

SENATE FINANCE COMMITTEE

April 7, 2017

9:06 a.m.

9:06:58 AM

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 9:06 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair
Senator Anna MacKinnon, Co-Chair
Senator Click Bishop, Vice-Chair
Senator Mike Dunleavy
Senator Peter Micciche
Senator Donny Olson
Senator Natasha von Imhof

MEMBERS ABSENT

None

ALSO PRESENT

Buddy Whitt, Staff, Senator Shelley Hughes; Juli Lucky, Staff, Senator Anna MacKinnon; Representative Steve Thompson, Sponsor; Senator Mia Costello, Sponsor; Juliana Melin, Staff, Senator Mia Costello; Janey Hovenden, Director, Division of Corporations, Business and Professional Licensing, Department of Commerce, Community and Economic Development; Pete Fellman, Staff, Senator Click Bishop; Jerry Burnett, Deputy Commissioner, Treasury Division, Department of Revenue.

PRESENT VIA TELECONFERENCE

Rob Carter, Division of Agriculture, Palmer; Joan Wilson, Department of Law, Anchorage; Aaron Welerton, Alaska State Homebuilders Association, Fairbanks; Kevin Saiki, MatSu Home Builders Association, MatSu; David Owens, Owens Inspection Services LLC, Palmer; Patrick Dalton, Self, Delta Junction; Deborah Brollini, Self, Anchorage; Paul Kendall, Self, Anchorage.

SUMMARY

SB 6 INDUSTRIAL HEMP PRODUCTION

CSSB 6(JUD) was REPORTED out of committee with "no recommendation" and with one new fiscal impact note by the Senate Finance Committee for the Department of Natural Resources; and with four previously published zero fiscal notes: FN5(DPS), FN6(LAW), FN7(CED), and FN8(DPS).

SB 45 EXEMPTION: LICENSING OF CONTRACTORS

SB 45 was HEARD and HELD in committee for further consideration.

SB 78 PERM FUND DIVIDEND CONTRIBUTIONS/LOTTERY

SB 78 was HEARD and HELD in committee for further consideration.

HB 16 DRIV. LICENSE REQ;DISABILITY:ID &TRAINING

SCSHB 16(FIN) was REPORTED out of committee with a "do pass" recommendation and with three zero fiscal notes: FN1(ADM), FN3(DPS), and FN4(COR).

Co-Chair MacKinnon discussed the agenda for the meeting.

#sb6

SENATE BILL NO. 6

"An Act relating to industrial hemp; and relating to controlled substances."

[9:08:29 AM](#)

Co-Chair MacKinnon offered a brief history of previous committee discussions of bill. She listed that available invited testimony.

[9:09:47 AM](#)

Vice-Chair Bishop discussed the fiscal notes. He noted that the four fiscal notes were from the Department of Public Safety (DPS), Department of Law (DOL), Department of Commerce, Community and Economic Development (DCCED), and

the Department of Natural Resources (DNR). He pointed out that there would be one note DNR with fiscal impact of \$25 thousand for an RSA with LAW to assist in drafting regulations.

Co-Chair MacKinnon observed the lack of support documents to justify the need for \$25,000. She read the analysis from FN9 and reiterated that the note was short on backup analysis.

[9:11:35 AM](#)

ROB CARTER, DIVISION OF AGRICULTURE, PALMER (via teleconference), explained that the estimated \$25,000 had been determined by LAW. He said that DNR would draft the regulations, which would then be interpreted and vetted by LAW. He relayed that the money would go to LAW and that any further questions should be directed to that department.

[9:12:47 AM](#)

Co-Chair MacKinnon asked whether there was anyone from LAW available to speak to the fiscal note.

Co-Chair MacKinnon proposed to zero-out the fiscal note.

[9:13:12 AM](#)

Senator Micciche asked whether there was a way to change the note to receipt authority, at a lower number.

Co-Chair MacKinnon stated that \$10,000 in designated general fund receipts could be more appropriate proposal.

Senator Micciche believed that there would be some cost and that \$10,000 would be appropriate.

Co-Chair MacKinnon agreed with Senator Micciche. She thought that zeroing out the note altogether might get the department's attention to attend future hearings on the bill.

