

SENATE FINANCE COMMITTEE
February 28, 2020
9:00 a.m.

9:00:40 AM

CALL TO ORDER

Co-Chair von Imhof called the Senate Finance Committee meeting to order at 9:00 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Donny Olson
Senator Bill Wielechowski
Senator David Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Senator Click Bishop, Sponsor; Darwin Peterson, Staff, Senator Click Bishop; Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development; Nils Andreassen, Executive Director, Alaska Municipal League, Juneau; Lisa Parady, Executive Director, Alaska Council of School Administrators; Senator Cathy Giessel.

PRESENT VIA TELECONFERENCE

Jim Anderson, CFO, Anchorage School District, Anchorage; Trevor Storrs, Alaska Children's Trust, Anchorage; Tom Klaameyer, Anchorage Education Association, Anchorage; Kerry Boyd, Superintendent, Yukon Koyokuk School District, Fairbanks; Caroline Storm, Self, Anchorage; Brandon Spanos, Deputy Director, Tax Division, Department of Revenue, Anchorage.

SUMMARY

SB 50 EMPLOYMENT TAX FOR EDUCATION FACILITIES

SB 50 was HEARD and HELD in committee for further consideration.

#sb50

SENATE BILL NO. 50

"An Act imposing an annual educational facilities maintenance and construction tax on net earnings from self-employment and wages; relating to the administration and enforcement of the educational facilities maintenance and construction tax; and providing for an effective date."

[9:02:08 AM](#)

SENATOR CLICK BISHOP, SPONSOR, introduced himself.

DARWIN PETERSON, STAFF, SENATOR CLICK BISHOP, introduced himself.

[9:02:30 AM](#)

Senator Bishop stated that the bill would establish a head tax to raise money for new school construction and maintenance. He spoke of the needs of both rural and urban areas of the state when it came to school construction. He believed that deferred maintenance was a financial liability to the state. He lamented that the deferred maintenance for schools totaled \$149 million. He noted that deferred maintenance should be part of the conversation at the table about sound economic policy. He said that, factoring in inflation, per capita spending was on par with 1996. He mentioned the education raffle legislation, which raised voluntary donations form the permanent fund, and shared that this bill would work in tandem to address deferred maintenance. He said that \$2.5 billion left the state in non-resident monies only to go into schools in other states. He believed the time was right to pass the legislation.

[9:06:43 AM](#)

Mr. Peterson further addressed the details of the bill. He read from the sponsor statement:

From 1919-1980, Alaska had an annual employment head tax for the purpose of collecting revenues to fund schools. The tax went through numerous transformations, but it always charged an equal amount to each employed individual. When it was repealed in 1980, the tax was \$10 per person which has the equivalent value of \$30 today.

SB 50 proposes to revive the repealed head tax on employed individuals, both resident and nonresident, with income from a source in Alaska. The "Alaska Education Facilities, Maintenance, and Construction Tax" would collect \$30 from each person employed in the state. The tax would be withheld from an employee's first paycheck each year while self-employed individuals would be required to remit payment to the Alaska Department of Revenue. The tax would be deductible on an individual's federal income tax return.

According to the most recent statistics from the Alaska Department of Labor and Workforce Development and the U.S. Census Bureau, there are approximately 441,596 employed individuals in Alaska. Roughly 20% of those workers who earn their living in Alaska do not reside here resulting in \$2.5 billion in nonresident income that leaves Alaska's economy each year and, in most cases, gets taxed by a nonresident's home state.

It is estimated that this tax would generate \$13 million each year. The revenue collected would be deposited into the state's general fund and accounted for separately to pay for the growing maintenance and construction needs of Alaska's schools.

Mr. Peterson added that the 30,000 self-employed individuals would self-report. He said that the state's share for the FY 21 school major maintenance totaled \$149 million and the FY 21 total school construction totaled \$142 million. He noted the support letters in member files from various education organizations.

[9:09:29 AM](#)

Senator Wilson looked at Section 2, page 3. He wondered about people working in a "gig" economy, who might pay the tax many times in one year and wondered about refunds for overpayment.

Senator Bishop read from Line 1:

(b) An employer is liable for the tax required to be withheld from an employee 2 unless the employer can demonstrate that the employer relied on proof provided by the 3 employee that the total tax for the calendar year imposed under AS 43.45.011 had 4 already been withheld under this section or paid under AS 43.45.031.

[9:10:50 AM](#)

Senator Wilson was concerned about gig economy workers who might slip through the cracks.

