

HOUSE FINANCE COMMITTEE
May 13, 2021
3:15 p.m.

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CALL TO ORDER

Co-Chair Merrick called the House Finance Committee meeting to order at 3:15 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Kelly Merrick, Co-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Bryce Edgmon
Representative DeLena Johnson
Representative Andy Josephson
Representative Bart LeBon
Representative Sara Rasmussen
Representative Steve Thompson
Representative Adam Wool

MEMBERS ABSENT

None

ALSO PRESENT

Representative Adam Wool, Sponsor; Ashley Carrick, Staff, Representative Wool; Neil Steininger, Director, Office of Management and Budget, Office of the Governor.

PRESENT VIA TELECONFERENCE

Rose Feliciano, Internet Association, Seattle, WA; Benjamin Palmer, Enterprise Holdings, California; Mark Ha, Self, Anchorage; Sean Vinck, Senior Counsel, Turo Inc., San Francisco, California; Carl Szabo, NET Choice, Washington, DC; Nicole Reynolds, Deputy Director, Tax Division, Department of Revenue; Jeffrey Schmitz, Director, DMV, Anchorage.

SUMMARY

HB 90 VEHICLE RENTALS & VEHICLE RENTAL NETWORKS

HB 90 was HEARD and HELD in committee for further consideration.

SB 55 EMPLOYER CONTRIBUTIONS TO PERS

SB 55 was REPORTED out of committee with a "do pass" recommendation and with

Co-Chair Merrick reviewed the agenda for the meeting.

#hb90

HOUSE BILL NO. 90

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

[3:15:58 PM](#)

REPRESENTATIVE ADAM WOOL, SPONSOR, introduced the bill. He reported that the bill endeavored to apply the same statewide vehicle rental tax that was currently in place for rental cars and apply it to peer to peer vehicle rental networks. Turo was only one of many peer to peer rental companies. He explained how a peer to peer rental worked. When a private individual wished to rent their car to another individual the person used a technology platform that listed your car on the internet via an app. The renter paid through the app and the vehicle owner received a share of the rental charge from the app company. The legislation added a tax to the rental charge. The person renting the car paid the tax. He described it as "a level playing field bill" that treated all rental companies the same. The Municipality of Anchorage recently passed a law adding vehicle rental network tax to its existing municipal vehicle rental tax of 8 percent. He added that the state rental tax was 10 percent. The bill would apply the same tax for the state. He indicated that the tax structure was like Airbnb. The Airbnb owner had to pay a bed tax to the municipality and the person renting the room had to pay the tax. He noted that there was no statewide bed tax. Someone ride sharing through Uber had to pay municipal sales tax that was passed on to the rider, the same as via taxicab. He reported that 29 states taxed vehicle rental networks.

He emphasized that Turo or other networks did not pay the tax, the person who rented the vehicle paid the tax. He spoke of friends he knew in Fairbanks who purchased multiple cars in order to rent them privately through Turo or other entities. The individuals were operating a small car rental outfit and making significant profits. He relayed that currently there was a rental car shortage and over half of the 14 Turo listings he observed in Anchorage were from owners listing multiple cars. He considered those scenarios businesses and believed that taxes should be paid. He emphasized that HB 90 created equity; since the state had a vehicle rental tax the state should have a statewide peer to peer rental tax.

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Representative Josephson noted Representative Wool stated there were 14 cars listed on Turo in Anchorage. He wondered how the state vehicle rental tax would increase by 10 to 30 percent with such a small selection of vehicles. Representative Wool indicated his statistics were based on a one day snapshot; a more thorough analysis was necessary. He elaborated that there had been a previous testifier who thought there were hundreds of cars listed on Turo in Alaska. Representative Josephson cited Anchorage's tax of 8 percent for vehicle rentals and the bill added 10 percent that made the total tax 18 percent. Representative Wool responded that currently the state vehicle rental tax was 10 percent and Anchorage was 8 percent. He calculated that currently a person who rented from a company such as Avis in the city of Anchorage was paying 18 percent in tax. However, the same individual currently renting from Turo in Anchorage only paid the 8 percent municipal tax. He noted that Wasilla had no vehicle rental tax, therefore, no taxes were paid.