[9:14:13 AM](#)

Senator von Imhof said that when the bill was heard in the Senate Resources Committee, there had been a zero DNR note

attached. She understood that the \$25,000 had been recently added.

BUDDY WHITT, STAFF, SENATOR SHELLEY HUGHES, answered in the affirmative. He stated that the latest iteration of the bill, out of Senate Judiciary Committee, changed wording from "may" to "shall" establish regulations, which resulted in the new fiscal note.

Senator von Imhof relayed that the earlier conversation in committee had reflected that the change in regulation could be absorbed by the department.

Mr. Whitt understood that there had been some additional regulatory stipulations added to the bill in the Senate Judiciary Committee. He relayed that changing the wording from "may" to "shall" establish regulations, had resulted in the new note.

[9:16:03 AM](#)

Senator von Imhof wondered about the possible impact in one year's time if the committee changed the fiscal note to zero and then revisited the issue at a later date.

Co-Chair MacKinnon explained the path that the fiscal note would travel through the bill hearing process. She shared that LAW was online to defend the note.

[9:16:59 AM](#)

Vice-Chair Bishop estimated that the fiscal note represented approximately 150 work hours by LAW to draft the regulations.

Co-Chair MacKinnon reiterated that there was not much backup available to justify the \$25,000 note.

[9:17:52 AM](#)

JOAN WILSON, DEPARTMENT OF LAW, ANCHORAGE (via teleconference), stated that the issue of separating hemp from marijuana and the issues that stemmed from both, criminal and civil, were new territory for the department. She said that a pilot program would be established by the bill, also the protocol on how seeds and growers would be approved. She added that a way to monitor sees and growers

and determining how the Department of Agriculture would be involved in the processes was uncharted territory. She shared that the fiscal note reflected the past cost for the Department of Natural Resources (DNR) for legislative regulatory projects. She explained that it had been a long time since DNR had visited these past costs, that the estimate they gave had not been helpful. She relayed that LAW had looked back

[9:20:42 AM](#)

Vice-Chair Bishop asked how many other states practiced industrial hemp production.

Mr. Whitt recalled that there were 31 states that had some sort of industrial hemp program.

Vice-Chair Bishop suggested that the department research what was done in other states.

[9:21:26 AM](#)

Co-Chair MacKinnon asked whether there were resources available to LAW to assist in the development of the regulations.

Ms. Wilson mentioned Colorado, Kentucky, Vermont, and Maine. She relayed that she was unaware whether the laws in those states reflected what Alaska was planning.

[9:22:35 AM](#)

Mr. Whitt stated that he would like to double check his previous statement that 31 other states had industrial hemp programs.

Co-Chair MacKinnon solicited conversation on the fiscal note. She referred to public testimony that had suggested that other states had not been able to pay for the programs with program receipts. She noted that supplemental requests were not ideal and that the department should submit a fiscal note that reflected the maximum amount of money that could be spent to implement any program going forward.

[9:24:33 AM](#)

Senator Micciche stated that he was amenable to changing the fiscal note to \$10,000 in DGF. He did not think that the state could afford to fund the regulations. He thought that the regulations for marijuana could be applied to industrial hemp.

[9:25:00 AM](#)

Senator von Imhof expressed agreement with the previous two speakers. She added that industrial hemp could provide economic opportunity to the state and that a \$10,000 investment seemed reasonable.

[9:25:43 AM](#)

AT EASE

[9:28:16 AM](#)

RECONVENED

Co-Chair MacKinnon offered further clarification on changing the fiscal note. She amended the note to reflect the \$10,000 from DGF.

[9:29:19 AM](#)

Mr. Whitt clarified that 30 states had legalized industrial hemp and 16 states that had set up pilot programs.

[9:30:27 AM](#)

AT EASE

[9:31:28 AM](#)

RECONVENED

Co-Chair MacKinnon clarified that the DGF code was 1005 and that a new fiscal note with appropriate classifications would be forthcoming.

Vice-Chair Bishop MOVED to report CSSB 6(JUD) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSSB 6(JUD) was REPORTED out of committee with "no recommendation" and with one new fiscal impact note by the Senate Finance Committee for the Department of Natural

Resources; and with four previously published zero fiscal notes: FN5(DPS), FN6(LAW), FN7(CED), and FN8(DPS).

