

HOUSE FINANCE COMMITTEE
May 3, 2019
1:30 p.m.

1:30:27 PM

CALL TO ORDER

Co-Chair Wilson called the House Finance Committee meeting to order at 1:30 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Tammie Wilson, Co-Chair
Representative Jennifer Johnston, Vice-Chair
Representative Dan Ortiz, Vice-Chair
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

MEMBERS ABSENT

Representative Ben Carpenter

ALSO PRESENT

Representative Zack Fields, Bill Sponsor; Representative Adam Wool, Bill Sponsor; Ashley Strauch, Staff, Representative Adam Wool; Ed King, Chief Economist, Office of Management and Budget.

PRESENT VIA TELECONFERENCE

Clinton Lasley, Director, Division of Alaska Pioneers Home, Department of Health and Social Services; Brandon Spanos, Deputy Director, Tax Division, Department of Revenue; Rose Feliciano, Internet Association, Seattle; Brian Rothery, Vice President, Enterprise Holding, Sacramento, CA; Michelle Peacock, Vice President, Turo, San Francisco, California.

SUMMARY

HB 49 CRIMES; SENTENCING; MENT. ILLNESS; EVIDENCE

HB 49 was SCHEDULED but not HEARD.

[Note: HB 49 was heard on Saturday, May 4, 2019.
See separate minutes for detail]

HB 96 PIONEERS' HOME AND VETERANS' HOME RATES

CSHB 96 (FIN) was REPORTED out of committee with four "do pass" recommendations and with six "no recommendation" recommendations and with two new fiscal impact notes by the Department of Health and Social Services.

HB 102 RENTAL VEHICLE BY PRIVATE OWNER

HB 102 was HEARD and HELD in committee for further consideration.

HB 131 APPROPRIATION LIMIT

HB 131 was HEARD and HELD in committee for further consideration.

PRESENTATION: APPROPRIATION LIMIT BY OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Wilson reviewed the agenda for the afternoon.

#hb96

HOUSE BILL NO. 96

"An Act relating to Alaska Pioneers' Home and Alaska Veterans' Home rates and services."

1:31:01 PM

Co-Chair Wilson indicated there were two amendments for the bill.

Representative Knopp had a conceptual amendment when appropriate.

Representative Josephson MOVED to ADOPT Amendment 1 (31-LS0646\U.2) (copy on file):

Page 3, line 22:
Delete "\$3,100"
Insert "2,976"

Page 3, line 24:
Delete "6,090"
Insert "5,396"

Page 3, line 27:
Delete "\$8,833"
Insert "7,814"

Page 30, line 30"
Delete "\$10,000"
Insert "8,500"

Co-Chair Wilson OBJECTED for discussion.

Representative Josephson spoke to the amendment. He reported there had been some objection to the rates and he was offering an amendment that would slightly reduce the rate adjustment. He had learned that the rate adjustment that was currently in the bill exceeded the rate of inflation since 2004 when the rates were last adjusted. He supported HB 96 but thought the rates should be adjusted. He thought Representative Fields would not object to the amendment. He also thought the amendment was consistent with Mr. Teal's testimony from the previous day, in which the fiscal impacts of the Department of Health and Social Services rates were difficult to project. Mr. Teal had noted that steep rate increases, particularly at the 1 and 2 levels of care could increase state costs by driving out self-paying, less costly patients. The amendment would still generate over \$1 million in new revenues while aligning the committee substitute with testimony already heard from the public, the Legislative Finance Division, and the sponsor. He asked members for their support of the amendment.

Co-Chair Wilson asked Representative Fields to comment on the amendment.

[1:33:25 PM](#)

REPRESENTATIVE ZACK FIELDS, BILL SPONSOR, supported the amendment. He indicated that it was consistent with

overwhelming public testimony and testimony from the Legislative Finance Division.

Vice-Chair Ortiz spoke in favor of the amendment. He thought it could help to put the state in a better situation, a goal originally put forth by the administration.

Co-Chair Wilson WITHDREW her OBJECTION.

There being NO OBJECTION, it was so ordered. Amendment 1 was ADOPTED.

Co-Chair Wilson MOVED to ADOPT Amendment 2 (copy on file):

Page 4, line 8:
Delete "\$70"
Insert "\$160"

Page 4, line 13:
Delete "\$100"
Insert "\$322"

Vice-Chair Johnston OBJECTED for discussion.

Co-Chair Wilson explained her amendment. She relayed that the on the previous day the committee had heard that \$70 [Bill language: a day for services provided in a home to a recipient who requires the provision of housing, meals, emergency assistance, medication administration, health-related services, recreation, and extensive assistance with activities of daily living for up to eight hours a day between 6:00 a.m. and 6:00 p.m., including meals scheduled during the period the recipient is receiving the services] was not close to the amount per day and that \$160 would be more appropriate. She continued that 24 hours per day for up to 14 days was \$322 [Bill language: a day for room and board provided in a home to a recipient who requires the provision of housing, meals, emergency assistance, medication administration, health-related services, recreation, and extensive assistance with activities of daily living for 24 hours a day for up to 14 consecutive days]. She was inserting the amounts that had been heard the previous day.

Representative Josephson thought the rate increases would be short-lived because of a transition period. He asked if

he had heard correctly. Co-Chair Wilson responded that the daily rate for 24-hour care was limited to 14 consecutive days. She highlighted page 4, lines 13-16. There was no limit on the daily rate for 8 hours per day. One service was day service as opposed to an over-night service.

Representative Sullivan-Leonard was aware, having personal experience dealing with home healthcare for family members, that the proposed increase did not cover the cost but was closer to what it might be. She would be supporting the amendment.

Vice-Chair Johnston WITHDREW her OBJECTION.

There being NO OBJECTION, it was so ordered. Amendment 2 was ADOPTED.

[1:36:39 PM](#)

AT EASE

[1:38:16 PM](#)

RECONVENED

Representative Knopp MOVED to ADOPT Conceptual Amendment 3 (copy on file):

Page 1, line 6
Delete "\$200"
Insert "\$500"

Co-Chair Wilson OBJECTED for discussion.

Representative Knopp explained his amendment. He understood increasing rates for those who could pay. However, there were seniors that simply could not pay. He was trying to offer protection on the lower end.

Representative Tilton referred to page 2, line 13. She asked if the amount needed to also be changed for consistency.

Co-Chair Wilson read from line 13. She thought the line had to do with payment assistance received by a home resident. She suggested directing the question to Mr. Lasley, the division director.

[1:40:38 PM](#)

CLINTON LASLEY, DIRECTOR, DIVISION OF ALASKA PIONEERS HOME, DEPARTMENT OF HEALTH AND SOCIAL SERVICES (via teleconference), responded that the \$200 was referred to HB 96 and in regulations. The amount was related to an individual on payment assistance. The individual was allowed to keep \$200 of their monthly income and could use it for things like clothing and, personal hygiene products. The payment assistance program took taxes and insurance premiums into account. They were taken off the top of their income prior to determining how much they were required to pay. He reiterated that the \$200 was for items personal in nature.

Co-Chair Wilson suggested that the amendment would give individuals \$500 to spend the way they liked. She referred the \$200 noted on page 2, line 13. She thought the \$200 amount had to do with payment assistance and what funds; were included in the payment assistance. She wondered whether the \$200 listed would need to change to \$500 as well, or whether they were 2 separate ideas.

Mr. Lasley thought the amount on page 2 would need to be changed as well.

Representative Knopp MOVED to ADOPT Amendment 1 to Conceptual Amendment 3:

Page 1, line 6
Delete "\$200"
Insert "\$500"

Page 2, line 13
Delete "\$200"
Insert "\$500"

Co-Chair Wilson OBJECTED for discussion.

Representative Knopp explained the change.

There being NO OBJECTION, it was so ordered.

Co-Chair Wilson WITHDREW her OBJECTION. There being NO OBJECTION, it was so ordered. Amended Conceptual Amendment 3 was ADOPTED.

Vice-Chair Johnston MOVED to report CSHB 96(FIN) out of Committee with individual recommendations and the accompanying fiscal notes. There being NO OBJECTION, it was so ordered.