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Representative Josephson stated that he "was in the happy position of being totally indifferent to the industry." However, he wondered what effect the bill would have on the network business model. Representative Wool hypothesized that if a vehicle was rented for \$100 HB 90 added \$10, the bill to the customer was \$110. He reiterated that the bill places private vehicle rentals on a more level playing field as traditional vehicle rentals. Ultimately, it made the rental rate equal. Representative Josephson indicated

he used Airbnb to save money. He thought the bill could discourage someone from renting from vehicle rental networks. Representative Wool argued that the Turo cars were likely rented at market rates, and he doubted that Turo cars were necessarily less expensive. He added that the model did not employ people and there were not the added expenses such as the traditional brick and mortar business. He guessed that the vehicle network user could absorb the 10 percent tax and lower the rate slightly. He supposed it was similar to Airbnb where some listings were cheaper than hotels and some were more expensive. He had not done a full analysis of the industry.

Co-Chair Merrick noted Representative LeBon had joined the meeting.

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Representative Rasmussen shared information she received from a vehicle rental network company. She relayed that "individual residents of Alaska choose to make their car available through a platform and these hosts pay all associated costs for the maintenance of their vehicle, the platform does provide liability when the vehicle is being shared." She thought that the big difference was that individual Alaskans were not AVIS or Hertz. She had heard from a constituent who used the platform that \$10 made all the difference in terms of buying diapers and baby food. She believed that "taking 10 percent" made a difference. She determined that the business model was different from that of rental car companies. Representative Wool reiterated that the customer paid the tax, not the mom purchasing diapers. He stressed that many people renting vehicles through the Turo app had multiple vehicles and were not mom and pop scenarios that used it to pay housing costs. In fact, in order to be on Turo, a person had to have a nice car, in good condition and many people purchased cars solely to lease through Turo. The tax would be the onus of the renter rather than the owner of the vehicle. He reminded Representative Rasmussen that Anchorage had already implemented an 8 percent tax on network rentals. Representative Rasmussen understood the renter ultimately paid the tax. She deemed that for the private folks to compete, it may mean that they had to lower the price due to the additional tax. She argued that it would be unfortunate if the legislature did not consider the unintended consequences.

Representative Wool voiced that several questions would be answered by the presentation. He suggested that a business model of a privately owned vehicle was less onerous than the business model of an established company with many expenses.

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Representative Thompson had some of the same concerns presented by Representative Rasmussen. He had received several calls concluding that the bill was a poor idea during the period of recovery [from the COVID 19 pandemic]. He thought the bill would presently hurt the economy and suggested it would be better to consider the bill next year.

Representative Carpenter understood the fairness argument. He thought the traditional vehicle rental car tax could be adjusted to the same rate as the network tax.

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ASHLEY CARRICK, STAFF, REPRESENTATIVE WOOL, introduced the PowerPoint presentation: "HB 90: Private Vehicle Rental Networks." She suggested that some of the slides would clarify some of the points brought up in the discussion. She began with slide 2: "Definitions:"

Vehicle Rental Business:

Traditional car rental OR Peer-to-Peer Rental
Examples: Alamo, Enterprise, Turo, Getaround,
etc.

Vehicle Rental Business:

Digital network including the applications,
software, or system offered by a vehicle rental
business Examples: The app used to rent through
Turo

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Ms. Carrick reviewed slide 3 titled "States Where DOR Have Determined Vehicle Rental Networks to Be Taxable." She delineated that the map portrayed the 16 States including Alaska that had a Department of Revenue which had

determined Vehicle Rental Network businesses were taxable. The Walker Administration had a position statement regarding the topic, but the Dunleavy Administration did not. The sponsor requested a legal opinion on whether the state's current vehicle rental tax could be applied to rental networks. She relayed that the opinion stated that the current statute was broad enough to apply to rental networks. However, the sponsor felt that the bill provided a more definitive statute. She reported that an ordinance in Anchorage had applied a tax on peer to peer car rentals that was 8 percent on both vehicle rentals and network rentals and added a new definition for a "hosting platform."

