

HOUSE FINANCE COMMITTEE
April 11, 2017
1:37 p.m.

1:37:33 PM

CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:37 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

Randall Hoffbeck, Commissioner, Department of Revenue;
Jerry Burnett, Deputy Commissioner, Treasury Division,
Department of Revenue; Taneeka Hansen, Staff,
Representative Paul Seaton; Ken Alper, Director, Tax
Division, Department of Revenue; Representative Lora
Reinbold.

PRESENT VIA TELECONFERENCE

SUMMARY

HB 115 INCOME TAX; PFD CREDIT; PERM FUND INCOME

CSSB 26(FIN)

APPROP LIMIT & PER FUND:DIVIDEND;EARNINGS

Co-Chair Foster reviewed the meeting agenda.

#sb26

CS FOR SENATE BILL NO. 26(FIN)

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; relating to the Alaska permanent fund, the earnings of the Alaska permanent fund, and the earnings reserve account; relating to the mental health trust fund; relating to deposits into the dividend fund; relating to the calculation and payment of permanent fund dividends; and providing for an effective date."

[1:38:34 PM](#)

^AMENDMENTS

[1:38:40 PM](#)

Vice-Chair Gara MOVED to ADOPT Amendment 1, 30-GS1690\U.12 (Martin, 4/11/17) (copy on file):

Page 3, line 26, following "\$1,400,000,000":

Insert ", adjusted annually for inflation based on a formula provided by the Department of Labor and Workforce Development, reflecting the change from the previous year in the Consumer Price Index for the Anchorage metropolitan area compiled by the Bureau of Labor and Statistics, United States Department of Labor, and rounded to the nearest \$10,000,000"

Representative Wilson OBJECTED for the purpose of discussion.

Vice-Chair Gara explained the amendment. He thought that a level of oil revenue should be established that would trigger the decrease in the use of permanent fund earnings.

[1:40:32 PM](#)

Representative Kawasaki felt that the amendment did not say anything specific about population growth. He queried the nexus for inflation versus population growth.

Vice-Chair Gara agreed that the amendment only spoke to inflation and not population growth. He said that there would hopefully be a small annual increase in the amount of available earnings reserve funds. He stated that by allowing the trigger point to move with inflation some head room to address population growth could be created.

Representative Wilson understood that the current bill version would give less than \$.80 on the dollar because of inflation proofing.

Vice-Chair Gara explained that once the trigger point was reached, 80 percent of the available earnings from the permanent fund, which would otherwise be allowed by the 5 percent draw, would become unavailable for use. He said that the trigger point would adjust with inflation and would allow for more combined oil and permanent fund revenue available for state services.

Representative Wilson surmised that the \$1.4 million trigger point would change and not the percentages.

Vice-Chair Gara replied in the affirmative.

Representative Pruitt was concerned the amendment would dilute the value of the appropriation limit. He lamented that the current appropriation limit in the State Constitution had no value and was double of what was currently being spent.

[1:44:33 PM](#)

Representative Thompson requested further explanation from the Department of Revenue (DOR).

RANDALL HOFFBECK, COMMISSIONER, DEPARTMENT OF REVENUE, offered a history of the progression of the bill through the legislative process. He relayed that modeling of the amendment had shown that eventually the cap would exceed the revenue, which would kill the draw limit function. He stated that the current bill accounted for both inflation proofing and population adjustments in the combined revenues from royalties, production tax, and the POMV draw,

out 10 years. He related that the growth was lesser 25 years out, and that the fund would be less protected from overdrafts in the intermediate years. He concluded that the administration did not support the amendment.

Representative Thompson surmised that the inflation of the draw limit would have a negative effect on the state's financial health.

Commissioner Hoffbeck agreed.

[1:48:48 PM](#)

Representative Kawasaki spoke about a debate on the House floor. He appreciated the history provided by Commissioner Hoffbeck; however, he noted that the current legislature was tasked with making decisions using the most current information.

Representative Wilson wondered whether the amendment was necessary to fund essential government.

Commissioner Hoffbeck answered that the administration supported the current bill structure without the amendment.

[1:50:03 PM](#)

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Guttenberg, Kawasaki, Ortiz, Foster, Seaton
OPPOSED: Pruitt, Thompson, Tilton, Wilson, Grenn

The MOTION PASSED (6/5).

[1:50:53 PM](#)

Representative Thompson MOVED to ADOPT Amendment 2:

Page 8, lines 12 - 28:

Delete all material and insert:

"*Sec 19. Sections 17 and 18 of this Act take effect immediately under AS 01.10.070(c).

• **Sec. 20.** Section 6 of this Act takes effect July 1, 2019.