CSHB 96(FIN) was REPORTED out of committee with four "do pass" recommendations and with six "no recommendation" recommendations and with two new fiscal impact notes by the Department of Health and Social Services.

[1:44:30 PM](#)

AT EASE

[1:45:04 PM](#)

RECONVENED

#hb102

HOUSE BILL NO. 102

"An Act relating to rental vehicles; relating to vehicle rental networks; relating to liability for vehicle rental taxes; and providing for an effective date."

[1:45:33 PM](#)

REPRESENTATIVE ADAM WOOL, BILL SPONSOR, introduced himself and his staff. He indicated HB 102 was essentially a vehicle rental bill. He provided an overview of the bill which applied to peer-to-peer car rental companies. The largest company, Turo, operated in Alaska. The service was similar to Airbnb where someone rented out rooms in their private home much like a hotel. Customers paid for a room via a phone application. The home owner received payment for the room rental and Airbnb received a portion of the money. The same business model applied to car rentals and Turo. If someone wanted to rent their private vehicle out it would be done through a phone application. The business model was called car sharing where a financial exchange occurred. He liked to refer to the exchange as a rental. Alaska's state law applied a vehicle rental tax of 10 percent. Everyone paid a rental tax when they rented a vehicle. He explained that peer-to-peer companies were liable for the tax. The state had been trying to obtain the tax money from the industry. When a person rented from Avis or Hertz they had to pay a tax. Through Turo a person did not pay the tax. The rental company and the State of Alaska

would like to have the entities pay the vehicle rental tax. House Bill 102 would define the vehicle rental tax as it applied to peer-to-peer businesses. It would also have the corporation pay the tax to the State of Alaska instead of the renter or owner of the vehicle. The idea of the bill was to have the application companies, like Turo, be responsible for paying the state. He mentioned a lawsuit between the State of Alaska and Turo because it was difficult to know who the owners of the vehicles were. He noted that the same kind of thing applied to cigarette tax. A person could avoid paying taxes by ordering cigarettes online. However, it was against state law. The state had targeted buyers of cigarettes going after them for cigarette taxes. Instead of the State of Alaska looking to collect taxes from owners of cars (700 owners of cars operated with Turo), the bill would require Turo to pay the taxes. He noted an article in the Anchorage Daily News and the Fairbanks paper that listed Alaska as one of the states pursuing a vehicle rental tax. The bill would not raise or lower the tax. Rather, if a person were to rent a vehicle through Turo, similar to Avis or Hertz, the company would have to pay the vehicle tax.

[1:50:20 PM](#)

Vice-Chair Johnston asked how taxes were handled through Airbnb and VBRO. Representative Wool explained that Alaska did not have a statewide hotel tax. It was governed by municipalities. He was aware that in Fairbanks the owners paid the taxes. He could not speak for other municipalities.

Vice-Chair Johnston asked if Turo had a fleet of cars. Representative Wool explained that Turo did not have vehicles. The company was a technology platform. There were some people that had multiple cars they rented out. He had a friend that had a third car that she only rented out.

Representative Merrick read a portion of an opposition letter from Turo:

"We urge you to consider holding this legislation until it can be worked on in a structured reasonable way with the most important stakeholders at the table."

Representative Merrick asked if Turo had been at the table regarding the bill. Representative Wool responded that Turo had testified in another committee. The company had flown some of their representatives from California, and some of their legal people were on the phone. They had indicated they wanted to work with the legislature to craft a bill. He interpreted their attitude as wanting a rate lower than 10 percent. He was not addressing the vehicle rental tax in Alaska, nor was he trying to do a carve-out specifically for Turo or other companies relating to the business. He asserted he just wanted to see the people renting a car through Turo paying the same 10 percent tax as people who rented cars elsewhere.

Representative Sullivan-Leonard asked whether a vehicle owner working under the umbrella of Turo would be required to have a limited liability corporation (LLC), a business license or any type of license to rent out their vehicle. Representative Wool did not write any legislation that allowed peer-to-peer car rental to operate in Alaska. He was certain an LLC was not necessary. He did not believe business licensing was required.

[1:54:08 PM](#)

ASHLEY STRAUCH, STAFF, REPRESENTATIVE ADAM WOOL, responded that a person did not have to have a business license to register with Turo. A person could simply sign up for the app as a car sharer which allowed someone to be able rent their vehicle.

Representative Sullivan-Leonard thought it looked like it was an opportunity for a small business type entity to fill a niche where vehicles might not be available. She asked about the price variation between a rental car agency and Turo

Ms. Strauch responded there was a significant amount of price variation in rental vehicles through traditional outlets. For example, if a person were to try to get online to Enterprise Car Rental to try to rent a vehicle, it might be between \$12 per day to greater than \$100 per day depending on the type of vehicle a person was renting, the duration of the rental, and other factors. Generally, the prices a person would find on such a platform as Turo would be lower per day than the prices found through traditional car rental platforms.

Representative Sullivan-Leonard asked if the reason for the price difference was because traditional car rental companies had full fleets for people to choose from as opposed to an individual who might only have one or two vehicles available. Ms. Strauch relayed that someone from Enterprise Car Rental was available online to answer the representative's question.

Co-Chair Wilson remarked that hopefully some of the questions could be answered during the public testimony portion of the bill.

Representative Wool commented that in the bill's previous committee there had been a caller from Anchorage that had used Turo to rent his Jeep. He had a 4-wheel drive Jeep that was good on certain kinds of roads. He placed it on Turo. The charge was \$50 or \$60 per day for his car to be rented. The representative did not find the amount particularly inexpensive. He thought it depended upon the individual and the vehicle. He commented that the article in the Anchorage Daily News reported that a guy that had a BMW sportscar rented it out through Turo and managed to pay for it.

Representative LeBon wondered that if he wanted to rent a vehicle as an individual but did not want to go through Turo, would he be expected to submit a 10 percent tax for renting the vehicle. Ms. Strauch responded in the affirmative and added it would also include individuals who rented their vehicle through Craigslist, for example. They would still be subject to the tax of 10 percent. However, the tax division did not tend to have the staff to chase down individuals through the other outlets.

Representative LeBon asked if the state was currently expecting a remittance of a 10 percent sales tax from individuals if they were renting their own private vehicle, but not through a clearing house. Ms. Strauch responded that they would still be required to pay the tax. However, it would be difficult to enforce.

Representative LeBon commented that the state law asked everyone who rented out their car to remit the 10 percent. Ms. Strauch responded, "That is correct."

[1:58:24 PM](#)

Representative Josephson suggested that to get into the transportation network companies (TNC) the state insisted on some oversight from a regulatory stand point. He wondered if there was anything that prohibited Turo from acting at the outset. He wondered if they were presently acting legally.

Representative Wool answered that there was a liability for vehicle rental tax. The person that rented the vehicle paid the tax. The person that owned the car, if they did not collect it from the renter, would have to pay the tax. He noted a lawsuit between the State of Alaska and Turo. The point of the lawsuit was to determine who were the people renting the cars and could the state recover its taxes. The case stemmed from Turo not releasing the needed information to the state. He did not believe Turo was breaking the law by not remitting taxes. The bill would provide the state a vehicle to recover the taxes. He thought the Department of Revenue (DOR) might be able to add to his answer.

Representative Josephson asked if there had been an insistence that a law was passed for companies such as Turo to operate, similar to the TNCs.

Co-Chair Wilson asked Representative Josephson to define TNC. Representative Josephson responded, "Transportation Network Companies."

Representative Wool believed the requirement that TNCs had a state law was put in only after they arrived. There was a discrepancy with the Department of Labor and Workforce Development when TNCs arrived in the City of Anchorage. He did not believe there was a specific statute in place for Turo to operate.

Ms. Strauch explained that the state was already considered Turo to be liable to pay the 10 percent vehicle tax. They had already started the process of trying to collect it by asking Turo for information about the number of drivers the company had in Alaska.

Co-Chair Wilson asked Mr. Spanos to help with the conversation. She wondered if the state was currently collecting taxes from vehicle rental networks.