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Ms. Carrick continued to slide 4 titled "States Where Vehicle Rental Networks are Collecting Tax." The map depicted the 29 states currently applying rental taxes to vehicle rental networks. She reiterated that Alaska's current tax rates were 10 percent for vehicle rentals and 3 percent for Recreational Vehicles (RV). Historically, vehicle rental tax revenue was approximately \$10 million, which could increase 10 percent to 30 percent with the addition of vehicle rental networks. She explained that the 10 to 30 percent estimate was a rough estimate based on the number of network platform vehicle rentals available. She revealed that in 2018, the Department of Revenue (DOR) under the Walker Administration, filed a lawsuit against Turo because it refused to provide any information regarding the amount of business it conducted in the state or the vehicle owners who used to platform to collect the tax. Therefore, the tax estimate was rough. The state did not currently know how many people were renting through platforms and how much income they made in the state.

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Co-Chair Merrick noted Representative Edgmon had joined the meeting.

Ms. Carrick spoke to Slide 5 titled "Different Standards for The Same Model." She pointed out that traditional car rental and peer to peer networks had the same business model with different tax burdens and were not contributing to Alaska's economy similarly. She noted that networks rented vehicles and provided insurance protection. They

sold ancillary products such as GPS and child seats and both had app based technology. She reiterated that the tax applied to the person renting the vehicle. The business model aligned with other app-based industries such as Airbnb and Uber. All app-based companies employed a similar argument when voicing opposition to being taxed. However, peer to peer (P2P) networks were clearly operating in Alaska, despite having headquarters in other states and were profiting off Alaskans. Additionally, she obtained a legal opinion stating that the networks were liable to pay a vehicle rental tax.

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Representative LeBon offered a hypothetical situation where someone leased a vehicle to a bed and breakfast owner for a daily flat-rate. He asked if any tax applied to the scenario.

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Representative Wool stated that he was not a lawyer. He noted that state law indicated that if a person rented a vehicle for any reason, they were liable for the tax. He suggested that if a person was making money from someone else using a person's car it would be considered a rental business. He elucidated that the state had a similar problem with Uber; technically the users were liable for a tax, but it was difficult to find the users. The state requested the information from Uber who declined, so the only way to collect the tax was to tax Uber. He discussed the fairness issue. He reported that Airbnb was not exempt and paid a bed tax. Airbnb's were still less expensive than hotels and the Airbnb rental owners were able to pay the tax and remain solvent. He shared that he had many friends that rented out their home or cabin in Fairbanks, paid the bed tax and were still profitable. He added that many communities were taxing online sales and it "saved" several communities during the pandemic. Online shopping increased with people staying at home and the revenue gained with the online sales tax helped many local economies. He compared the vehicle network tax to the examples he provided and asserted that the tax was "not punishing anyone." He argued that whoever was renting their car and applied the state sales tax could remain in business.

Representative LeBon supposed that if the Bed and Breakfast included the vehicle use built into the business model, then tax would be collected indirectly through the bed tax on the vehicle.

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Representative Thompson was aware that the state's current car rental tax was adopted in the late 1980's and contained a provision that the revenues would be used to promote tourism. He wondered if the current legislation would do the same. Representative Wool responded that such a provision would be decided by the committee.

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Representative Josephson asked if DOR took a position on whether the vehicle rental networks should be taxed. Ms. Carrick answered that the current administration did not hold a position regarding taxing vehicle rental networks. She reiterated that the prior administration held the position that the networks should be taxed. She noted that the legislative legal opinion did indicate that companies like Turo should hold an Alaskan business license. Representative Josephson deduced that under the bill "the networks would have to essentially play ball" and "could no longer declare not knowing who their subscribers were." Ms. Carrick offered that HB 90 added clarity or "teeth to statute that already existed" that vehicle rental networks were obligated to pay the tax.

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Co-Chair Merrick OPENED public testimony.