- **Sec. 21.** Section 10 of this Act takes effect June 30, 2020.
- **Sec. 22 ••** Except as provided in secs. 19 - 21, this Act takes effect July 1, 2017."

Co-Chair Seaton OBJECTED for the purpose of discussion.

Representative Thompson explained the amendment. He said that the conditional language in the amendment would require the enactment of HB 111 as passed by the house. He said that by effectively combining three uniquely different policy decisions into a "take it, or leave it" bill did not serve the deliberative process. He believed that the language in the section violated the legislature's bicameral system.

Co-Chair Seaton spoke in opposition to the amendment. He supported the conditional language included in the bill that would provide a comprehensive fiscal plan. He lamented that the section was necessary to negotiate with the other chamber.

Representative Wilson remarked that the legislation was not restructuring the dividend in the same way as previous legislation had attempted to do. She spoke in support of the amendment.

[1:56:49 PM](#)

Representative Tilton relayed she had spoken to the issue on the House floor earlier in the day. She believed the language in the bill violated the legislature's bicameral structure. She believed the section inhibited the other body's ability to act. She supported the amendment.

Representative Pruitt voiced support for the amendment. He echoed the concerns of the pervious testifier. He thought that agreement could have been reached between the two bodies if it were not for Section 19 of the bill. He thought that "add-ons" to the bill would force the extension of the 90-day legislative process, and would lead to no solution to the state's fiscal issues. He relayed a story of the previous use of contingency language in a budget bills.

[2:02:40 PM](#)

Co-Chair Foster recognized Representative Lora Reinbold in the audience.

Vice-Chair Gara agreed that both chambers needed to come together on order to do the people's business. He believed that it was common knowledge, to both the majority and the minority, that a fiscal plan was needed that was balanced for every socioeconomic level; a plan that was fair to both rich and poor. He felt that a plan that only involved the permanent fund would put the burden on the poorest in the state, which was why the bill included a higher dividend than the original bill. He hoped that the two bodies could come together to forge a solution to the state's fiscal crisis.

Representative Guttenberg spoke out against the amendment. He believed that without the section there would be no possibility of a solution. He felt that the behavior of the other body was counter to reaching a compromise and was contributing to further gridlock. He asserted that the permanent fund could not be expected to be the only solution to the fiscal crisis.

[2:07:40 PM](#)

Representative Thompson provided a closing statement on the amendment. He did not believe the language would improve the behavior of the other body. He spoke to other components of the fiscal plan under consideration by the legislature. He spoke to the restrictive nature of the language in the bill. He maintained his support of the amendment.

Co-Chair Seaton MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Pruitt, Thompson, Tilton, Wilson

OPPOSED: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Seaton, Foster

The MOTION FAILED (4/7).

[2:09:57 PM](#)

AT EASE

[2:13:01 PM](#)

RECONVENED

Representative Thompson WITHDREW Amendments 3, 4, and 5 (copy on file).

Representative Thompson MOVED to ADOPT Amendment 6

Page 3, lines 17 - 18:

Delete "80 cents for each dollar by which"

Insert "the difference between"

Page 3, line 26:

Delete "\$1,400,000,000"

Insert "\$1,200,000,000"

Co-Chair Seaton OBJECTED for the purpose of discussion.

Representative Thompson explained that the amendment would restore the draw limit supported by the administration and other parties. He believed that the amendment strengthened the permanent fund, urged the committee to support the amendment.

Co-Chair Seaton MAINTAINED his OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Thompson, Tilton, Wilson, Pruitt

OPPOSED: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Foster, Seaton

The MOTION FAILED (7/4).

[2:16:12 PM](#)

Representative Thompson WITHDREW Amendments 7 and 8.

Vice-Chair Gara spoke to the fiscal note with the OMB component number 2616.

Representative Wilson asked whether the bill version under discussion should be reflected on the fiscal note.

[2:18:03 PM](#)

AT EASE

[2:19:24 PM](#)

RECONVENED

JERRY BURNETT, DEPUTY COMMISSIONER, TREASURY DIVISION, DEPARTMENT OF REVENUE, pointed to the identifier for the fiscal note, which needed to be updated to reflect the current bill version.

Co-Chair Foster clarified that the identifier could be found on the top left hand of the first page of the fiscal note.

Mr. Burnett lamented that there had been a typo on the fiscal note.

Representative Guttenberg noted that the box titled, "Why this fiscal note differs from previous version:" read that the note had been updated to reflect changes in the house finance CS.

[2:22:11 PM](#)

Vice-Chair Gara expressed confidence that the fiscal notes were current to the bill version before the committee. He addressed fiscal notes, OMB components 3121, 2726, 2310, 2952, and zero (copy on file).