[2:01:56 PM](#)

BRANDON SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), restated Co-Chair Wilson's question. He responded in the affirmative. The statute was very broad and stated that a renting of a vehicle within the state boundaries was a taxable event - a 10 percent tax. The state already considered in the current statute that the vehicle rental networks would be subject to the tax. It specified that the individual making the vehicle available for rent was the tax payer. For example, if an owner of a vehicle made it available on Craigslist, they would be responsible. In the past, the division had gone after the individuals, particularly people who had rented out their RV for the entire summer. There had been appeals that had gone to the courts, and the courts had determined that they were taxable events requiring the owners to pay the tax. In the case where there was a peer-to-peer network, there was a veil over the identity of the owner of a vehicle. The division did not have the ability to determine the owners of the vehicles. The vehicle rental was subject to tax, but it was difficult to enforce a tax without the ability to determine the vehicle owner.

[2:03:23 PM](#)

Co-Chair Wilson asked for a better understanding between a peer-to-peer platform and the TNCs. She thought it sounded as if it was already illegal not to pay the taxes.

Mr. Spanos relayed that the administration was neutral on the bill. He reported that currently if someone listed on a peer-to-peer network the transaction was taxable. However, the individual owner of the vehicle was subject to the tax. Therefore, the peer-to-peer online service, while they had the information identifying the owner of the vehicle, they were not breaking the law by not remitting a tax. The statute currently did not state that the network providing the service would collect and remit the tax - it stated the owner of the vehicle would collect and remit the tax. The individual should be remitting the tax. The division researched many of the websites, most of which state that the onus for the tax was on the owner and they needed to know and follow the law. One of the peer-to-peer networks testified in a previous committee that they were a business and had insurance on the vehicles that was made available when a rental occurred. They also took a percentage of the rental in the transaction. If the bill were to pass, there

would be another line item where a tax would be charged to the renter. The peer-to-peer network would collect and remit the tax to the state.

Co-Chair Wilson thought it would be good to have the Department of Law present at the next hearing.

Representative Josephson asked if peer-to-peer network companies could exist legally in Alaska. Representative Wool reported that peer-to-peer networks could operate in Alaska. They did not require a specific statute. Ride sharing companies, Uber and Lyft, came to Anchorage and operated before a statute was established. However, there was an issue with the municipality, and they were kicked out. The Department of Labor and Workforce Development issued a statement requiring a change in statute for them to return to Alaska. It prompted the TNC statute that was currently in place. He relayed that part of the ride sharing bill included a provision that assessed a local sales tax as a ride sharing customer. The money went to the ride sharing who in turn submitted the corresponding tax payment. He was trying to incorporate the same type of provision for peer-to-peer car rentals in the bill.

[2:07:59 PM](#)

Representative Knopp spoke about working on the legislation for TNCs. At the time of the debate he and Representative Wool argued for local control to enable local municipalities to collect the tax. He noted that ride sharing involved renting both the driver and the vehicle, whereas, peer-to-peer vehicle rentals was limited only to renting a vehicle. He thought it would be much easier to collect the tax from the enterprise company rather than the individual owner of the vehicle. He suggested that the law could simply require peer-to-peer companies to release the names of the participants and let the state collect the taxes from individual owners. He thought the issue was debatable. He spoke of equality between taxi services and TNCs. He was unclear his position on the bill.

Representative Merrick asked Representative Wool to confer that the vehicle rental tax went into the state's general fund. Representative Wool believed the vehicle rental tax was designated but not dedicated to certain other funds, but he believed it went into the general fund.

Co-Chair Wilson thought the tax went to a designated fund. It was not dedicated and could be used for any purpose.

Representative Merrick clarified that Co-Chair Wilson was talking about the rental tax and that it did not go to a dedicated fund. Co-Chair Wilson responded in the affirmative.

Representative Merrick asked what the fund was typically used for. She wondered if the funds were used for tourism. Co-Chair Wilson explained that the fund had been used for public safety and roads. The House intended to use it for tourism. The Senate had made a change in the budget and she was unsure where the rental tax funds would be spent. For the public that was listening in, she explained that the state constitution did not allow for dedicated funds. Designated funds were different in that the legislature could indicate how it wanted the funds spent but they could be used for anything.

[2:12:03 PM](#)

Representative LeBon mentioned hearing earlier about 700 clients participating in the Turo program. He wondered how many of the clients were remitting the 10 percent sales tax. He wondered if the department tracked the information.

Mr. Spanos could not speak to specifics but could aggregate information. The division had not received any taxes from anyone operating with a peer-to-peer platform. The division had tried to determine how many vehicles were available for rent. There were 2 numbers provided in the previous committee by one of the peer-to-peer networks. The first number was 700 and in a later hearing they reported 200 or more. He was unclear of the number. The number was between 200 and 700.

Representative LeBon asked how many individuals were remitting 10 percent sales tax for renting out their vehicle. Mr. Spanos clarified whether the representative meant through a peer-to-peer car sharing network or in general including other vehicle rental companies.

Representative LeBon provided his previous scenario in which he listed his car for rent on craigslist or in the newspaper. He wondered if any of those people had submitted a tax. Mr. Spanos indicated the number was very low. Most

people submitting a payment paid a 3 percent or 5 percent rate for an RV rental. He did not believe the state had received any remittance for an individual. He could investigate the number further. Representative LeBon did not need a response. He suspected the number would be low.

Vice-Chair Johnston likened Airbnb to Uber and Lyft. She spoke of a bed tax in the municipality of Anchorage. The municipality collected tax from each participant of Airbnb rather than the platform. She thought the intent of the bill was worthy. However, her concern had to do with new and rapidly changing technology. She asked if the bill sponsor was open to creating a small section or subsection for platforms similar to Turo, rather than wrapping the idea into the regular car rental section in statute. She suggested that ride sharing in urban areas had taken on many different dynamics. She thought things were of a high-intensity nature in the urban areas versus anywhere in Alaska. She could see a platform like Turo working in the smaller communities. She thought leaving the peer-to-peer model in a different section of the statute would allow for future adjustments.

Representative Wool would have to think about his answer to her question. He relayed that in previous testimony peer-to-peer companies alluded to being different and needing a different rule. He had asked the companies what they thought was so different about their model to justify a lower tax percentage. At the time of his question, he did not receive a satisfactory answer. He thought at the end of the day it was a person needing to rent a car. He suggested that both car rentals and peer-to-peer rentals had to take care of and store their vehicles. He also did not believe the best way to collect the tax would be by trying to collect from individuals. He provided an example of inefficiency by having individuals pay the tax on their own.

Vice-Chair Johnston was uncertain whether they should pay a lesser rate. She noted how platforms such as Airbnb had taken off. She thought it was important to be flexible in addressing the issue. She was unsure of how to move forward. She did not want to lock the state into something that would not be appropriate in 2 years.

Co-Chair Wilson added that rental companies like Enterprise owned the cars. They were renting cars they own and should

be responsible for paying the tax. The individuals renting their cars were currently liable for paying the tax. She was concerned with going after an entity that was not the owner of the vehicles. She informed members that they would be hearing public testimony during the meeting and that she did not intend to move the bill presently.

Representative Wool appreciated the comments from Representative Johnston. He agreed that Enterprise owned the cars, but Turo did not. Turo was only the technology platform but made a significant amount of money on the transactions, much more than the individual drivers. Turo was working as a central clearing house for the transactions.

Co-Chair Wilson clarified that Representative Wool was suggesting that they should be taxed because they were making a significant amount of money, not because they were the responsible party. Representative Wool rebutted that the tax would be paid by the person renting the car. Turo was just a clearing house. For example, if he rented a vehicle from Representative Josephson, he would use his phone to rent the vehicle through Turo's app. His credit card would be processed through Turo. Turo would keep a portion of the payment and send along the other portion of funds to Representative Josephson. The transaction went through Turo who kept a percentage of the money.

Co-Chair Wilson provided an example of using her credit card. She wanted to make certain that the legislature was not going after a company because of the money they made but because they were responsible for the actions that occurred.

[2:25:09 PM](#)

Representative Knopp wondered what would prevent a person from becoming a rental car company simply using the platform.

