinarians and veterinary technicians" and recommended the maximum allowable extension of 8 years. She referred to page 7 of the audit and cited the only recommendation:

"The board chair should review the annual report for accuracy and completeness before final submission to the Department of Commerce, Community and Economic Development."

Ms. Curtis indicated that the department staff examiner erroneously included information from a different board in the board's annual report and submitted the report on the board's behalf without review by the board chair. She referred to a chart on page 5 of the audit (copy on file) that depicted the total licenses issued from FY 13 through February 2016 and noted a 57 percent increase in licensees. She directed attention to a chart on page 6 containing the schedule of revenues and expenditures from FY 13 through February 29, 2016. She explained that at the end of FY 13 the board was running a surplus of \$108.8 thousand, resulting in a fee reduction. Conversely, the board was currently running a deficit of \$25.8 thousand. She determined that "overall" the board was well-run.

Representative Wilson asked about a prior sunset audit that recommended the governor fill vacant board seats in a timely manner. Ms. Curtis responded that Legislative Audit did not discover any extended vacancies.

Co-Chair Foster noted that Co-Chair Seaton joined the meeting.

Representative Wilson requested an answer from the department about how the deficit was being handled. She thought that the significant increase in licensees would result in a surplus rather than a deficit.

[9:18:07 AM](#)

JANEY HOVENDEN, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, reported that fees were substantially increased for the last renewal period. The veterinary license fees increased from \$300 to \$500 and the fees for technicians increased from \$50 to \$100. The current FY 17 second quarter report ending on December 13, 2017 reported a surplus of \$25.3 thousand.

Co-Chair Foster noted that Representative Coleen Sullivan Leonard, Representative Kito and Representative Claman were present.

[9:19:19 AM](#)

Co-Chair Foster OPEND Public Testimony for HB 144.

[9:19:41 AM](#)

RACHEL BERGNARTT, DOCTOR OF VETERINARY MEDICINE AND BOARD MEMBER, related that the board engaged in "extensive" discussions over the past year on ways to improve services and remedy the budgetary issues. She reminded the committee that the board existed to license veterinarians and technicians and not dictate where licensees needed to practice. She voiced that options for rural veterinary services existed. She pointed out that the board's job was to enable licensees to practice in the areas of their choosing and the board never denied a license to anyone appropriately qualified regardless of what area of the state they worked in. The board did not track where Alaskan veterinarians practiced. She communicated that private non-profits like the The Alaska Veterinary Rural Outreach offered spay, neuter, and well pet services in over 200 Alaskan communities. She furthered that the board offered a courtesy license for out-of-state veterinarians for approximately \$75 to veterinarians who travel to Alaska to assist Alaskan veterinarians on a temporary basis. She indicated there were over 30 out-of-state veterinarians that helped with the Iditarod.

9:24:24 AM

ERIC JAYNE, DOCTOR OF VETERINARIAN, HAWAII (via teleconference), asserted that the board had attempted to control veterinary services in rural Alaska through the provisions that allowed non-profit groups to work in the state. He communicated that the board offered two types of temporary licenses that allowed out-of-state veterinarians to practice in Alaska. One type, good for a period of 60 days, was called "a temporary permit" used for relief veterinarians. The temporary permit was offered at a low cost, easy to apply for, did not require board approval, and did not limit the scope of practice. The other was a "special event courtesy license." He maintained that the board inserted a provision that allowed veterinarians from non-profit spay neuter groups from out-of-state to perform services in communities off the road system under the license. He contended that the courtesy licensing process was very arduous, and he discovered that only two veterinarians applied for the license. He reported that the fee was large, the license was subject to board approval, and limited to only spay and neuter services. He currently worked for 8 spay-neuter clinics. He ascertained that many other veterinarians from out-of-state would volunteer their services in rural Alaska if they felt welcomed by the board. He believed the board's special event license provisions inhibited non-profits from operating in rural Alaska and that the board wanted to protect the financial interest of Alaskan veterinarians. He also pointed out that the cost for the lack of rural veterinary care was "tremendous" and "spent unnecessarily." He cited that 7 children were mauled to death since 1994 in the Yukon Kuskokwim Delta. He spoke of hundreds of bite wounds and the associated costs that were treated using Medicaid dollars. He maintained that there were several different policy changes the board could implement to mitigate the problem. He recommended allowing a rural member on the board.