Mr. Peterson explained that if a person paid the tax more than once they would be able to apply to the department for a refund.

Co-Chair Stedman remarked that retired people were exempt as pensions were not included.

Mr. Peterson agreed.

Co-Chair Stedman wondered whether there was a consideration for adding funds for maintenance to the Public-School Trust Fund. He thought that could be a way to increase the funds value.

[9:12:39 AM](#)

Senator Bishop replied that it had not been considered but that it was a good idea.

Senator Wielechowski pointed to Page 4, lines 17 and 18, which discussed the accounting of funds. He wondered how the funds were dispersed under AS 37.05.560.

Mr. Peterson deferred to the department.

HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced herself.

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT, introduced himself.

Ms. Teshner asked Senator Wielechowski to restate his question.

Senator Wielechowski asked about the criteria for determining how the funds for educational facilities, maintenance, and construction, under AS 37.05.560.

Ms. Teshner replied that the department would receive funds from the legislature and based on those appropriations project funds would be distributed in rank order.

Senator Olson asked whether the department had considered alternative ways to distribute the funds.

Ms. Teshner understood that the Public-School Trust Fund funded the foundation program, and a change would need to be made in the distribution of funds.

Senator Olson asked about priorities for the funds.

Ms. Teshner said that the department favored major maintenance school construction.

Co-Chair von Imhof requested a flow chart of formula versus maintenance and the different fund sources.

Ms. Teshner agreed to provide that information.

[9:16:47 AM](#)

Senator Olson asked about other types of income, such as the permanent fund dividend or stock market earnings.

Co-Chair von Imhof queried what type of income, based on the Internal Revenue Service (IRS) definition would be taxed.

Mr. Peterson replied that the only thing that would be taxed would be wages and self-employed income.

Co-Chair von Imhof surmised the tax would apply to direct, earned income.

Mr. Peterson agreed.

Co-Chair von Imhof OPENED public testimony.

[9:18:39 AM](#)

JIM ANDERSON, CFO, ANCHORAGE SCHOOL DISTRICT, ANCHORAGE (via teleconference), testified in support of the bill. He stressed that the bill would allow for a different revenue source to provide support for rural districts. He thought that the bill reinforced the need to maintain state infrastructure. He thanked the committee for their time.

[9:20:28 AM](#)

TREVOR STORRS, ALASKA CHILDREN'S TRUST, ANCHORAGE (via teleconference), spoke in support of the legislation. He believed in investing in schools and children and providing a quality, equitable education for Alaskan children. He spoke to the maintenance challenges faced by districts. He lamented that the tax was regressive and could place a burden on low income families.

[9:22:49 AM](#)

TOM KLAAMEYER, ANCHORAGE EDUCATION ASSOCIATION, ANCHORAGE (via teleconference), spoke in support of the bill. He believed that the legislation was a modest step in the right direction. Further cuts could not be made to education. He supported the consideration of alternative revenue streams.

[9:24:48 AM](#)

KERRY BOYD, SUPERINTENDENT, YUKON KOYOKUK SCHOOL DISTRICT, FAIRBANKS (via teleconference), testified in support of SB 50. She lamented that education had been flat funded over the previous years, while operational and healthcare costs had risen. She felt that the state should be responsible to maintain and construct schools. She thanked the committee for their work.

[9:26:58 AM](#)

CAROLINE STORM, SELF, ANCHORAGE (via teleconference), spoke in support of the legislation. He believed that funds should be available for school maintenance. She thought that deferring maintenance was costing the state more in the long run. She was concerned about the regressive nature of the tax and hoped that other funding mechanisms could be explored.

[9:28:45 AM](#)

NILS ANDREASSEN, EXECUTIVE DIRECTOR, ALASKA MUNICIPAL LEAGUE, JUNEAU, testified in support of the legislation. He felt that local governments were comfortable and understood the nature of taxes. He shared that prior to the moratorium on school bond debt reimbursement, municipalities had not generally applied to grant programs. He believed that the state would experience an increasing need from municipalities for the state to fulfill their constitutional obligation. He spoke to the aging school building in the state. He felt that the bill was a small step toward addressing a very large need.

[9:32:15 AM](#)

LISA PARADY, EXECUTIVE DIRECTOR, ALASKA COUNCIL OF SCHOOL ADMINISTRATORS, spoke in support of the bill. She echoed the comments of previous testifiers.