Vice-Chair Ortiz thought the sponsor of the bill was introducing the bill to level the playing field and create additional revenue for the state. Co-Chair Wilson clarified that it was illegal for individuals to rent their cars out without paying a tax. She thought the question came down to who was paying. Vice-Chair Ortiz commented that the person

renting the car would be paying the tax. Co-Chair Wilson commented that they were going into dangerous territory.

[2:28:15 PM](#)

Co-Chair Wilson OPENED Public Testimony.

[2:28:25 PM](#)

ROSE FELICIANO, INTERNET ASSOCIATION, SEATTLE (via teleconference), relayed that Internet Association represented more than 40 of the world's leading internet companies and advanced public policy solutions that fostered innovations, promoted economic growth, and empowered people through a free and open internet. She spoke in opposition to HB 102. Internet Association appreciated the Alaska State Legislature for acting to provide regulatory clarity for transportation network companies and phone sharing platforms so they could continue to operate in Alaska to the benefit of tourists and residents. Similarly, she believed clear and fair rules for peer-to-peer car sharing platforms would benefit the State of Alaska. Unfortunately, HB 102 treated the peer-to-peer vehicle sharing platform the same as a rental car company. They were two different business models and should not be considered the same. Most prominently, car rental companies owned and maintained a fleet of vehicles while peer-to-peer car shares did not. She thought HB 102 needed some work with shareholders. Internet Association and its members were willing to figure out a solution for appropriate regulations. She argued that categorizing and defining a peer-to-peer car share as a car rental company did not work. Peer-to-peer vehicle shares offered car owners a chance to earn extra money at the owner's convenience. She thought it provided an opportunity for residents and tourists to have access to cars that they would not otherwise have. Internet Association and its members were willing to work with the bill sponsor and DOR to try to figure out a solution.

[2:31:36 PM](#)

BRIAN ROTHERY, VICE PRESIDENT, ENTERPRISE HOLDING, SACRAMENTO, CA (via teleconference), shared some background information about the company. The company had operated in Alaska since 1989 and had more than 100 employees that lived in Alaska. They had a fleet of 1900 cars in 20

locations in the state. They recruited college students, had a broad base of employees, and paid taxes in Alaska. He thought the taxes reflected the company's fair share of contributions into the economy. He continued to provide additional information about the company's contributions to the state. He spoke in support of HB 102. He thought it was the right way to embrace a new source of supply into the car rental market. He believed enacting fair rules would result in greater choice to rental customers, more competition in the industry, and allow car owners to make extra money. In particular, remote locations could benefit from increased access to transportation options. He spoke of additional benefits. He argued that the rules for the new source of supply should be clear to customers and service providers.

Mr. Rothery offered that the need for rental cars was not impacted by the ownership model for the service provider. He suggested that the supply was also the same. From the vantage point of the customer, the supply and the demand were the same. His company believed that for-profit companies competing for the same demand using the same supply should be treated the same under the law. The source of the supply was not material to the issues in HB 102. He thought the bill related to the companies operating in the space and about making sure all for-profit companies paid their fair share.

[2:36:45 PM](#)

MICHELLE PEACOCK, VICE PRESIDENT, TURO, SAN FRANCISCO, CALIFORNIA (via teleconference), referenced a letter submitted to members. She explained that Turo was a platform and a marketplace where car owners and people who needed cars could find each other to work out an arrangement to share a car. It was similar to eBay except instead of buying and selling goods people were car sharing. Turo was headquartered in California but operated in several places in the world. Turo's customers were eager to share cars for several reasons. First, they liked to monetize an under used asset. Turo provided an opportunity to cut costs for a person to own their car. It was a great way to cover car payments. It also provided opportunities for people looking to rent cars as well. Turo had over 850 different makes and models made available by the car owner customers. The owner decided on the price. She relayed that TNCs were very different as businesses from Turo. The only

thing they really had in common was a car. It was a new idea being embraced in Alaska. Turo opposed HB 102 and would appreciate an opportunity to work with the legislature to craft a piece of legislation that made sense for the state. She encouraged Alaska to put in place a regulatory framework. The company had great experiences working and collaborating with legislatures across the country over the prior couple of years. Legislation creating a framework had passed in 2018 in Maryland and, more recently, in Indiana and Colorado. The company's goal was to recognize what made sense for a state and for the people of Alaska. She reported that 13 other states had put forward similar legislation that was rejected. The trend was collaborating with a community of peer-to-peer car sharing companies to work out the issues.

[2:43:30 PM](#)

Representative LeBon asked about the process of applying on Turo to list his car for sharing. Ms. Peacock explained that a person would apply online at Turo's website and go through a screening process. Following the steps, a person would be allowed by Turo to list their car for sharing.

Representative LeBon continued that assuming he was accepted as part of the clearing house, he would be added to the group of car owners that were renting their cars through Turo's system. He asked how many clients Turo numbered in Alaska at present. Ms. Peacock responded that 700 customers in Alaska had listed their cars on the Turo platform

Representative LeBon assumed Turo was present in every state in the United States. He asked if Turo had run into the issue in other states about who was responsible for collecting a sales tax. He wondered if Turo remitted sales taxes on behalf of its clients in other states. Ms. Peacock responded in the affirmative. She noted that when the law required Turo to collect and submit the tax on behalf of its customers, the company did so. Presently, Maryland was the only state that had the requirement. The legislation which passed more recently in Indiana would also require Turo to remit sales taxes on behalf of its clients.

Representative Merrick asked if the consumer ultimately paid the 10 percent tax. Ms. Peacock responded in the affirmative. The customers would pay the tax. However, she

thought it was important to draw a distinction between the operations that a rental car company underwent to address the tax collecting and remittance and the impacts there would be on an individual citizen of Alaska. The main issue was about the chilling effect that a new tax on a new kind of business platform in Alaska would have on the growth of the business.

[2:46:34 PM](#)

Representative Merrick wanted to hear more about the impacts on the citizens of Alaska. She also wanted to know if Ms. Peacock was aware that Alaska did not have a statewide sales or income tax. Ms. Peacock was not opposed to a tax but wanted to be included in the conversation to figure out what would be appropriate. She brought up the issue of certain complexities in Alaska.

Co-Chair Wilson asked if she knew the State of Alaska charged a different rental tax to different entities. Ms. Peacock responded that the RV industry paid a different tax than the car rental industry. Co-Chair Wilson clarified that there was a different RV tax and a motorcycle tax. She wondered if Turo was comfortable with the fees if the state was consistent. Ms. Peacock asked her to restate her question. Co-Chair Wilson asked if Turo would be okay with collecting taxes as long as the state was consistent.

Ms. Peacock clarified that Alaska had clearly undergone an evaluation of other industries such as motorcycles and RVs and determined, because they were different, they should have a different tax rate. Turo was asking to have a conversation about the tax rate. Turo believed the tax rate should be less than the car rental industry. The peer-to-peer car sharing industry had a lower impact on roads and services and a different impact on communities than a car rental company.

Co-Chair Wilson commented that taxes for motorcycle rentals were lowered because of the vehicle type. She did not know why Turo thought it should have a lower tax rate. Ms. Peacock respectfully argued that the business was a different business. She returned to the notion of working collaboratively to craft legislation.

[2:52:35 PM](#)

Co-Chair Wilson CLOSED Public Testimony.

Co-Chair Wilson wanted to have the Department of Law speak to the committee about the bill. She also wanted to look into the recently adopted legislation in Maryland and Indiana.

Representative Wool indicated that HB 102 also defined a vehicle rental network modernizing some language in statute. It also included traditional rental car companies such as Enterprise - it would be defined as a vehicle rental network. The direct renter of vehicles would be the individual on Craigslist for example. He asked Turo why they should have a discount on vehicle rental tax. He had not heard a satisfactory answer. He suggested that no matter the modality of purchase, it made sense for the peer-to-peer networks to collect and pay the tax. He thought they should be liable for the tax. Since all the transactions went through Turo, it made sense that the company would be responsible for submitting the tax to the state rather than DOR searching out 700 individuals. He relayed that the average Turo renter host had 3 vehicles. He thought the state should be getting its fair share of vehicle rental taxes.