Co-Chair Foster CLOSED Public Testimony.

Co-Chair Foster indicated that amendments were due on Friday, April 7, 2017.

HB 144 was HEARD and HELD in committee for further consideration.

#hb137

HOUSE BILL NO. 137

"An Act redesignating the Alaska State Council on the Arts as a public corporation and governmental instrumentality of the state; defining the powers and duties of the Alaska State Council on the Arts; providing exemptions from certain statutes for the Alaska State Council on the Arts; making conforming amendments; and providing for an effective date."

[9:32:11 AM](#)

MS. KRANENDONK, STAFF, REPRESENTATIVE HARRIET DRUMMOND, provided a brief summary of the bill by reading from the sponsor statement as follows:

House Bill 137 quasi-privatizes the Alaska State Council on the Arts (ASCA) by restructuring it as a public corporation in order to help the ASCA to continue its work with self-employed Alaskan artists and art businesses during these challenging fiscal times. This new status will allow the ASCA to increase its ability to leverage funds from non-governmental contributors and better adapt to the shifting economic climate. This effort responds to the widespread interest in governmental entities, as much as they are able, to at least partially privatize their operations and increase their operating efficiency.

Representative Wilson wanted confirmation that no additional state funding was appropriated for the bill. Ms. Kranendonk replied that the bill reallocated the funds but did not add any funding. She noted that current employees would be reclassified as exempt.

Co-Chair Foster indicated there were no amendments from committee members.

[9:34:23 AM](#)

Vice-Chair Gara reviewed the associated fiscal note from Department of Education and Early Development (DEED): FN2 (EED). He noted that the appropriation was in the amount of \$2.768 million in FY 2018. He read the breakdown of funding sources and noted that he was unfamiliar with the AAIP fund.

[9:36:17 AM](#)

AT EASE

[9:38:31 AM](#)

RECONVENED

Vice-Chair Gara clarified that AIPP stood for Art in Public Places. He moved to the second new fiscal note from DEED allocated to ASCA. He related that the fiscal note transferred the funding to the new Alaska State Council on the Arts' public corporation.

Co-Chair Foster invited Mr. Painter to clarify the fiscal notes.

ALEXEI PAINTER, ANALYST, LEGISLATIVE FINANCE DIVISION, explained that creating a public corporation meant ASCA was a separate legal entity from the state, which required that the appropriation had its own component. The administration was prohibited from transferring money to and from a corporation. Fiscal note number 2: FN2 (EED) deleted the funding from the existing appropriation and moved the same funding to the new appropriation. He stated that there was no net change in the funding.

[9:38:31 AM](#)

Representative Wilson asked whether the money could be reappropriated or if the fund was dedicated. Mr. Painter responded that the fund was not dedicated, but a transfer of any money within the appropriation was restricted. The legislature retained the ability to appropriate the funding as it desired.

[9:39:19 AM](#)

BEN BROWN, CHAIRMAN, ALASKA STATE COUNCIL ON THE ARTS, confirmed that it would remain the legislature's prerogative, under the Executive Budget Act whether to appropriate funding for the council.

Co-Chair Seaton MOVED to report HB 137 out of Committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

HB 137 was REPORTED out of committee with a "do pass" recommendation and with two new fiscal impact notes by the House Finance Committee for the Department of Education and Early Development.

[9:41:12 AM](#)

AT EASE

[9:41:34 AM](#)

RECONVENED

Co-Chair Foster indicated that Representative Guttenberg had joined the meeting.