ROSE FELICIANO, INTERNET ASSOCIATION, SEATTLE, WA (via teleconference), opposed HB 90. She shared that she represented over 40 of world's leading internet based companies. She voiced that peer to peer car sharing was a different business model from rental car companies. The platform did not own the vehicles and the cars were owned by individuals who used the platform. There were individuals who were able to purchase two cars to generate income. She was unsure why Representative Wool would want to impose a tax on a service that "bolstered tourism." She hoped peer to peer car rentals would help fill the gap left by the current car rental shortage. She opined that the

bill would make it impossible for "hosts" to offer cars and would "hurt tourism." She questioned some of the information in the sponsor's presentation. She relayed that if a state had a sales tax, the peer to peer platform charged a sales tax on every transaction. She felt disappointed that the peer to peer companies had not had the chance to provide input on the legislation.

Co-Chair Merrick deduced that if all the rental cars were taken, Turo would be a good second choice and due to the lack of rental cars the business would go to vehicle network rentals. Ms. Feliciano agreed with the statement. She added that traditional vehicle rentals had restrictions on use and peer to peer rentals did not.

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BENJAMIN PALMER, ENTERPRISE HOLDINGS, CALIFORNIA (via teleconference), spoke in support of the bill. He shared that the company was a privately held family owned company with the Enterprise/Alamo national brands and operated in Alaska since 1989. He voiced that HB 90 clarified that Alaska's rental car tax applied to rentals regardless of how they were rented. The tax was paid by the renter and was something all customers in Alaska should expect when renting a car. The legislation created a level playing field and ensured that the state's general fund would not lose income from network transactions.

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MARK HA, SELF, ANCHORAGE (via teleconference), testified against the bill. He was in the Airbnb business but was speaking on behalf of his friend who rented their cars privately through Turo to earn extra income. He suggested that rental companies had other opportunities to lower the costs of doing business including tax breaks. He viewed the bill as an opportunity for industry to take a few dollars "from a guy's back pocket."

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SEAN VINCK, SENIOR COUNSEL, TURO INC., SAN FRANCISCO, CALIFORNIA (via teleconference), spoke in opposition to HB 90. He listed 9 states that enacted statutes governing peer to peer car sharing but did not tax them. He relayed that there were states that applied a separate and lower tax

rate for peer to peer car sharing versus traditional car rentals. He emphasized they were 2 separate industries with "dramatically different business models." He also pointed out that the need for the legislation proved that the current vehicle rental tax statute did not apply to peer to peer rentals. He argued that rather than clarify statute, HB 90 promoted ambiguity and confusion because it failed to address a basic question regarding whether peer to peer rentals were the equivalent of a "multinational rental car company." He believed that the bill did nothing to provide clarification to his point.

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Representative Josephson asked Mr. Vinck about the taxes that did apply to peer to peer rentals in other states. Mr. Vinck maintained that the mentioned states enacted laws that exempted vehicle networks from rental taxes. However, many of the states applied sales and use taxes, but the tax under discussion was an industry specific tax. He characterized it as a "rental car excise tax." He stressed that his point was the states listed found it was not appropriate public policy to apply the exact same transactional tax as traditional car rentals.

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Representative Josephson commented that he cited the slide that stated that 29 states currently had a tax on vehicle rental networks.

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Representative Wool asked whether Turo had an active corporate business license in Alaska assuming Turo had clients in the state. Mr. Vinck answered in the negative. He added that Turo did not have "clients" but did have both "guest and hosts" that utilized the platform. Representative Wool acknowledged the difference in semantics and offered that what Turo called "sharing" a car was considered renting a car. He pointed out that if a person came to Alaska and found a car through the Turo App, paid money to rent the car, the car owner received some funds and Turo corporation received funds from the transaction that happened in Alaska. He reasoned that Turo should hold a business license in the state where it was making money. He asked if Mr. Vinck thought Turo should not

have a business license in the state where it was earning revenue. Mr. Vinck replied that the issue he was addressing was vehicle rental tax and did not answer the question.