Co-Chair Wilson argued that there were several more questions to be answered prior to moving the bill out of committee. She would not set a time for amendments.

HB 102 was HEARD and HELD in committee for further consideration.

#hb131

HOUSE BILL NO. 131

"An Act relating to an appropriation limit; relating to the budget responsibilities of the governor; and providing for an effective date."

[2:56:14 PM](#)

^PRESENTATION: APPROPRIATION LIMIT BY OFFICE OF MANAGEMENT AND BUDGET

Co-Chair Wilson had asked for a comparison of spending. She had been working with Vice-Chair Ortiz and his staff.

[2:56:50 PM](#)

ED KING, CHIEF ECONOMIST, OFFICE OF MANAGEMENT AND BUDGET, introduced the PowerPoint presentation: " Comparison of Various Appropriation Limit Proposals." He asked if the committee wanted him to skip some of the introductory slides if necessary.

Co-Chair Wilson remarked that the finance committee had nowhere else to be.

Mr. King began with the graph on slide 2: "UGF Spending History." The slide showed an illustration of the history of spending and why a spending limit was important to the governor. In 1977, when oil started flowing on the North Slope, the revenues of the state increased dramatically as did spending which generated a desire by the public to introduce a spending limit within the constitution. In 1982, after a 264 percent increase in government spending the people voted to limit the spending. Over the following 25 years spending was kept relatively in-check. The state had 20 years where spending barely moved other than the volatility in some of the revenues generated. The state had fairly flat spending for 2 decades until 2005 when oil prices started to escalate at a meteoric rate. The state saw the 264+ percent increase in undesignated general funds (UGF) spending reminiscent of what was seen in the '80s. It brought to mind the question of whether the spending limit was actually being effective. In both instances where there was an increase in spending, there was a decrease in spending. However, it was much quicker to increase spending than to cut it back. In the current fiscal environment, spending was far above what it was before the increase in revenue was experienced.

Mr. King reviewed slide 3: "UGF Spending History and Different Limits." He reported that the spending limit that was currently in the constitution, the \$2.5 billion that grew with population and inflation represented by the dotted black line, grew overtime regardless of whether the government was actually growing or not. The limit continued to grow based on the previous year's limit, not based on the previous year's spending or revenues. It continued to grow regardless of any circumstances occurring. He noted the blue area represented agency operations, the red area represented statewide items such as debt service and oil tax credits, and the grey area represented the capital

budget. All three classifications of government spending had increased over the period on the chart. He also included a couple of other representations. The dotted line in the middle represented what would have happened if the one-half of inflation and population that was contemplated in House Joint Resolution (HJR) 7 were to have been put into place rather than the full consideration of population and inflation. The rate of increase was about half as much. The black dashed line below tracked actual spending which was adjusting every year. It was the language that was in the current constitutional amendment before both bodies. He suggested that because the limit was adjusting to actual spending, it never detached from what actual spending was. When revenues increased, it would not have allowed the increase to occur. Otherwise, it just tracked what actual spending was, and when an increase occurred it stayed flat. It showed what the spending would have looked like had the provision already been in the constitution. It was consistent with what it was in 2004 adjusted for inflation.

Mr. King also presented one other idea. He reported that the red dashed line was representative of what the current limit would have been if, instead of pegging the spending to the high level of spending in the '80s, the base was pegged to the level of spending before the increase in revenues in 1982 and using the same language that was in the constitution. He added that the 1975 spending adjusted for full inflation and population would be right around what agency operations were the previous year. It was about \$500 million or \$600 million below the total budget because of the other items. The way the limit was structured had meaningful impacts on how the limit grew over time.

[3:01:45 PM](#)

Mr. King addressed slide 4: "Sources of UGF Spending Growth." He explained that when he showed the graph of escalated spending, much of the time the question arose about how the state spent its money. The chart showed a breakout of the different ways the state increased its spending from 2005 to 2013 and where the cuts occurred in the years that followed. He highlighted that a significant amount of capital budget spending occurred and was represented in grey. Other changes occurred including changes to agency operations, the retirement system, and oil tax credits which all contributed to the increase in spending. He pointed to the black bars that represented

actual agency operations spending in 2005 continued over time and adjusted for inflation. The red bar showed agency operations that had grown more than inflation. It represented real growth in operations. In 2013, the real operations growth was \$1.3 billion above what it would have been in 2005. Since then, about half had been pulled back out of the budget. The state was currently about \$750 million above what inflation would have allowed.

Representative Josephson wondered why, relative to Mr. King's previous comment about the \$750 million above what inflation would have allowed, he did not see anything so large on the chart. He asked about the numbers.

Mr. King responded that the numbers were provided by the Legislative Finance Division. He took the 2005 operations and inflated it with actual inflation. The actual spending was \$750 million above that level.

Representative Josephson relayed that in oil tax credits alone, Mr. King had \$100 million and other statewide growth. Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) were more substantial. He asked how the numbers were backed out in deriving the \$750 million difference.

Mr. King responded affirmatively. They were separated. The \$750 million was in addition to the PERS and TRS and the oil tax credit contributions. The total increase in spending was just over \$1.2 billion above what an inflation adjustment would have allowed.

Co-Chair Wilson asked committee members to hold their questions until Mr. King finished his presentation.

Mr. King detailed the bar graph on slide 5: "UGF Revenue and Expenditure History." He relayed that another question that occurred had to do with revenue and response to revenue. It was accurate that the legislature responded to changes in revenues. On the chart he plotted the 5-year average revenue against actual spending. He thought it correlated well. It was a fact that the legislature was responding to changes in revenues which was one of the reasons the interest in a spending limit was so high. If there was another increase in revenues in the future, the governor did not want to see a substantial increase in spending.

Co-Chair Wilson wondered if the legislature did not reduce the budget by \$750 million whether it would change the spending cap proposed by the governor. She was trying to determine the starting point and how it would change if the legislature was not at the specified amount.

Mr. King explained that the governor's proposed constitutional amendment took the previous 3 years of budgets (actual appropriations) and reset the spending limit for the following year. If the legislature spent below the limit, the following year the limit would go down.

Co-Chair Wilson asked for the reset amount for the first year. Mr. King responded that if the spending limit went into effect in the following year, the spending limit would be slightly more than \$5.3 billion which was more than the body was contemplating spending. Therefore, the year after that the limit would go down because the average would go down. He would point out the transition period later in his presentation.

Co-Chair Wilson asked if the average would continue to decrease each year the state spent less. Mr. King replied, "That's correct. The limit adjusts to the actual needs of the government."

[3:06:53 PM](#)

Mr. King discussed the table on slide 6: "Limit Rules Comparison." The chart showed a side-by-side comparison of the different versions of the spending limit. It compared the House and Senate versions of the statutory spending limit as well as the House and Senate versions of the constitutional spending limit put forward by the governor. The current constitution spending limit rules were also included. He broke out a few spending categories to show how they were similar and how there were different. In all the proposals federal funds and things that were not included in the general fund were all excluded from the cap.

Mr. King relayed another item excluded from the cap was disaster relief and things that were part of the budget but not considered spending. For example, transferring money from one account to another without spending it or

duplicated funds, like interagency receipts or reappropriations, were not considered spending.

Mr. King mentioned that general debt obligation service was also excluded. Things that were included in the cap were agency operations and capital projects. The bottom 5 categories listed on the chart were where the differences could be seen in the version comparisons. Revenue bond debt services was excluded in all the versions except for in the current constitution. Other designated general funds were excluded in the constitution and in both constitutional amendments. However, it was excluded in the statutory versions. In both HB 131 [Legislation introduced in 2019 regarding an appropriation limit] and its companion bill, SB 104, the designated general funds lived outside the cap which meant they could grow without limit. Whereas, in House Joint Resolution (HJR) 7 [Legislation introduced in 2019 - Short Title: Const. Am: Approp. Limit; Reserve Fund] and its companion bill, Senate Joint Resolution (SJR) 6, they were included in the cap and part of the limitation. School debt reimbursement was excluded in HB 131 because the language indicated all debt service.