#hb146

HOUSE BILL NO. 146

"An Act imposing a school tax on net earnings from self-employment and wages; relating to a payment against the school tax from the permanent fund dividend disbursement; and providing for an effective date."

[9:41:52 AM](#)

REPRESENTATIVE MATT CLAMAN, BILL SPONSOR, read the sponsor statement:

Good morning members of the Committee, for the record, my name is Matt Claman, and I am the State Representative for House District 21 in West Anchorage. I would like to thank you all for hearing House Bill 146.

Alaska faces major financial challenges. Our goal in proposing House Bill 146, a School Tax, is a responsible action plan to meet those challenges. The Alaska Constitution, Article VII, Sec. 1 requires the legislature to "establish and maintain a system of public school." The public supports a strong public school system, and an investment in our students is an investment in our future.

When asked about the possibility of a broad-based school tax, many people wanted to know what such a tax would look like. The School Tax in HB 146 sets a tax based on adjusted gross income on federal tax returns for every person who earns income in Alaska. All

Alaskans and out-of-state residents who work in Alaska would help solve our financial challenges. The minimum tax would be \$100 a year, for those who make \$20,000 or less. In this way, the school tax is similar to the school head tax—everyone contributes. The tax then increases on a graduated scale based on income. Those making between \$50,000 and \$75,000 a year would pay a school tax of \$750. The revenue collected from the school tax would be designated to support public education in Alaska. It is **not** a dedicated tax fund, which would violate our constitution. (Because it is well below the budget amount, there would be no need to argue the designation as well.)

The values of the tax range from 1% in the lowest bracket to 3.4% at the uppermost bracket. There is also a cap on the uppermost level, allowing the highest earners to reinvest in the economy and support a positive investment climate.

We based our values off a \$1000 permanent fund dividend. Everyone is able to contribute, while individuals who depend on the PFD still receive a reasonable portion. To make payment of the tax simple, the bill includes a provision allowing use of future Permanent Fund Dividends to pay the tax.

I would like to close by saying that this school tax bill responds to public concern about the funding of education in challenging times. It is a transparent way to produce new revenue and create a responsible action plan for Alaska. At full implementation, the school tax bill is projected to raise \$540 million—approximately one third of the state funding for education. We believe that if the public has a more direct investment in funding education, they will become more involved in the education that we deliver. The school tax is not a proposal to increase education funding. The intent is to raise revenue to help close the budget deficit, designate those funds to support education, and reduce the undesignated general fund appropriation for education on a dollar-for-dollar basis.

[9:44:49 AM](#)

OWEN PHILLIPS, STAFF, REPRESENTATIVE CLAMAN, noted that the only change between the sponsor substitute and the original bill was in the title. He relayed that the old title did not include out-of-state residents or specify income.

Mr. Phillips reviewed the sectional analysis:

Section 1:

Section 2: AS 43.45.011 School tax imposed; payment by dividend:

Adds new chapter: Chapter 45. School Tax.

Adds new section AS 43.45.011:

- a) Tax imposed on adjusted gross income (AGI) of:
 - (1) residents and (2) non-residents with income from in-state source
- b) Lists tax liability for individuals based on tiered AGI levels
- c) Stipulates that
 - (1) the AGI of
 - (A) a resident is the total AGI of the resident
 - (B) a nonresident or part-year resident is the amount attributable to a source in the state
 - (2) the DOR shall assess the tax due on the AGI of
 - (A) individuals, for individual returns
 - (B) 2+ individuals for joint filing (including dependents)
 - (C) individual, if return is not filed
- d) Tasks the DOR with adopting procedures to allow use of PFD to pay the school tax, including refunding amounts exceeding the tax
- e) Defines regulations for the tax payer
- f) The department shall adopt regulations:
 - (1) Delinquent payment annual interest rate is 18%
 - (2) Establish fee of up to \$2,500 for the cost of collecting delinquent tax
 - (3) Allow for a 90-day extension past due date (at the DOR's discretion)

- (4) Determine AGI subject to tax for joint filers if one of the filers is not a resident of the state
- g) Tax penalties shall be deposited into the general fund
- h) "adjusted gross income" has the meaning given in 26 U.S.C. 62

Section 3: Uncodified Law: Amended: REGULATIONS. DOR may adopt regulations to implement section 2

Section 4: Effective Date: Section 3 - Immediately

Section 5: Effective Date: All other sections - Jan 1, 2018

Mr. Phillips delineated that the effective date in Section 5 included the tax component of the bill.