[9:32:17 AM](#)

AT EASE

[9:34:45 AM](#)

RECONVENED

#hb16

HOUSE BILL NO. 16

"An Act relating to training regarding disabilities for police officers, probation officers, parole officers, correctional officers, and village public safety officers; relating to guidelines for drivers when encountering or being stopped by a peace officer; relating to driver's license examinations; and relating to a voluntary disability designation on a state identification card and a driver's license."

[9:34:48 AM](#)

[9:34:59 AM](#)

AT EASE

[9:35:09 AM](#)

RECONVENED

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for HB 16, Work Draft 30-LS0194\J (Martin, 4/6/17).

Co-Chair MacKinnon OBJECTED for the purpose of discussion.

[9:35:13 AM](#)

AT EASE

[9:35:35 AM](#)

RECONVENED

JULI LUCKY, STAFF, SENATOR ANNA MACKINNON, discussed the document "Explanation of Changes" (copy on file):

Page 3, lines 8-9: "as a naturopath under AS 08.45" was added. This conforms AS 18.65.310 (m), relating to identification cards to a change made in Senate State

Affairs to AS 28.15.111 (d), relating to driver's licenses.

[9:36:39 AM](#)

REPRESENTATIVE STEVE THOMPSON, SPONSOR, had no objection to the change in the CS.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, it was so ordered.

[9:37:11 AM](#)

Senator Olson asked whether the sponsor was in favor of having a naturopath sign off on issues related to traumatic brain injuries.

Representative Thompson replied in the affirmative.

Senator Olson asked why it had not been considered in the original bill version.

Representative Thompson responded that he had been unaware of the naturopath issue at the time the bill had been originally drafted. He related that the designation did not offer any privilege; the driver's test still needed to be passed, in addition to other requirements, the designation would simply provide awareness.

[9:38:38 AM](#)

Vice-Chair Bishop noted that the fiscal notes had been discussed in the previous bill hearing.

[9:39:28 AM](#)

Vice-Chair Bishop MOVED to report SCSHB 16(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

SCSHB 16(FIN) was REPORTED out of committee with a "do pass" recommendation and with three zero fiscal notes: FN1(ADM), FN3(DPS), and FN4(COR).

[9:39:52 AM](#)

AT EASE

9:41:26 AM

RECONVENED

#sb45

SENATE BILL NO. 45

"An Act relating to an exemption from the regulation of construction contractors."

9:41:28 AM

SENATOR MIA COSTELLO, SPONSOR, provided context for the bill, and discussed the economy and job losses in the state. She presented her sponsor statement:

Senate Bill 45 provides better protections for consumers purchasing a home from an unlicensed builder.

Following the housing market crash of the 1980's, the Alaska State Legislature raised the standards for homebuilders. Residential contractors were required to obtain a state-license, a residential endorsement, bonding, and insurance. In addition, programs on energy ratings and efficiency were established through the Alaska Housing Finance Corporation. These efforts helped Alaska develop a home construction industry that offers quality options for home buyers that are efficient and affordable.

Currently state law provides an exemption that allows individuals to build structures without a contractor license. Alaska law AS 08.18.161 allows anyone to build one structure every two years without a license. While the exemption was intended to allow Alaskans to build their own home, the industry is seeing a growing number of individuals using the exemption to operate construction businesses.

In 2013, the Mat-Su Home Building Association estimated that almost one-half of all new construction home sales in their area were from unlicensed construction companies. Without a construction contractor license, unlicensed builders avoid requirements for bonding and insurance that apply to licensed builders. The wording of the exemption creates enforcement problems and allows for potential

abuse by those who would seek to build homes for sale without the required state license. Senate Bill 45 helps prevent abuse of this exemption. The bill would require anyone who builds and sells a home without a contractor license to disclose the fact that they do not have a license to the state within two years of completing construction.

Senate Bill 45 does not prohibit owner-builder construction or require any form of state approval, it simply calls for disclosure to the Department of Commerce, Community & Economic Development for builders selling structures without a license.

SB 45 is supported by the Alaska State Home Building Association.