[2:25:48 PM](#)

Representative Wilson asked about the fiscal note, OMB Component 2952. She understood that the note reflected taking \$9,103,600, that did not exist without cutting the permanent fund dividend, to find real money under the Alaska Capital Fund. She wondered whether DOC would be forced to have the funds available to cover the note in perpetuity.

Vice-Chair Gara replied that the money would be directed from the Alaska Capitol Income Fund to DOC each year.

Representative Wilson said that the intent of the fund was to match federal funding in the Capital Budget. She wondered what would happen all of \$9.1 million were used to match federal dollars, and whether the state would be required to keep the amount of money in the fund from year to year.

[2:28:42 PM](#)

Co-Chair Seaton answered there was about \$26 million in the fund and that the governor's budget had released using \$9.1 as a funding source. He said that disputes over future allocations would need to be worked out in conference committee and by future legislatures.

Representative Wilson said that the normal method used would be a fund switch, where the budget was decreased in one area and increased in another. She asserted that note should be indeterminate.

Vice-Chair Gara remarked that, historically, the state had leveraged 90 percent funding from the federal government for road projects using the general fund. He hoped that this would be the continued method.

[2:30:58 PM](#)

Representative Ortiz asked about fiscal note, OMB Component 3121. He wondered why there was a gradual projected increase from FY 18 to FY 23, except for a downfall from 2019 to 2020.

Representative Wilson noted that the fiscal note reflected the decrease in the percentage draw from 5.25 to 5 beginning July 1, 2018.

Co-Chair Seaton MOVED to REPORT HCS SB 26(FIN) out of committee as amended with individual recommendations and the accompanying fiscal notes.

Representative Wilson OBJECTED. She asserted that she did not support tying the hands of the other body.

[2:33:14 PM](#)

Representative Tilton echoed the comments of her colleague.

Representative Pruitt felt that the bill had been hijacked by the majority. He appreciated that the income tax had been removed from the legislation. He lamented that it took a threat from Bob Gillam for the income takes to be separated from the bill.

Vice-Chair Gara called for a point of order. He suggested that Representative Pruitt was misinformed of the situation.

Representative Pruitt remarked that the information had been in the Alaska Dispatch News. He spoke to the conditional effect of the legislation. He thought that it was unclear whether legislation had to be passed by January 1, 2019, or must the legislation be in place by January 1, 2019. He wondered whether the legislation could be halted through a referendum. He agreed with choosing \$1250 as the permanent fund dividend amount, but he could not support the legislation. He hoped that agreement could be reached on the House Floor.

2:38:17 PM

Vice-Chair Gara agreed that the issue was challenging. He said that touching the permanent fund should be considered only after the state got a fair share for its oil. He stated that the bill was intended to be fair to all parties; that the miserable price of oil had been unexpected, but action needed to be taken to address the fiscal crisis. He noted that the bill contained inflation proofing provisions. He believed that many people relied on the dividend and supported the increased amount reflected in the bill. He worried that without the legislation the state would not be able to support basic and necessary government spending.

Representative Thompson did not support the legislation. He believed that language would be detrimental to the intent of the bill.

Representative Guttenberg spoke in support of the bill. He felt that the language in the amendment highlighted the need for further dialogue.

2:45:09 PM

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Seaton, Foster

OPPOSED: Tilton, Wilson, Pruitt, Thompson

The MOTION PASSED (7/4).

There being NO OBJECTION, HCS SB 26(FIN) was REPORTED out of committee with a "do pass" recommendation and with attached fiscal notes.

2:46:02 PM

AT EASE

2:52:19 PM

RECONVENED

#hb115

HOUSE BILL NO. 115

"An Act relating to the permanent fund dividend; relating to the appropriation of certain amounts of the earnings reserve account; relating to the taxation of income of individuals; relating to a payment against the individual income tax from the permanent fund dividend disbursement; repealing tax credits applied against the tax on individuals under the Alaska Net Income Tax Act; and providing for an effective date."

2:52:52 PM

Co-Chair Seaton MOVED to ADOPT the proposed committee substitute (CS) for HB 115, Work Draft 30-LS0125\K (Nauman, 4/7/17).

Representative Wilson OBJECTED for the purpose of discussion.