[9:48:10 AM](#)

Co-Chair Seaton cited page 2, line 26 and read the following:

...an individual if the individual does not file a tax return...

Co-Chair Seaton wondered how adjusted gross income was determined for someone who did not file a federal tax return. Representative Claman responded that the provision would be subject to Department of Revenue (DOR) regulations.

Representative Guttenberg asked what the House Education Committee's feedback or actions were regarding the bill. Representative Claman responded that there were no amendments made in the education committee.

[9:49:26 AM](#)

Representative Pruitt mentioned that another revenue measure was being considered in the House. He asked whether the bill would be an addition to an income tax. Representative Claman responded that the legislation was intended as an alternative to an income tax. Representative Pruitt asked whether the bill was another version of an income tax. Representative Claman responded in the

negative. He clarified that the school tax combined a capped head tax with graduated rates between the low and high ends of income. He delineated that the tax included a mandatory minimum on the low end and a cap on the maximum payment and was not considered an income tax. Representative Pruitt countered that the tax fell within the definition of an income tax but included the language that the revenue "may" be appropriated for education. Rep. Claman declined to "argue the policy question."

Representative Grenn cited page 2, lines 4 through 13 of the bill. He asked what formula was used to create the income brackets. Representative Claman replied that he began with the premise to establish a minimum tax, from the desire that everyone should be part of the solution. He assumed that based on a \$1000 PFD (Permanent Fund Dividend) it was reasonable to request a \$100 minimum payment. The other brackets were developed similarly; with the consideration that, certain income levels should receive a certain portion of their income and retain the ability to also contribute above the limit. He considered "economic levels of income at which the statistical likelihood that the PFD was critical to their family economics became less important."

[9:52:33 AM](#)

Representative Wilson asked about using a percentage of income versus a flat fee. She provided an example from the tax brackets. Representative Claman responded that the goal of the bracket fees was to create clarity and make it easier for the public to understand what they were expected to pay versus calculating percentages. He agreed that by using step increments a taxpayer at the lower limits of a higher bracket would pay much more in relation to the previous bracket versus using a percentage of income but at the expense of clarity and a straightforward approach. Representative Wilson asked whether the representative had information regarding the "correlation between the public paying the fee and how it would impact what was happening in the schools." Representative Claman did not understand her question. Representative Wilson wondered if he had accessed information from other states that employed a similar tax on correlation between the tax and educational outcomes. Representative Claman responded that that he concluded from anecdotal information that the community felt that the more they invested in education the more they

would become interested in outcomes. Representative Wilson did not agree because the system was not the same for all; not all children go to public school and she doubted the correlation. She asked for further data from other states. Representative Claman remarked that no other state had a school tax similar to the proposal in HB 146 and doubted he could provide any further information. He believed that all segments of the community were concerned about how the state invested in public education.

[9:56:26 AM](#)

Vice-Chair Gara thanked the sponsor for introducing the bill. He asked whether Rep. Claman supported an alternative way to raise revenue without taxing the PFD as part of income. Representative Claman replied that the PFD was included in adjusted gross income on the federal level. He expressed concerns about complicating the bill for the public as exceptions and "layers" were added. Vice-Chair Gara asked whether the income and tax levels in the bill were adjusted over time. Representative Claman wondered if he was asking about inflation adjustments. Vice-Chair Gara responded affirmatively. Representative Claman answered in the negative.

Co-Chair Foster noted Representative Thompson had joined the meeting.