[9:33:09 AM](#)

AT EASE

[9:33:21 AM](#)

RECONVENED

Ms. Parady continued her remarks. She said that diversified revenue streams would be very beneficial to the state. He stated that the proposed head tax would generate approximately \$13 million per year.

[9:35:54 AM](#)

Co-Chair von Imhof CLOSED public testimony.

[9:36:07 AM](#)

Co-Chair Stedman discussed the fiscal notes. The first was a zero note from the Department of Labor and Workforce Development, Employment and Training Services, Unemployment

Insurance, OMB Component 2276. The second was from the Department of Revenue, Taxation and Treasury, Tax Division, OMB Component 2476, which showed expected revenue of 9,344.0 in FY 21. The second year on expenditures were the same but revenue was expected to rise to \$13,366.0.

Co-Chair von Imhof asked about the capital investment for the implementation cost.

Co-Chair Stedman discussed the implementation cost outlined in the analysis of the fiscal note.

Co-Chair von Imhof noted that the implementation cost had risen from \$8 million to \$11 million over the last year.

[9:39:05 AM](#)

BRANDON SPANOS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE, ANCHORAGE (via teleconference), stated that the implementation costs had increased because of system required for the development of a broad-based tax. The Tax Management Revenue System (TRMS) had originally been rolled out in 2015 and cost \$9 million. The department planned to use the most up-to-date system to develop the tax, an upgrade from Version 9, to Version 12 would be necessary. The tax would require the same development of any other broad-based tax and the department believed it was necessary to upgrade the system before coding any new tax.

Senator Bishop asked whether the new system would be expandable to include another capital request.

[9:40:46 AM](#)

Mr. Spanos said that it would depend. He said that there was funding in the current budget for the TRMS system. He said that Version 12 was more future proof and additional programming could be done without expanding cost. He said a major change, like an income tax, would require additional capital cost.

Senator Wilson asked which department would be collecting the tax.

Mr. Spanos replied that DOR was expected to collect and administer the tax. He said that the Department of Labor and Workforce Development (DLWD) could collect the tax, but

it would have to then be remitted to DOR. He stated that DOR would still need to register all taxpayers. He explained that if someone had two jobs in one month the department would need to administer a refund. He thought that the most recent version of the system was to system was robust enough to mitigate double payments.

[9:44:38 AM](#)

Senator Wilson noted that the legislation stated that DLWD would collect the tax and remit it to DOR. He wondered whether the language should be cleaned up.

Mr. Peterson replied that the language had been inserted giving DLWD the ability to collect the tax if it were the most cost-effective route. If it was not cost effective, then DOR would collect the tax.

Co-Chair Stedman wondered how the tax would work for commercial fishing and processing that happened outside the 3-mile limit.

Senator Bishop deferred to Mr. Peterson.

Mr. Peterson understood that these would be self-employed persons.

[9:46:32 AM](#)

Co-Chair Stedman thought not all would be self-employed. He wondered whether the fisheries workers would be held to the honor system.

Mr. Peterson replied that fish processors would be required to withhold \$30 from every employee's first paycheck. If they did not there would be a penalty imposed by DOR. Fishing vessels would be expected to self-remit. He deferred to the department on the issue of enforcement for self-employed individuals.

Mr. Spanos explained that self-employed individuals had to file a 1099 form with the IRS, which would also need to be filed with DOR. The department would expect a return to be filed with the self-employed person. If a return was not filed, the department would send a reminder letter in the mail. He shared that due to the low figure of the tax, there would not been an extreme pursuit for payment.

[9:49:54 AM](#)

Co-Chair Stedman thought that there was potential for leakage because many fishermen resided out-of-state.

Senator Bishop understood Co-Chair Stedman's point. He thought that the Division of Wage and Hour could speak before the committee about floating processors.

Senator Wielechowski asked whether teen-aged babysitters would need to submit something to DLWD.

Mr. Spanos replied that a person who was a babysitter was considered self-employed but would only need to file if they were making over \$600. The IRS did not require a person to file if they made under \$1300.

[9:52:48 AM](#)

Senator Wielechowski wondered whether unemployment benefits or workers compensation be considered benefits.

Mr. Spanos replied that they would be considered wages for federal tax purposes. He agreed to follow up with more information as the question pertained to the bill.

Co-Chair von Imhof discussed housekeeping.

SB 50 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

[9:54:16 AM](#)

The meeting was adjourned at 9:54 a.m.