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CARL SZABO, NET CHOICE, WASHINGTON, DC (via teleconference), spoke in opposition of HB 90. He argued that people were hurting because of Covid-19 and believed that "it was not the right time for any consideration of a new tax on the people of Anchorage." He stated that the state had a budget surplus. He offered that the slide stating 29 states had a tax on car sharing platforms like Turo was "not entirely accurate." He related that most of the states were applying an excise tax and not a rental tax. He stated that no state applied exactly the same tax to peer to peer car rentals as vehicle rentals. He voiced that rental car companies were not the same as car sharing. He indicated that Enterprise and Hertz owned hundreds of cars in many locations in the state and vehicle networks did not own any cars. He reiterated that the state earned \$10 million annually from rental cars. He stated that rental car companies enjoyed a \$1.9 million "windfall payback" on line 26 [page 3] of the bill, "vehicle licensing cost recovery fee". He indicated the fee applied to car rental companies but not to citizens when they share their cars. He wondered whether the tax would be applied retroactively if the bill was merely a clarification of statute. He opined that it was a new tax and believed that at present it was "wildly inappropriate."

Co-Chair Merrick clarified that a budget surplus was calculated before a Permanent Fund Dividend (PFD) was paid. Therefore, if the state paid a dividend in the current year the state would incur a deficit.

Representative Josephson was troubled when he heard Mr. Szabo state that "it was not the right time for a tax. He asked if Mr. Szabo had ever testified in favor of a tax. Mr. Szabo replied that typically he was not in favor of new taxes. He thought if the state was going to apply taxes fairly and equally it should not apply the same vehicle rental tax to peer to peer rentals. He did not believe the tax was fair.

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Co-Chair Merrick CLOSED public testimony.

Co-Chair Merrick indicated the committee would review the fiscal notes associated with the bill.

[4:05:25 PM](#)

NICOLE REYNOLDS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), relayed that the Department of Revenue (DOR) fiscal note [FN 2 (REV)] was indeterminate. She relayed that the division lacked enough reliable data to estimate the revenue impact of expanding the taxpayer base. The division expected that the bill would have a positive effect on revenue.

Co-Chair Merrick inquired whether the reason for not having enough information was due to the peer to peer vehicles not disclosing the information. Ms. Reynolds responded in the affirmative.

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JEFFREY SCHMITZ, DIRECTOR, DMV, ANCHORAGE (via teleconference), relayed that the Department of Administration (DOA) zero fiscal note had no financial impact for the Division of Motor Vehicles.

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Representative Wool understood the "pushback" from internet companies who wanted to keep the transactions cheaper than transactions in brick and mortar businesses. He shared that he had previously carried a different bill regarding Uber. He had received pushback on different aspects of the bill, yet it was adopted, and Uber operated in Alaska. He thought that taxis and Uber were not that different, nor were Airbnb or Hotels. He mentioned that the municipalities could presently tax for internet sales as well as traditional sales. He voiced that they all offered essentially the same services and the same standards should be applied. He felt the same way about rental cars and vehicle rental platforms. He reiterated that it was essentially the same service. He addressed the question whether it was a good time to apply a tax. He was unsure but noted that no one was talking about reducing the cruise ship head tax. He stated that presently the vehicle rental networks were liable for the tax, but the state had no way

to collect it. He believed the vehicle rental tax should be applied evenly across the board. He thought the peer to peer model was "great" and he would happily charge his customer an extra 10 percent tax for the state. He thought the revenue generation was beneficial.

Co-Chair Merrick indicated amendments were due by 6:00 pm on Saturday, May 15, 2021.

HB 90 was HEARD and HELD in committee for further consideration.

#sb55

SENATE BILL NO. 55

"An Act relating to employer contributions to the Public Employees' Retirement System of Alaska; and providing for an effective date."

[4:11:19 PM](#)

NEIL STEININGER, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, OFFICE OF THE GOVERNOR, thanked the committee for hearing the bill. He introduced the PowerPoint presentation: "SB 55 - Employer Contributions to PERS." began with slide 2 titled "HB75 -Employer Contributions to PERS:"

Removes cap on Public Employee Retirement System (PERS) payroll contributions made by the State of Alaska as an employer.