Vice-Chair Gara asked whether single and joint tax payers with or without dependents all paid the same tax. Representative Claman responded that the tax was based on the return versus on an individual basis.

[9:59:22 AM](#)

Co-Chair Seaton referred to page 2 lines 26 through 30 and read the following:

(C) an individual, if the individual does not file a federal income tax return.

(d) The department shall adopt regulations establishing procedures for an individual eligible for a dividend under AS 43.23.005 to direct the department to hold all or a part of the amount of the dividend to pay the tax due under this section.

Co-Chair Seaton asked whether an individual who did not file income tax had an adjusted gross income and wondered how much money would be generated under the \$100 minimum tax from individuals who only get a PFD for income purposes and do not file a federal form. Representative Claman responded that the fiscal note was prepared by the department using proprietary information regarding how many tax returns were filed for each income bracket. He deferred to DOR for additional information. He furthered that the department had information regarding who filed for a PFD. Therefore, it would be known to the department if a person had not filed a tax return but filed for a PFD.

[10:01:59 AM](#)

Representative Wilson ascertained that the state would take \$100 minimum tax from everyone even children. Representative Claman answered that it depended on how the family chose to manage their children's PFD income. He furthered that if parents included their children's PFD income on their return the only school tax due was based on the parent's tax return. Representative Wilson responded that the bill did not reference tax returns; only adjusted gross income. Representative Claman pointed to page 2, lines 24 and 25 and read the following:

(B) two or more individuals, including dependents, if those individuals file one federal income tax return together;

Representative Claman specified that the language applied to the scenario in question. Representative Wilson referenced page 2, lines 26 and 27 and read the following:

(C) an individual, if the individual does not file a federal income tax return.

Representative Wilson guessed that most individuals not filing had a disability or incomes so low they were not required to file a return and would be difficult to track if not for the PFD data base. She deemed that individuals who did not file a return or file for a PFD would be "almost impossible" to track. Representative Claman was unfamiliar with the area of tax law she was discussing regarding disability benefits. He agreed that it would be arduous to find people who did not file a return or file for a PFD.

[10:05:07 AM](#)

Representative Pruitt asked whether the intent was for the PFD to pay the tax or if an individual would "write a check," since there was no withholding of funds. Representative Claman replied that a payroll tax component was not included to minimize the administrative expense. He explained that non-payment of the tax was subject to a high interest rate (18 percent) and fines up to \$2.5 thousand to incentivize timely payment for those in the higher income brackets. He wanted the tax collected once a year to provide an easier administrative process for the state. He envisioned that the tax could be paid for with the PFD for tax payers in lower income brackets. The goal was to fashion the tax similar to a property tax. Representative Pruitt thought that the assumption was made that people could manage their money to have enough when the payment was due. He thought a yearly payment was challenging for people who didn't budget their money adequately.

[10:08:36 AM](#)

Vice-Chair Gara recognized that there were several different policies under consideration. He liked that the bill clearly defined how much people would be taxed versus a tax based on percentages. Representative Claman provided an example from personal experience to illustrate how the fees and penalties would encourage payment compliance. He hoped that the department would graduate the fines so that those that owe more paid higher fines. He voiced that collection issues occurred for any tax.

[10:10:34 AM](#)

Co-Chair Seaton asked Mr. Alper about the administration of the tax and wondered whether the bill provided enough guidance.

[10:10:55 AM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, explained that the bill had a blanket authorization to write regulations. He stated that many technical issues were not addressed in the bill but could be dealt with in regulation. He spoke to the issue of non-resident income generated in the state and requested more definition and additional language should the bill advance in the

legislative process. He believed that lawsuits would ensue, if the bill was adopted, regarding what was effectively definable through regulation versus statute. He noted that enough guidance was contained in the bill concerning tax forms, tax rates, and defining tax payers. The department would fill in the details through regulations.