[9:43:28 AM](#)

JULIANA MELIN, STAFF, SENATOR MIA COSTELLO, stated that SB 45 was a consumer protection bill that addressed issues of individuals using an exemption in state law to operate a business that would otherwise require a license. She relayed that AS 08.18.116 provided that individuals were allowed to build a structure without a license, every two years; the intent of the statute was to allow Alaskans to build and live in their own homes. She stated that there was a growing trend of individuals using the exemption to operate a construction business while avoiding the licensure insurance and bonding that licensed contractors are required to obtain. She noted that in 2013 the Mat-Su Homebuilding Association had indicated that one-half of all new construction home sales in the area were being built by unlicensed contractors. She relayed that the bill addressed consumer protection against the future cost of a home that has structural problems. She reiterated the sentiments of the sponsor statement.

[9:46:06 AM](#)

Ms. Melin read from the Sectional Analysis (copy on file):

Section 1. Adds a new section of statute specifying the Legislature's intent to support an individual's freedom and ability to construct and sell their own homes.

Section 2. Amends AS 08.18.116 by adding a new subsection specifying when the Department shall investigate and take action when it is found an owner is operating a business that would otherwise require contractor licensing.

Section 3. Amends 08.18.161 (Exemptions) with conforming changes including numbering and clarifying language. It adds new language requiring an owner using the owner-builder to file with the department indicating they are not engaged in illegal business in selling or advertising the structure for sale within two years after the beginning of construction.

Section 4. Adds a new section of statute on applicability defining the "beginning of construction" as either the time at which construction began, or, when an agreement for labor or the supply of materials is made between an owner and subcontractor for the building of the structure.

[9:47:47 AM](#)

Co-Chair MacKinnon asked whether a loophole could be created if the build occurred over two seasons without the structure being put on the market. She expressed concern that a builder could begin two separate projects and hold their capital for the second year, bypassing compliance.

Ms. Melin relayed that the language defined "within two years from the beginning of construction." She added that if a sale was made, or advertised, within the two years then it would be a violation of the law.

[9:49:25 AM](#)

Co-Chair MacKinnon OPENED public testimony.

[9:49:45 AM](#)

AARON WELERTON, ALASKA STATE HOMEBUILDERS ASSOCIATION, FAIRBANKS (via teleconference), testified in support of the bill. He believed that the disclosure forms required by the bill would help with the promotion of quality construction and fair practices. He believed that industry and other stakeholders would need to work to make the disclosure

system a success. He said that the bill was small but would help immensely.

[9:51:18 AM](#)

KEVIN SAIKI, MATSU HOME BUILDERS ASSOCIATION, MATSU (via teleconference), spoke in support of the bill. He appreciated the independence and freedom allowed in the state for private home construction. He said that he had been witness to both responsible and irresponsible construction. He believed that the bill would offer consumer protection. He shared that he had witnessed people under the guise of an Owner/Builder operating illegally and providing a substandard product. He believed that the bill would help to protect legally operating contractors and the investments of consumers.

[9:53:19 AM](#)

DAVID OWENS, OWENS INSPECTION SERVICES LLC, PALMER (via teleconference), testified in support of the legislation. He stressed the importance of protecting Owner/Builder rights. He felt that the bill balanced the protections of the public, the Owner/Builder, and the contractors.

[9:54:41 AM](#)

PATRICK DALTON, SELF, DELTA JUNCTION (via teleconference), testified in opposition to the bill. He thought that unorganized areas of the state needed the legislation more than the organized areas. He lamented that the sponsor statement failed to mention that the legislation targeted rural areas of the state. He referred to the letter he had sent to the committee (copy on file). He did not believe that it was in the best interest of unorganized areas to be regulated.

Co-Chair MacKinnon understood that the caller was in opposition to the bill. She wondered what about the process, proposed by the legislation, was not appropriate for rural areas of the state.

[10:00:32 AM](#)

DEBORAH BROLLINI, SELF, ANCHORAGE (via teleconference), spoke in opposition of the legislation. She expressed concern with the disclosure process.

[10:01:19 AM](#)

Co-Chair MacKinnon CLOSED public testimony.