TANEEKA HANSEN, STAFF, REPRESENTATIVE PAUL SEATON, explained that the current version contained the amendments to the income tax section that had been adopted by the committee. The sections referring to the permanent fund had been removed. She said that there were three additional changes; the sort title had been changed to reflect that the bill was no longer a combined act, from the State Revenue Restructuring Act to the Education Funding Act. She directed committee attention to Page 22, line 12, which directed that the legislature could appropriate the estimated amount collected for the tax to the Public Education Fund. She pointed to Page 5, subsection (g), which was related to an amendment that had been adopted in committee and was conceptually amended define "disabled beneficiary" under AS 18.80.300, (a) and (b) only.

2:55:46 PM

Representative Wilson pointed to page 22, line 12. She had initially thought a new fund was created, but she no longer believed that was the case. She wondered why the word "may" had been used, and not "shall".

Ms. Hansen replied that a new fund was not being created. She said that the reason for the use of "may" was due to the Constitution; there always had to be an appropriation done by the legislature. She relayed that the Public Education Fund was distributed without further appropriation, so the direction could not be that the revenue "shall" go into a fund where there was no further appropriation, the legislature had to appropriate the revenue.

Representative Wilson stated no matter where the funds were put outside of the General Fund, it was still General Fund money. She requested further clarity.

Ms. Hansen answered that the bill could have no binding effect on future legislatures and did not address revenue beyond what was in the bill.

2:57:57 PM

Representative Wilson felt that it should be clear to the public that the money could be appropriated for anything and was not earmarked for education.

Co-Chair Seaton clarified that the Public Education Fund was where the legislature put money for forward funding of education; the money flowed from the fund automatically and funded the formula and pupil transportation. He said that an appropriation had to be made into the fund for the deposit, but the funds automatically funded only education.

3:00:25 PM

Vice-Chair Gara preferred the use of the word "shall", but explained that the word "may" had to be used under the Constitution.

Representative Pruitt expressed his distaste for short titles. He plugged the use of iPads in committee to easily

access information for bills that were accompanied by excessive documents.

Representative Guttenberg remarked that the issue of electronic and telecommunications was under discussion in Legislative Council.

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Ortiz, Pruitt, Thompson, Foster, Seaton
OPPOSED: Wilson, Tilton

The MOTION PASSED (9/2).

[3:03:22 PM](#)

Vice-Chair Gara addressed the two fiscal notes attached to the bill.

Representative Wilson reiterated her request that the bill version on the notes be updated to reflect the committee substitute. She asked about the inter-agency receipts on FN1, she had understood that the hearings would be done by the administration and not the court system.

[3:06:15 PM](#)

KEN ALPER, DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, replied that the interagency receipt meant DOR would pay the funds to DOA. He said that it had been estimated that \$200,000 to \$300,000 of the \$1.2 million listed on the services line of FN2 would be money paid to the Office of Administrative Hearings (OAH) for the purpose of appeals.

Representative Wilson understood that DOR would be paying for the administrative hearings from collected taxes.

Mr. Alper replied that DOR would make the payments from its general fund budget.

Representative Wilson asked whether a person could go to the courts to appeal the income tax.

Mr. Alper replied that the first step would be the internal appeals group, then OAH, and then to superior court.

Representative Wilson asked why there was not a fiscal note for that process.

Mr. Alper responded that he did not know that the process would require revenue spending. He said that the Department of Law would support the state's position and the court system would have costs as well, but forecasting the number of cases would be difficult. He added that OAH had a metric for the percentage of tax items that were appealed.

Representative Wilson hoped that the costs would be clearly laid out.

Co-Chair Foster noted his staff would research the issue.

[3:09:45 PM](#)

Representative Pruitt addressed that regulations would have to be written. He wondered whether DOR would need additional money to write regulations.

Mr. Alper replied there was a \$14 million capital budget item in the fiscal note that would partially go to drafting regulation.

Co-Chair Seaton MOVED to REPORT CSHB 115(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

Representative Wilson spoke to her OBJECTION.

[3:12:11 PM](#)

Representative Thompson said that 80 percent of the wages paid to residents was in the Railbelt. He stated that a person working on the North Slope that lived in the Railbelt was not included in that 80 percent because they would be considered a North Slope employee and not a Railbelt resident. He thought that the bill needed further vetting.

Vice-Chair Gara thought that the only way to tax more people was to tax those at lower incomes. He was satisfied that the legislation would not impose taxes at lower

incomes, which he felt would disproportionately hurt rural and poor areas of the state. He stressed that he did not want to tax more Alaskans. He noted that no taxes would be imposed on the first \$15,500 of earned income; for each \$1,000 above \$15,500, a \$25 tax would be imposed. He expressed discomfort with the idea of taxing people at lower incomes than \$15,500. He lamented that areas in the budget that could withstand further cuts were limited, and he expressed concern that liberty and dignity for Alaskan residents could be cut along with funding.