Co-Chair Seaton reiterated his question regarding page 2, line 26 of the bill, dealing with an individual who did not file a federal tax return but had adjusted gross income. He asked how the department would administer the tax to Alaskan residents. Mr. Alper guessed that all PFD recipients not included in a filed tax return would owe the \$100 minimum tax. The threshold for a larger household exempted from filing a tax return was under \$20 thousand; and these households could fall under the higher \$250 tax. He surmised that the department would rely on the 1040 form for the administration of the tax and added that a process would be necessary to identify non-filers.

[10:14:42 AM](#)

BRANDON S. SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), noted that each year, there were certain individuals that just refused to file a tax return or did not for other reasons. However, employers were required to file a W-2 that would act as documentation of income for the department. The department would use the W-2 information in coordination with the Internal Revenue Service (IRS) to determine assessments.

[10:15:49 AM](#)

Co-Chair Seaton referenced the following language on page 2, lines 1 and 2 and page 2, lines 20 through 27 of the bill:

- (1) resident individual; and
 - (2) nonresident and part-year resident individual with income from a source in the state.
-
- (2) the department shall assess the tax due on the adjusted gross income of
 - (A) an individual, if the individual files a federal income tax return only on the individual's own behalf;

- (B) two or more individuals, including dependents, if those individuals file one federal income tax return together;
- (C) an individual, if the individual does not file a federal income tax return.

Co-Chair Seaton queried whether the language ensured that the tax was applied to tax returns and not each individual included in the tax return. Mr. Alper interpreted that the first section allowed a joint filer to pay a single household tax. He surmised that DOR would interpret the language in the same manner.

Mr. Spanos added that federal rules required that a child file their own return in some cases. He thought further definitions would be beneficial clarifying when the state would also require a dependent to pay their own school tax.

[10:18:56 AM](#)

Representative Guttenberg referred to line 2, page 2 and inquired how crew shares fit into the definition of income. He thought that the bill gave the department "a lot of leeway to make decisions and write regulations." Mr. Alper suggested that DOR would have to craft regulations specifically for S Corporations, partnerships, sole proprietorships, and contract work. He furthered that crew shares qualified as a 1099 contractor when received for work done in Alaska or paid by an Alaska owned business. The department would have the non-resident crew member's tax information, apply formulas from regulation to determine the Alaskan portion of the adjusted gross income for tax assessment purposes. He reiterated that the question was whether the regulation language could withstand a court challenge. Representative Guttenberg wondered if the division would have enough authority and guidance to make the decisions required to write the regulations. Mr. Alper replied that enough guidance existed, but he was uncertain whether DOR had the legal authority. He wanted to consult with the state's attorneys. He cautioned that taxes were prohibited from being imposed via regulation and he was uncertain how specific the regulations could be written.

[10:22:08 AM](#)

Co-Chair Seaton referred to Page 2, lines 12 and 13 of the legislation and read the following:

- (8) \$200,000 or more, but less than \$250,000, the tax is \$6,500 a year;
- (9) \$250,000 or more, the tax is \$8,500 a year.

Co-Chair Seaton asked whether someone who made \$5 million per year would pay \$8.5 thousand in tax. Representative Claman confirmed that the statement was correct. Co-Chair Seaton inquired if an individual with income at \$251 thousand would pay \$2 thousand more than an individual with income of \$248 thousand. Representative Claman answered in the affirmative.

Vice-Chair Gara favored the provision that the revenue would be deposited in the Education Fund. He noted that the language in the bill used the word "may" versus "shall" due to the constitutional prohibition on dedicated funds. Representative Claman confirmed that the statement was correct.

Co-Chair Foster OPENED Public Testimony.

[10:23:42 AM](#)

PAUL KENDALL, SELF, ANCHORAGE (via teleconference), provided public testimony. He favored an "open" discussion regarding the bill. He spoke against using property taxes to pay for any public employee's salaries or compensation. He spoke to items and beliefs outside of the context of the legislation.