Co-Chair MacKinnon directed the committee to review Mr. Dalton's written testimony.

[10:02:19 AM](#)

Senator Micciche asked about the exemption contained in the bill and wondered what limited the owner to building only one structure every two years. He wondered how the department would be able to track the number of structures built.

JANEY HOVENDEN, DIRECTOR, DIVISION OF CORPORATIONS, BUSINESS AND PROFESSIONAL LICENSING, DEPARTMENT OF COMMERCE, COMMUNITY AND ECONOMIC DEVELOPMENT, stated that the department's investigative unit was driven by complaints. She informed that anytime that a complaint was received it would be investigated. She added that the department contracted with the Department of Labor to save costs and when inspecting construction sites, the investigators also checked for fulfillment of licensing requirements.

Senator Micciche wondered whether the department was limited to knowledge of construction sites that were permitted for construction. He suggested that the rules could be broken more easily in an unorganized borough.

Ms. Hovenden was unsure how far, or often, the Department of Labor traveled into the unorganized boroughs.

[10:05:00 AM](#)

Senator von Imhof thought then when a buyer used conventional financing, the bank would require an occupancy certificate.

Ms. Hovenden concurred, and stated that under conventional home loans, inspections would be required by the department and the bank.

Senator von Imhof asked whether the loan could be an avenue by which to gather information to track homebuilders that were regularly building and selling houses.

Ms. Hovenden answered in the affirmative.

[10:06:42 AM](#)

Senator von Imhof queried whether banks cared whether the house to be built would be located in an organized or unorganized borough and whether there were uniform requirements. She pondered if the bank's requirements were uniform, a sort of certificate of occupancy, or related document, would be necessary and could be used to track homebuilders.

[10:07:23 AM](#)

Co-Chair MacKinnon understood that the bill was trying to address the problem in some communities of labor being brought in from out-of-state and building homes then sold for cash, avoiding the banking system and selling sub-standard housing. She recognized that unorganized areas of the state took issue with the legislation because they lacked resources to perform the logistical paperwork process.

Co-Chair MacKinnon relayed that amendments would be due on Monday at 5 PM.

[10:09:14 AM](#)

Vice-Chair Bishop discussed the fiscal notes. There was a previously published zero fiscal note from the Department of Commerce, Community and Economic Development.

SB 45 was HEARD and HELD in committee for further consideration.

[10:09:53 AM](#)

AT EASE

[10:16:47 AM](#)

RECONVENED

#sb78

SENATE BILL NO. 78

"An Act creating the education endowment fund and the dividend lottery fund; authorizing contributions from the permanent fund dividend to the dividend lottery fund;

relating to transfers from the dividend lottery fund and the education endowment fund; relating to the definition of 'gambling'; and providing for an effective date."

[10:16:52 AM](#)

Vice-Chair Bishop introduced SB 78. He offered a brief overview of the legislation. He spoke of a past mentor that had highlighted the Education Head Tax taken out of his first paycheck at 16 years old. He stated that SB 78 would set up an education lottery as a fun way to raise money for education. He believed that the bill would provide stable funding for education while supporting economic diversification in the state.

[10:20:01 AM](#)

PETE FELLMAN, STAFF, SENATOR CLICK BISHOP, relayed that the bill proposed a voluntary program that allowed for the option of donating to education via the permanent fund dividend application. He added that the option would be limited to applicants over 18 years old. He continued that 95 percent of the donated funds would be immediately used for education or would be held for education in the future. He relayed that half of all the donations would go directly to the Public Education Fund for the respective year. Additionally, 25 percent of the funds would go to establish the Public Education Endowment, where it would grow through investment. The remaining 25 percent would go into the Education Lottery Fund, which would pay out a percentage for prizes. Of the 25 percent of total donations, 20 percent would be used to pay lottery prizes through a drawing, every year. He specified that 80 percent of the lottery fund would remain and grow. He related that the fund would grow and feed itself overtime.

[10:24:13 AM](#)

Mr. Fellman discussed the Sectional Summary for SB 78 (copy on file):

Section 1: Amends the definition of "gambling" in AS 11.66.280(3) to exclude the permanent fund dividend drawing in AS 43.23.064.