Mr. King elaborated that in the working draft version K of SB 104 there was a provision that specifically included school debt reimbursement. In HJR 7 and SJR 6 they were included in the cap by necessity. The Public Employees' Retirement System (PERS) and TRS contributions were included because they were not considered to be actual debt of the state even though they were an obligation of the state. He pointed out that there was some ambiguity in the current version of HB 131 that came up because in SB 104 language was included to specifically exclude PERS and TRS contributions which raised the question whether it was otherwise included. Lastly, in the constitutional provisions Permanent Fund Dividends were excluded from the cap. In the statutory proposals the Permanent Fund Dividends were under the cap.

[3:10:28 PM](#)

Mr. King continued to slide 7: "Limit Rules Comparison." The 3 moving pieces of the bills included the base limit. The current version of the bill had a \$5 billion limit. The senate version increased the limit to \$6 billion. The governor's proposed constitutional limit in both bodies used an adjusting average every year and reset to a 3-year

average. The current constitution had a \$2.5 billion base and was based on 1982. The others were based on 2020.

Mr. King relayed that in terms of how the limit changed over time, the version in front of the committee had a 5-year average inflation adjustment. He pointed out that the language indicated that the amount did not grow over time -the last 5 years of inflation was pegged to the \$5 billion. In the Senate's committee substitute the language was changed to the 5-year average since 2020. The average was adjusting based on the 5-year average of inflation allowing the rate to grow at the rate of inflation. In the governor's original proposal, the escalation rule was one-half of the prior year's inflation and population growth, but it was capped at 2 percent. If there was high inflation or population in a year, it would not be able to grow more than 2 percent.

Mr. King continued that in the Senate's version of the bill currently in the Senate Finance Committee it was changed to the average of the previous 5 years of inflation and was tied to the average of the 3 previous years of appropriations. The current constitution allowed a full rate of inflation and population growth year-after-year. It allowed the rate to grow based on inflation. The exception applicable to the capital budget was that the limit could be broken for capital projects. In the version before the committee there was no exception. In the Senate's version and committee substitute included a 5 percent kicker above the limit. He indicated that in the governor's proposal there was no exception. However, in the Senate's substitute a 10 percent deviation was allowed if funds were available. The current constitution stated that although there was a limit, it could be broken with a super majority of the legislature.

Co-Chair Wilson asked for clarity about capital projects and exceptions to the capital budget cap. Mr. King relayed that in the current version the term "Capital Improvement" which was interpreted as brick and mortar. The provisions in the Senate's version of the constitutional amendment contained the same language. From a statutory perspective it was difficult to interpret because the legislature had the authority to appropriate and could include anything it wanted to. He noted that for the constitution it would depend on how the court interpreted the phrase, "Capital

improvement." He asserted that just because it was in the capital budget did not mean it qualified.

Mr. King talked about the spending trend reflected on slide 8: "UGF Spending Trend." The slide showed the growth rate of the budget since 2000. From 2004 to 2013 the budget grew about 14 percent per year. The 15-year average rate of growth of the budget was 4.6 percent, much higher than the rate of inflation. He conveyed that when looking forward on how the limit was changing and how government spending could be expected to change, there was some historical context that might be reasonable to assume.

[3:15:03 PM](#)

Mr. King turned to the graph on slide 9: "Revenues, Target Budget (4 percent growth), and HB 131 Spending Limit (\$5 billion plus inflation)." The slide showed the target budget at a 4 percent growth rate which was represented by the black bars. The red dashed line showed the spending limit in HB 131 of \$5 billion. If the budget target exceeded the budget limit, it would not allow it to grow.

Mr. King continued that with a budget growth of 4 percent and a spending limit of less than 4 percent, they would eventually converge. The stacked bar showed how items were paid. The bottom portion of the bars (shown in black) represented UGF revenues, mostly oil revenues. The remainder of the stack (denoted in green, green hashes, and purple combined) represented the percent of market value (POMV). The green portion of the bar was what was left over after deducting the statutory PFD. The top area [including the purple and green hashed portions of the bar] represented the PFD calculation. The green hashed bar represented what should have been given to the people as part of their PFD but was diverted for government spending. He reported that the limit could be distributed to the people only above what the government was spending and below because the limit included the PFD. In other words, any amount more than the PFD could not be distributed. Even if there were enough revenues to pay a larger PFD, the legislature was prohibited to do so because the law did not allow it.

Mr. King continued to explain that in all the cases he was presenting, there was revenue exceeding the limit, which meant there was money available to pay a greater PFD.

However, the legislature was prohibited to do so. The only way to pay a PFD (if the PFD was under the limit) would be to decrease government spending. Even with more revenues from additional taxes, the limit would not change. Therefore, a larger dividend could not be paid even if a tax was raised. The difficulty of including the PFD under the limit was that it inserted conflict with the PFD and government spending with no other options of revenue. Revenues more than what the legislature was allowed to spend were above the line. Therefore, the money stayed in the bank rather than being distributed.

Representative Josephson thought he heard Mr. King saying that under the new proposed bill, the legislature would be hemming in its capacity to pay a larger dividend because the state could raise revenue above the red line but not spend it on a dividend. He wondered if he understood correctly. Mr. King responded that he was correct. The legislature could not spend the excess money on anything under the cap including larger government or larger PFDs. The limit was not actually limiting government growth, it was only limiting the legislature's ability to pay the PFD.

Representative Josephson was struck by some irony because the administration also hemmed in expenditures by not allowing any real discussion of other revenue. Mr. King responded that the governor's proposed spending limit did not include the PFD. Therefore, the PFD was unlimited. It would prevent the government from growing, which the limit was intended to do. By implication, it meant the state could raise more revenues but could not spend them. He did not follow the representative's question.

Co-Chair Wilson suggested that in HB 131, by including the dividend in the cap with the intention of keeping spending down, it might have the opposite effect. The dividend might get squished rather than reducing spending. She supposed that the government could increase its revenues, but the legislature would still be limited to how much it could spend with a spending limit in place based on the average spending for the previous 3 years and inflation. In other words, it was not about how much revenue was generated, it was about the limit in spending.

Mr. King added that if the legislature wanted to raise government spending by raising new revenues, it could be done under the limit. However, to do so, a tax would have

to be implemented, and because the PFD was under the limit, it crowded out the PFD. As a result, people would end up getting both a tax and a cut to their PFD because of the PFD being under the limit.

Co-Chair Wilson asked about what should be inside the cap and what should be outside the cap. She wondered whether there would be more pressure on how much the legislature was spending if the PFD was outside of the cap. Mr. King responded that if the PFD was outside of the cap, the cap would only apply to spending. The limit would only be controlling government spending - it was not controlling the PFD and how much was being distributed. It would be up to the legislature to decide or the people to decide if they wanted to put it in the constitution.

[3:22:25 PM](#)

Mr. King continued to slide 10: "Revenues, Target Budget (4 percent growth), and HB 131 Spending Limit (\$6 billion plus inflation)." He relayed that in the Senate's committee substitute version of the bill the spending limit was increased to \$6 billion which was reflected on the slide. Because there was room under the limit, the legislature could raise more revenues and grow government without cutting the PFD further. He pointed out that the spending limit was not limiting anything. It was hovering above the spending limits. If the intent was to limit government spending, it was not working the way it was intended.

Co-Chair Wilson did not think the charts reflected where the state wanted to go. She thought perhaps the PFD should be kept outside of the spending cap. Mr. King responded that she was correct in that the consequence of putting the PFD inside the cap was that it competed for the other budget. He pointed out that the statutory calculation for the PFD was represented in purple and the hashed portion. The hash was the portion of what should be the PFD that was being diverted to government to get to the spending target.

Vice-Chair Johnston asked if the chart reflected the current POMV. Mr. King replied that the green, hashed, and purple bars added together was the POMV. The green was left over after removing the statutory PFD.

Vice-Chair Johnston clarified that the green, hashed, and purple equaled the POMV. Mr. King responded, "That is correct."

Co-Chair Wilson noted the chart was very helpful.