- Continues to fully fund the state's obligation to the PERS system.
- Applies only to the State of Alaska, does not impact other PERS employers.
- Does not impact Teachers Retirement System (TRS).
- Does not change retiree or active employee benefits.
- No change to employee contributions.
- Does not reduce employer contributions to PERS.
- Allows for full cost share with federal programs and other sources used to fund state programs, thereby

reducing general fund expenditures by \$25.7 million in FY22.

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Mr. Steininger provided a background of Alaska's retirement obligations on slide 3 titled "HB75 -Background: Alaska's Retirement Obligations:"

- The PERS unfunded liability was estimated to be \$4.6 billion in FY20.
- Current annual cost to pay down the unfunded liability is split between employer contributions and the state assistance payment, or "on-behalf" payment:
 - Employer contributions (22%) on employee salaries -mixed fund sources.
 - On-behalf payments for Municipalities and other PERS employers -100% UGF.
 - On-behalf payment for State of Alaska as an employer -100% UGF.
- This bill addresses the on-behalf payment for State of Alaska as an employer.

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Mr. Steininger continued to slide 4: "State of Alaska PERS On-Behalf Payments:"

In 2008, the legislature established a uniform rate for payroll contributions for all PERS employers -22%.

The State of Alaska is required to pay the difference between capped employer payroll contributions and the full actuarial liability (30.11% in FY22).

Called the state assistance or "on-behalf" payment.

For FY22, the total on-behalf payment to PERS is \$193.5m (UGF).

\$95.7m of that amount is made by the state on behalf of itself.

The remaining \$97.8m is made on behalf of 153 other active PERS employers.

He explained that the other active Public Employees' Retirement System (PERS) employers were municipalities and school districts throughout the state.

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Mr. Steininger reviewed slide 5 titled "HB 75 -State of Alaska as an Employer Retirement Obligation -Current Law." He explained that currently the state payroll contribution was 22 percent of payroll totaling \$246.3 million. The state made the \$95.8 million on-behalf payment with unrestricted general funds (UGF). The slide showed the breakdown in types of funding; Undesignated General Funds (UGF), Designated General Fund (DGF), Other, and Federal Receipts. He noted that the total retirement obligation was \$342.2 million, which \$202 million or 59 percent was comprised of UGF. He examined slide 6 titled "HB 75 -State of Alaska as an Employer Retirement Obligation - Proposed Law." He elucidated that by uncapping the 22 percent and allowing the full 30.11 percent to be charged to state payroll, the state still paid the full contribution, but the state could apply the 30.11 percent to the other fund sources. Consequently, eliminating the commiserate increases in UGF that was apparent on the prior slide. He pointed out that under the proposed law the total UGF was \$176.4 million or roughly 50 percent of the total \$349.8 million cost, which was a net reduction of \$25.7 million in UGF costs to meet the same obligation. He qualified that the \$25.7 million was only the savings realized in the first year. Savings would grow over time because as indirect charges were charged to federal programs the state had to provide justifications for the costs. The different programs were on different schedules for providing the information to the federal agencies on the way the state charged indirect costs to the programs. He added that some federal agencies would allow the change in the first year and some would take up to three years to implement the changes due to the way the state interacted with the federal agencies to justify the programs' costs. Some programs capped the amount charged to the grants and savings could not be realized in those cases. He relayed that OMB analyzed various federal programs that the state charged for payroll and found that the state could offset the costs with UGF to ensure the programs were not harmed

and still realized the \$25.7 million in savings. Over the next several years as state agencies renegotiated the cost allocation agreements with federal partners, the savings number will increase in the outyears.

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Representative Josephson wanted to make sure that if an agency received \$100 million in federal matching funds, the service would not be diminished because whatever the service was would become part of the PERS liability. Mr. Steininger replied that it was something that OMB worked on in the production of the fiscal note. He explained that if the fixed grant amount, such as the \$100 million example, could not be adjusted for changes in costs such as for PERS than the state would not be able to collect additional money from the federal grant. He furthered that as OMB calculated the fiscal note, it identified federal programs that had a fixed dollar value to ensure that OMB was not hampering the ability to perform the work under the grant. He delineated that as departments identified fixed dollar programs OMB adjusted the fiscal note down because the federal receipts could not be collected. Currently, the full amount of the costs was covered by UGF, so where the costs could not be covered UGF was used. The bill was necessary to capture additional federal revenues on grants that could be increased as costs increased.