Section 2: Adds new sections to AS 43.23:

Sec. 43.23.063: Creates an education endowment fund in the general fund. The fund consists of contributions to the fund from permanent fund dividends (dividends) under AS 43.23.064(b), transfers to the fund under AS 43.23.064(c), interest, and any other money appropriated to the fund. Makes the commissioner of revenue the fiduciary of the fund. Sets the requirements for the commissioner to manage the fund. When the average market value of the fund exceeds \$1,000,000,000, 4.5 percent of the average fiscal-year-end market value of the balance of the fund for the last five fiscal years is transferred to the public education fund, subject to appropriation.

Sec. 43.23.064: Creates the dividend lottery fund as an account in the general fund. Requires the commissioner of revenue to manage the fund. The fund consists of appropriations from dividends, interest and income earnings shall also be appropriated to the fund. This section allows the commissioner to use the fund without further appropriation to pay for prizes and to pay the cost of administering the fund. When the balance of the dividend lottery fund exceeds \$500,000,000 at the end of the fiscal year, the commissioner transfers the amount above \$500,000,000 to the education endowment fund. Allows a person to contribute all or a portion of the person's dividend in increments of \$100 or more. 25 percent of the contributions may be appropriated to the education endowment fund, 25 percent of the contributions may be appropriated to the dividend lottery fund, and 50 percent of the contributions may be appropriated to the public education fund. Entitles each \$100 contribution to one entry into the drawing. The prizes are based on a percentage of the balance of the lottery fund.

Section 3: Provides an effective date of January 1, 2018.

[10:25:34 AM](#)

Senator Micciche extrapolated that if 50,000 residents participated in the first year then \$5 million would be generated. He continued that \$2.5 million would go directly into the Public Education Fund, with 25 percent going into the endowment and 25 percent would go into the lottery fund. The lottery fund would pay out at 20, 15, 10, and 5 percent. He understood that once the lottery fund reached \$1 billion, the POMV would be deposited into the education fund.

Mr. Fellman answered in the affirmative. He furthered that once the lottery fund reached the \$500 million mark, everything above that mark would be deposited into the education fund.

[10:27:19 AM](#)

Co-Chair MacKinnon wondered about the determination of adult status for 18-year-old residents.

Mr. Fellman replied that he did not know the answer.

Co-Chair MacKinnon expressed concern that parents could use a child's dividend inappropriately on the raffle. She wondered how many adult applications were received each year.

[10:28:41 AM](#)

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, stated that the Permanent Fund Dividend Annual Report would break down the number of application between children and adults. He said that in 2016 there were approximately 493,000 adult applications. He clarified that any resident over the age of 18 would fill out an adult application. He stressed that applications for children could not be used for a person who was over 18 years of age.

Co-Chair MacKinnon wondered whether any transitional language was necessary for an individual who would reach the age of 18 by the time of distribution but not 18 at the time of the application.

Mr. Burnett replied that he had not fully reviewed the bill language but believed that the bill specified an adult application should be used. He thought it was possible for

adjustments in the language to accommodate for retroactive entrance into the lottery if a resident turned 18 after the application date but before the distribution date.

[10:30:57 AM](#)

Senator Dunleavy asked whether the lottery would be limited to Alaskans that qualified for the permanent fund dividend.

Mr. Fellman affirmed that the bill proposed a limited lottery.

Senator Dunleavy referred to a document "SB 78 - Education Lottery," (copy on file) which indicated prize levels. He questioned the prize value 10 years out.

Mr. Fellman replied that by year 10 the grand prize would be \$15 million.

[10:32:18 AM](#)

Senator Dunleavy appreciated the magnitude of the prizes. He thought that the prize levels could be cause for the lottery to be opened to non-residents.

Co-Chair MacKinnon agreed with Senator Dunleavy's concerns. She thought that smaller prizes, spread to more people, could be more beneficial to Alaskans.

Senator Dunleavy countered that he appreciated the current prize structure.

[10:34:06 AM](#)

AT EASE

[10:35:34 AM](#)

RECONVENED

Co-Chair MacKinnon noted that under the legislation if the lottery fund were to grow to \$500 million there would be one winner at \$50 million when the maximum number was hit. She added that it would take a very long time for the fund to grow to that size, even with high participation. She asked how the public would be informed of participation in the lottery.