Mr. King highlighted that the chart showed the distribution of money from the POMV that was going in each direction. The green was about a third of the total bar. Therefore, two-thirds was the calculated POMV and one-third was what was left over from the POMV after the PFD payment. If the calculation were to change to 50 percent of the POMV, it would not change the numbers, just the colors of the bar. The green would go higher, and the hash would turn green. It did not change anything. The same amount of PFD would be paid.

Co-Chair Wilson referred to the governor's proposed budget. She asked for clarification as to how the bars would change. Mr. King responded that the specific graphic did not contain the 3-year adjustment. The chart included the statutory provision allowing growth with inflation. He relayed that if the budget was cut further to what the governor proposed, the black line would shift down. It would mean that the hashmark, instead of being diverted to government, would turn purple and would go to the people of Alaska.

Co-Chair Wilson suggested that even though the 5-year average was not accounted for in the chart, 202 would be part of the average and the numbers would continue to reset the spending cap down a certain percentage for the following year. Mr. King responded that if the base could readjust to spending like in the constitutional amendment proposal, her statement would be true. House Bill 131 did not adjust for the spending level.

Representative Josephson asked for clarity around what the chart would look like if the governor's intentions were achieved. Mr. King responded that the governor intended for the legislature to pay the full PFD and the budget would have to be moved down to the green to do so.

Representative Josephson suggested neither body [House or Senate] could come close to what was being proposed. He asked why the bill was a practical path forward.

Co-Chair Wilson commented that it was not about how practical the proposal was, rather, it was about what the bills did. The committee was trying to learn what the bills did. She thought that it was an entirely different policy discussion as to why the legislature spent more money than it needed to. She asked Mr. King to continue to the following slide.

[3:28:17 PM](#)

Mr. King presented scenario 1 on slide 11: "Randomly Generated Scenario 1." He indicated that in looking at spending limits under static conditions where there were nice smooth lines, projections were flat, and everything appeared easy. It was not how reality worked. He thought it was important to look at what circumstances were created when volatility was introduced. The following 2 slides were reflective of the computer randomly generating an oil price, oil production level, investment return level, and inflation level. It looked at what happened under the different provisions when volatility could occur. The slide showed one scenario showing 2 provisions. He could not show the line on the same chart because when there were different impacts on the savings accounts, there were also different impacts on investment returns.

He relayed that in the scenario oil prices spiked up and down and up again, as well as investment returns jumping around. Under the \$5 billion limit, there were small PFD's that went away over time. There were enough revenues to pay a larger PFD, but the limit would not allow it. On the right the limit was a \$6 billion. However, the limit was not limiting anything unless oil prices went up or investment returns went up significantly. When it limited something, it limited the PFD. Unless the body was willing to reduce the black line further, they could pay a larger PFD. However, that was not what the limit was doing.

Mr. King moved to the second scenario on slide 12: "Randomly Generated Scenario 2." The slide showed another scenario where the oil prices were different as well as investment returns. He highlighted that the limit was restricting the PFD distributions, although there was revenue to pay for them. On the righthand chart showed the \$6 billion which only limited in high revenue years. He pointed out that there was something interesting that happened in a couple of the scenarios where the

distribution of the POMV got what was left over after the PFD calculation got very small in some circumstances. He thought it was worth paying attention to.

[3:30:57 PM](#)

Vice-Chair Johnston needed to know how Mr. King was modeling the scenarios. She wondered if the operational budget was growing in his examples.

Mr. King responded that the model was setting the 2020 number at the level the legislature was proposing. It started at the level of proposed spending by the legislature. Each year the budget attempted to grow at a rate of 4 percent - slightly lower than the historic rate. The model indicated to try to grow the government at 4 percent if allowed. Once the budget ran up against the limit, it was not allowed to grow, therefore the limit was controlled. On the left it showed the \$5 billion limit and that government growth was limited in 2027. On the right, because of the higher limit, the growth could continue causing smaller investment returns. More outflow of money being taken from the savings accounts lead to smaller returns.

Vice-Chair Johnston was concerned with the modeling of the revenue. She wondered how he reached the revenue amounts.

Mr. King explained that the model was calculating what the anticipated royalty and tax payments would be from oil companies by allowing the oil price and production levels to be randomly generated within the distribution he defined. It was between \$40 to \$120 and bounced around. In the production world there were three cases: high, low, and medium. He used them as parameters. There was a distribution the computer could select within the confines of production projections. For investment returns, it figured out what was being spent. If there were excess revenues, the savings rules were followed. The savings accounts received a return on their asset levels based on the defined distribution - the historic performance of a particular fund. The actual POMV beginning in 2022 was 5 percent of the total fund value. The combination of the 4 components made up the entire POMV which was calculated in the way SB 26 [Legislation passed in 2018 regarding an appropriation limit, the Permanent Fund, the Permanent Fund Dividend, and the Permanent Fund Earnings] contemplated.

3:35:07 PM

Vice-Chair Johnston asked Mr. King if he was basing the revenue on a consistent forecast derived from based on the most recent revenue forecast other than the POMV. Mr. King indicated that he was using all the current laws and the revenue forecast as the baseline forecast defining the random distribution. The model was a scenario randomly generated within the distributions. The purpose was to show what volatility might do. Vice-Chair Johnston would be interested in doing additional modeling with Mr. King's tool.

Co-Chair Wilson mentioned there was an assumed growth rate of 4 percent. She thought it would be interesting to see a model reflecting other growth rates such as 1 percent, 2 percent, or 3 percent. She wondered if the purple was on the bottom and fulfilled first. She thought the modeling showed the PFD getting squished rather than government growth which was not necessarily the intent of the committee. She thought some other modeling would be nice.

Mr. King explained that the bars represented revenues rather than expenditures. The chart reflected the statutory calculated PFD, not what the legislature actually paid as the PFD. There was no paying the PFD first.

Co-Chair Wilson thought what he was saying was that the amount spent on government was going up 4 percent per year which was why the purple bar ended in 2025. She believed Mr. King was assuming the state's spending would not decrease. She wondered if the graph would change significantly if the state reduced its spending by 2 percent.

Mr. King tried to explain that it would not change the graph. The red line would remain the same. The only thing that would be different was the black line. At any point, the legislature could reduce the budget and increase the PFD.

Co-Chair Wilson thought the graphs made the legislature appear to be considering the PFD last. She wanted the public to know that the exercise was about deciding whether the PFD should be inside or outside a cap. Based on the graph she did not think the PFD should be inside the cap.

She wanted to see the state control its spending. If the legislature could not reduce spending on its own, she wondered how to force the spending. She did not want the dividend to be the loser. She emphasized trying to understand what was included in a spending cap and what was not. She wondered if the administration had considered all factors before coming up with their idea.

Mr. King was not suggesting what future legislatures might do. He was showing that if the legislature continued to grow at the rate it had over the previous 15 years, there would be consequences. The consequence was putting the PFD under the limit. It forced the legislature to make the decision. If budget growth could be restricted, a person could get a larger PFD. However, it had not been the tendency. If a certain PFD amount was designated, by necessity the level of spending would be constrained. The current budget was not drafted accordingly.

Representative Knopp thought Mr. King had stated that limiting budget growth would determine the size of the PFD. He asked if the statement was accurate that the size of the PFD was determined by rate of return on investments. Mr. King explained that under HB 131 if the PFD was within the limit, there was only so much money to spend. Every dollar that was spent on government was a dollar that could not be spent on the PFD and vice versa. He suggested that by including the PFD under the limit, the PFD would be limited by how much was spent on government.

[3:40:58 PM](#)

Representative Knopp returned to slides 8 and 9. He noted Mr. King spoke of 15 year averages and showed a growth of 4.6 percent. He asked what rate of growth Mr. King recommended under HB 131. He quoted AS 37.05.540 regarding appropriation limits. He wondered why the existing appropriation limit was not working.

Mr. King thought Representative Knopp had referenced the statute relating to the statutory limit associated exclusively with the Alaska Mental Health Trust. The current constitutional spending limit allowed the limit to increase by the rate of inflation and population which was less than the 4.6 percent average growth through the previous 1.5 decades. The proposal by the governor was to cut the rate in half - half of population and half of

inflation. The Senate suggested that a 5-year average inflation rate was more appropriate with no consideration of population. It would be up to policy makers to decide what was appropriate. The idea was that some limit must be in place if the legislature wanted to have a limit.