3:16:44 PM

Representative Pruitt offered a personal anecdote related to the possible impacts of an income tax. He argued that a person making \$42,000 per year was not privileged, but rather was a "regular Joe" out working in the world who would be taxed \$692.50 under the legislation.

Vice-Chair Gara clarified that he did not say that everyone who would pay taxes under the bill came from a place of privilege.

Representative Pruitt returned to the \$692.50 figure. He referred to seniors on fixed incomes in Alaska. He noted that the figure would be spread out over the course of 12 months, roughly \$58 per month, would be a burden. He spoke to seniors on fixed incomes of \$30,000 per year who would struggle under the legislation. He offered another anecdote related to a senior's fixed income budget. He lamented that property taxes in Anchorage had recently increased. He worried that an income tax would negatively affect recruiting people in certain professions to work in the state. He noted that the Alaska Permanent Fund Corporation already struggled with hiring people from out-of-state. He queried that overall effect that an income tax would have on the state's economy. He expounded on the reasons he believed that an income tax was a bad idea.

3:24:33 PM

Co-Chair Seaton stated that the hope was to strike a balance between the bill and the Permanent Fund reduction bill. He stated the money from the tax would be directed at education. He was perplexed to hear members stating the committee had not heard from economists. He stated the committee had heard from Institute of Social and Economic

Research (ISER) and among other experts. He remarked that some public testimony had underscored that further cuts were one of the worst things that could happen to the economy. He shared that the bill represented one piece of a four-part fiscal plan. He spoke about services such as road maintenance, troopers, the university, and others that were struggling under funding cuts. He reminded members that individuals earning under \$30,000 would be exempt. He noted that the tax rate would be 2.5 percent, \$25 per \$1,000 over \$30,000. He stressed that social security for low-income seniors would be exempt under federal law. He stated that exempting the permanent fund dividend, and the \$4,000 personal exemption, would help lower-income Alaskans. He responded to the statement that 80 percent of the tax would come from the Railbelt, but pointed out that 80 percent of the state's population lived in the Railbelt. He stressed that the bill was not a geographically discriminatory piece of legislation. He believed that Alaskans should be willing to pay for services, such as road maintenance, in order to protect roads from deterioration. He felt that the bill represented one component of a plan to solve the fiscal problem. He stated if only a portion of the deficit was solved it meant the legislature would be faced with making further cuts. He spoke to potential impacts around the state. He stated it came down to what the future of the state should look like. He believed that the credit legislation that had passed could not solve the problem on its own.

[3:30:46 PM](#)

Representative Tilton remarked the members had different philosophies on how the fiscal gap should be handled. She said that state government could be funded sufficiently with a \$400 million cut. She echoed concern for how the tax could affect seniors on a fixed income. She worried about how the tax would affect the private sector. She asserted that she was supportive of funding for education, but that "an income tax was an income tax, no matter what you call it."

[3:33:27 PM](#)

Representative Guttenberg agreed the situation was difficult. He shared that even in time of financial security he worried about not building out sustainable infrastructure. He lamented that people took joy in the

building and ribbon cutting connected to increased infrastructure, but that major maintenance of those structures was less attractive. He thought that a restructuring of the permanent fund would spread the burden unfairly across the population. He believed that an income tax would level out the financial burden to Alaska's residents. He noted that many of his constituents in rural Alaska, even during times of financial stability, had not received the services they had needed. He lamented the historical inequities in state spending. He stressed the need for a stable economy. He hoped that industry would commit to investing in the state. He felt that the most important issues facing the state were controlling the size of government and stabilizing the economy. He believed that the solution to the fiscal crisis was multi-faceted. He felt that the legislature was running out of time to act on the issue. He expressed concern that the state was currently unable to take advantage of economic opportunities through the University because the legislature was making deep cuts to their budget.

3:41:26 PM

AT EASE

3:44:45 PM

RECONVENED

Representative Wilson MAINTAINED her OBJECTION.

A roll call vote was taken on the motion.

IN FAVOR: Gara, Grenn, Guttenberg, Kawasaki, Foster, Seaton
OPPOSED: Ortiz, Pruitt, Thompson, Tilton, Wilson

The MOTION PASSED (6/5).

There being NO further OBJECTION, CSHB 115(FIN) was REPORTED out of committee with a "do pass" recommendation and with one new fiscal impact note from the Department of Revenue and one new fiscal impact note from the Department of Administration.

Co-Chair Foster discussed housekeeping. He recessed the meeting to a call of the chair [Note: the meeting never reconvened].

#

ADJOURNMENT

3:46:54 PM

The meeting was adjourned at 3:46 p.m.