Vice-Chair Bishop deferred to Mr. Fellman.

[10:37:32 AM](#)

Mr. Fellman hoped that Department of Revenue would contribute funds for advertising in the initial years and thought that in subsequent years the program would advertise itself. He noted that 2 percent of the fund would be used for advertising. He believed that the odds were very good, there would be four winners each year. He said that if the cap were reached there would be winners at \$50 million, \$25 million, \$12.5 million, and so on. He stressed that 95 percent of the donations would go directly into education in one form or another.

Co-Chair MacKinnon thought that the likelihood of winner would be greater if there were more winners overall.

Mr. Fellman agreed.

[10:39:22 AM](#)

Co-Chair MacKinnon noted that the current Pick.Click.Give option was offered when finalizing the permanent fund application. She wondered whether there would be cost to modifying the application process to incorporate the lottery.

Mr. Burnett stated that there was an \$8,000 fiscal note from the permanent fund division that estimated the one-time cost of making the change to the application process. He said that the department would add the extra lottery information to the advertising efforts already established. He stated that additional advertising could be added but the exact costs would be hard to determine at this point. He assured the committee that getting the information out to the public would be of minimal cost.

[10:41:45 AM](#)

Co-Chair MacKinnon related that the current program required a 501, a tax deductible, charitable donation. She probed the how the relationship with donations and gambling would work in the legal sense.

Mr. Burnett replied that 25 percent of the donation would not be tax deductible because that would be the percentage entrance into the lottery. He related that donations to the state would be tax deductible, or the remaining 75 percent

of the donation, voluntary payments to government would be deductible.

Co-Chair MacKinnon asked whether the consumer would be informed that only \$.75 on each dollar would be tax deductible.

Mr. Burnett thought that it would be easy to inform the public; the 1099 form would show the donated amount and the breakdown of that donation.

Co-Chair MacKinnon thought that the administrative fee could come out of the other fund.

Mr. Burnett agreed.

[10:44:27 AM](#)

Senator von Imhof queried the maximum limit a person could participate in the lottery per year.

Mr. Fellman indicated that it was possible to give your entire permanent fund dividend in \$100 increments.

Senator von Imhof wondered whether how the state would make more than it paid into the lottery from year to year.

Mr. Fellman clarified that of the 25 percent donated to the lottery fund, only 20 percent was used to pay for the prizes. He explained that 80 percent would sit in the fund. He furthered that 25 percent of all the donations received in the following year would be added to the 80 percent; there would always be 80 percent from the previous year to build on in subsequent years.

Senator von Imhof asked how the annual payout would be calculated. She wondered whether the payout was based on the money invested per year and not the value of the fund at \$500 million.

Mr. Fellman replied in the affirmative. He stated that if no bets were placed, there would be no payout.

She questioned what would happen if there were no participants in a given year.

Mr. Fellman replied that if no one participated, there would be no payout.

[10:48:08 AM](#)

Co-Chair MacKinnon opined that the issue remained unclear. She relayed that a 10 percent winner would not qualify for \$50 million; if only 20 percent of the \$500 million fund was available for distribution, the maximum payout would be approximately \$10 million and not \$50 million.

Mr. Fellman replied that if there was \$500 million in the fund, the state would pay out 20 percent of the \$500 million in prizes.

Co-Chair MacKinnon clarified that \$50 million was the total payout, but not to one individual.

Co-Chair MacKinnon OPENED public testimony.

[10:49:44 AM](#)

PAUL KENDALL, SELF, ANCHORAGE (via teleconference), testified in opposition to the bill. He lamented that the legislative process was difficult for the public to navigate. He felt that the legislature was dysfunctional. He felt that the "education sector" of Alaska was hoarding the state's money. He was in opposition to the cost of education.

Co-Chair MacKinnon CLOSED public testimony.

[10:55:23 AM](#)

Vice-Chair Bishop expressed appreciation for the committee hearing the bill. He emphasized that the bill proposed a donation to the future of Alaska's children.

SB 78 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

[10:55:55 AM](#)

The meeting was adjourned at 10:56 a.m.