Representative Josephson pointed to the lavender bar on the right of slide 12 of the presentation. He asked if the bar represented unfunded Permanent Fund Dividends. Mr. King responded that it was money available for distribution for the PFD but was unable to be distributed because of the limit in place. With \$100 oil in the current year, there were high oil revenues. There were enough revenues to pay a larger PFD, but the limit would not allow it because the PFD was under the limit.

Representative Josephson thought under the current random scenario Mr. King was projecting the dividend outlay to be about \$4 billion. In other words, people would receive a \$6000 check. For a family of four they would receive \$24,000. Mr. King answered that the randomly generated scenario generated a dividend as large as the representative had suggested.

Representative Josephson surmised that under the current formula, the state was on a track to pay a family of four \$24,000 in dividends in 10 years. Mr. King responded that he was not showing an actual projection of future events. It showed one possibility of many outcomes. In the particular year there was a 25 percent return which generated the exceedingly high PFD calculation. However, the POMV number had not caught up because of the lag in the averaging. There was a high PFD calculation, even though other scenarios would generate a smaller number because of smaller returns. He was not suggesting what would happen, but it was a possible outcome.

Representative Knopp had spoken to the LFD director who affirmed what he thought: AS 37.05 did not refer to the Alaska Mental health Trust appropriation. Section B outlined what was exempt from the cap. It also discussed the level of appropriation. He wanted Mr. King to look at the existing statute. He was wondering why the cap was not working.

[3:45:32 PM](#)

Mr. King moved to slide 13 and reviewed the House and Senate joint resolutions put forward by the governor and changed by the Senate. In the original provision there was an allowed escalation of one-half of inflation and population with a maximum of 2 percent. The 2 percent limit did not actually kick in in the baseline projections. It was just half of inflation and population. The Senate adjusted it to a 5-year average adjusted for inflation without a consideration of population. It grew slightly more but not excessively. He highlighted that, because of the 3-year averaging, there was a period where the state was spending less than the limit which required the limit to be adjusted downward. In either case, there was a period of transition before the growth trend kicked in.

Mr. King looked at slide 14: "Comparison of No Limit to HJR 7 / SJR 6 Limit." He explained that because the PFD was not under the limit there were no hashes. He clarified that he was only looking at revenue. The black line represented the target budget. The dotted line showed what the 4 percent budget growth would look like. He continued that the red dotted line represented what SJR 6 growth would look like without consideration of spending. If the state were to spend to the limit every year, there would be a very small growth rate. The dashed line showed the adjusting rate down to the actual amount. In FY 20 he expected actual spending to be below the calculated spending limit which would trigger a reduction in the limit. It trended down to a level similar to FY 05 and grew at the same rate. The chart showed the baseline projection of revenues projected to the 10-year mark. It was also the Alaska Permanent Fund Corporation's projection of earnings.

Mr. King explained that the green and the purple combined equaled the POMV. The purple was the calculated amount for the PFD. He pointed out there was a decrease in revenue in the near term. As new infrastructure was being developed there would be an increase in out years once it came into production. Anything under the black line needed to be funded somehow. He suggested that because there were not enough revenues, there was a shortfall between the black line and the green bar that needed to be addressed. He offered that because the PFD was not under the limit, it could be addressed through taxes, savings draws, budget cuts, or through the PFD. If the state were to use the PFD, everything above the line would be distributed as the PFD. By comparing the different lines, the potential impacts

could be seen showing how much of the funds would get diverted from the PFD calculation to government and how much could be distributed. If budget cuts were made, there would be a larger PFD payout. Eventually, without a limit there would not be enough revenues to fund the call for cash.

Co-Chair Wilson asked what percentage decrease in the operating/capital budgets would be needed to maintain a full PFD and keep the state under the red line. Mr. King answered that cuts would have to be greater than what was being proposed. He thought an additional \$500 million to \$600 million would have to be cut from the budget.

[3:49:55 PM](#)

Co-Chair Wilson asked if they would have to take out \$2.1 billion in FY 20. Mr. King replied that the state would have approximately \$3.8 billion in revenues to spend on UGF and designated general funds (DGF). It was another several hundred million below what was being proposed.

Co-Chair Wilson noted the black dotted line representing the budget growing at 4 percent. She asked if the anticipated growth rate was 2 percent per year in the Administration's proposal for SJR 6. Mr. King replied the anticipated growth rate was just under 1 percent which was what the limit allowed.

Co-Chair Wilson noted the state had just signed contracts reflecting a range of zero to over 4 percent plus 7 percent for public safety. The contracts did not include steps. She assumed the number of employees would have to be reduced rather than looking at salary reductions. Mr. King suggested that the legislature would have to find efficiencies or reductions.

Co-Chair Wilson rebutted that the legislature was not being discussed. She was talking about the administration. She was trying to figure out how the administration would apply a spending cap based on a 1 percent growth rate when contracts were currently being signed and without legislation that would reduce the rate to 1 percent. The governor had offered legislation that would increase the rate to 1.7 percent. The numbers in her head did not work. She wondered how many positions would have to be reduced to

stay within the 1 percent growth rate based on the administration's spending limit.

Mr. King responded that it was a significant challenge. He did not have the answers. There were no easy answers. Co-Chair Wilson asked who might be able to answer her question. She was not trying to figure out the numbers. She wanted further clarification. Mr. King replied that he would have to get back with the representative with an answer. He offered that presently the governor put forward a proposal and it would go through a process. The administration was willing to have a conversation about what the right numbers should be. Co-Chair Wilson thought it was important to know where the numbers came from and what levers were used. She wanted to understand what had changed to get the numbers right.

[3:55:09 PM](#)

Vice-Chair Ortiz asked Mr. King if he thought that any constitutional change would require a spending cap. Once things were put in the constitution it became more difficult to adjust. He wondered if things like inflationary rates should be taken into consideration. There had not been significant inflation in the past several years. He noted the employment rate of the nation had dropped below 4 percent. He asked Mr. King if he agreed that lowering unemployment rates was a significant inflation causation. He thought inflation could increase up to 6 percent or 7 percent in a few years.

Mr. King responded that the inflation rate was something the Federal Reserve tracked and tried to control. They had done a great job. The expectations for inflation were in the range of 2 percent to 2.5 percent for the next decade or more based on the federal target. Vice-Chair Ortiz was correct that there were things beyond their control, and anything was possible.

Vice-Chair Ortiz made the point that if something was going to be placed in the constitution a consideration should be made. Mr. King indicated that if something was to be placed in a document that was rigid, there needed to be a mechanism that would adjust to things like inflation or the rate of spending to allow for flexibility. A fixed number was currently in the constitution and allowed it to be detached for the actual needs of government. Co-Chair

Wilson comment, "Rigid but flexible. Those two items go together."

Vice-Chair Johnston thought the current federal administration was hoping for 4 percent inflation to come close to preventing the nation's debt from growing. She referred to page 6 regarding what was included and not included. In HJR 7 version A agency operations, capital projects, and PERS and TRS contributions were included. She wondered what modeling was used in contract negotiations. She suggested that if the legislature was going to look at agency operations, it should first look at what modeling was being done. She also noted that when doing the modeling for HJR 7, Mr. King included PERS and TRS contributions. She suggested that he would have to include the ARM Board and the cost of downsizing government. She suggested that as Mr. King was modeling all levers needed to be presented. The cost of downsizing government should also be included, as it would be part of the levers. She did not think the legislature was getting a full picture including cost drivers and levers.

Co-Chair Wilson was going to work with Mr. King about the levers. She wanted to move the bill through committee in the current year, if possible. She thanked Mr. King for being in the meeting.

Co-Chair Wilson indicated that she would be recessing the meeting in anticipation of receiving the crime bill.

^RECESSED TO THE CALL OF THE CHAIR: THE MEETING RECONVENED ON SATURDAY, MAY 4, 2019 AT 12:00 P.M.

[4:01:09 PM](#)

ADJOURNMENT

[4:01:09 PM](#)

The meeting was adjourned at 4:01 p.m.