Co-Chair Foster interrupted to clarify that public testimony was being heard on HB 146. Mr. Kendall continued to provide testimony unrelated to HB 146.

Co-Chair Foster CLOSED Public Testimony.

HB 146 was HEARD and HELD in committee for further consideration.

#hb31

HOUSE BILL NO. 31

"An Act requiring the Department of Public Safety to develop a tracking system and collection and

processing protocol for sexual assault examination kits; requiring law enforcement agencies to send sexual assault examination kits for testing within 18 months after collection; requiring an inventory and reports on untested sexual assault examination kits; and providing for an effective date."

10:30:02 AM

REPRESENTATIVE GERAN TARR, SPONSOR, explained that the Committee Substitute (CS) accomplished three things: The bill established mandatory sexual assault training for all law enforcement officials. The legislation required a statewide audit to determine the "true" inventory of backlogged untested sexual examination kits. Third, HB 31 established a "gold standard" in reporting options for sexual assault.

10:31:30 AM

Co-Chair Foster MOVED to ADOPT Amendment 1.

Page 1, line 9, following "and":
Insert "at least 12 hours of instruction regarding"

Page 1, line 9, following "assault":
Insert ":1."

Page 3, lines 2 - 3:
Delete "16 years of age or older"
Insert "18 years of age or older and not a vulnerable adult"

Page 3, following line 24:
Insert a new bill section to read:
"* Sec. 5. AS 18.68.020 is amended by adding a new subsection to read:
(c) In this section, "vulnerable adult" has the meaning given in AS 47.24.900." 15
Renummer the following bill sections accordingly. 17

Page 4, line 21:
Delete "Section 5"
Insert "Section 6" 21
Page 4, line 22:
Delete "sec. 6"
Insert "sec. 7"

Representative Wilson OBJECTED for the purpose of discussion.

Representative Tarr spoke to the amendment. She explained that the amendment added more specificity to the bill and contained three components. The first provision delineated that the training was 12 hours for sexual assault and 12 hours for domestic violence. The Department of Public Safety (DPS) supported the amount of training and the fiscal note had factored in the 12-hour trainings. She indicated that existing statute called for mandatory reporting of sexual assault for anyone under the age of 18, which was considered sexual abuse of a minor, and for vulnerable adults. The second piece of the amendment made age changes to clarify and conform to the existing statute.

Representative Wilson cited AS 47.24.900 regarding the definition of vulnerable adults. She wondered who made the determination that an individual was a vulnerable adult in sexual assault cases. She asked for additional clarification for when the classification of vulnerable was established. Representative Tarr answered that a vulnerable adult would have already been established by a court process before the assault occurred.

[10:34:20 AM](#)

Representative Wilson asked about the other change regarding a minimum of 12 hours of instruction. She wondered whether the amendment clarified that the 12-hour requirement was mandated for both domestic violence and sexual assault. Representative Tarr responded affirmatively.

Co-Chair Seaton asked whether the total hours of training were 24 hours. Representative Tarr answered affirmatively.

Representative Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, Amendment 1 was ADOPTED.

Vice-Chair Gara reviewed the new zero fiscal note from the Department of Public Safety.

Representative Wilson asked about the 24 hours. She wondered whether the state already offered the training.

10:36:46 AM

KELLY HOWELL, DIRECTOR, DIVISION OF ADMINISTRATIVE SERVICES, DEPARTMENT OF PUBLIC SAFETY, indicated that the training was already being provided by the Public Safety training academy.

10:37:16 AM

Vice-Chair Gara MOVED to report CSHB 31(FIN) out of Committee as amended with individual recommendations and the accompanying fiscal note.

There being NO OBJECTION, it was so ordered.

CSHB 31(FIN) was REPORTED out of committee with a "do pass" recommendation and with a new zero fiscal note by the House Finance Committee for the Department of Public Safety.

Co-Chair Foster reviewed the agenda for the following meeting.

ADJOURNMENT

10:38:30 AM

The meeting was adjourned at 10:38 a.m.