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Representative Josephson ascertained that there had been a lost opportunity over the years and the bill was trying to capture the opportunity and benefit from it. Mr. Steininger agreed with the statement.

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Mr. Steininger continued to the spreadsheet on slide 7 titled "HB75: FY 2022 Budget Impact." He explained that the provisions shifted the \$100 million cost from the language section of the operating budget and moved it into the state personal services line. It would appear as a \$1 million increase in all funds to state agency payroll. He conveyed that it was not an actual increase, it was simply shifting a cost from one part of the budget to another. The slide depicted where the cost would apply in each agency. He could provide further detail by budget component or

program. He provided a handout in the bill file that provided more information regarding the offsets [titled "HB75 FY 2022 Budget Impact Handout A" (copy on file)].

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Representative Josephson looked at slide 7 on the Department of Commerce, Community and Economic Development (DCCED) line. He inquired whether professional licensing fees would increase. Mr. Steininger responded that it was an area in which fees would have to be revisited and possibly recalculated. It was one area that the department looked at to determine if the current fee collections could cover the related costs of the program without adjustment to the fee or what amount could be accommodated over time. He assured that the implementation of the change would not result in excessive changes to fees.

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Mr. Steininger advanced to the graph on slide 8 titled "Historical PERS Contribution Rates." The slide illustrated the on-behalf payment or actuarial rate of the state's PERS contribution. He elaborated that the on-behalf portion was the difference between the blue line at 22 percent and the orange line representing the actuarial rate. The bill was trying to address the difference between the two lines. He noted the variability in the rates and pointed out that at its peak the actuarial rate was 38.4 percent compared to the current 30.1 percent. The on-behalf payment rose and fell with the actuarial rate each year. If SB 55 was enacted, some of the variable amount would be moved into the personal service line of the state agency operating budget. He alerted the committee that in future years the committee would encounter salary adjustment change records to accommodate the variability. It would simply shift to agency operations versus the language section of the operating budget.

[4:28:08 PM](#)

Representative Wool asked about the on-behalf payment made by the state. He wondered if the bill would alter anything for the municipalities. Mr. Steininger answered in the negative. He indicated that OMB limited the focus of the bill to where there was a benefit to the state. He clarified that there was a benefit to the state but not to

the municipalities. Representative Wool thanked Mr. Steininger for the clarification.

[4:29:28 PM](#)

Co-Chair Merrick OPENED public testimony.

[4:29:36 PM](#)

Co-Chair Merrick CLOSED public testimony.

Co-Chair Merrick asked Mr. Steininger to address the fiscal notes.

Mr. Steininger indicated that the Department of Administration fiscal note [FN 5 (ADM)] was prepared by the Division of Retirement and Benefits. He explained that since the bill impacted the PERS system it was an actuarial fiscal note. He pointed to the additional \$200 thousand cost. He noted that in the current system, the state assistance payment was made in a lump sum at the beginning of the fiscal year. Moving it to the personal services line meant the payments would be made monthly with payroll. He expounded that there was a little bit of an investment loss by not having a lump sum payment applied at the beginning of the year; thus, the pension system earned slightly less. The \$200,000 cost was significantly less than the state GF savings.

[4:30:55 PM](#)

Mr. Steininger reported that fiscal note 4 [FN4 (State Retirement Payments)] FN 4 was prepared by OMB. He explained that it reflected the consolidation of many budget transactions in every place where there was a state employee in the budget. It was the aggregate of applying the 8.11 percent to get to the 30.11 percent costs for PERS contributions to state employee payroll. He noted the mix of fund sources and the distribution of the roughly \$100 million in costs in FY 2022.

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Mr. Steininger indicated that the fiscal note [FN 3 (State Retirement Payments)] was prepared by OMB and reflected the reduction to the language section of the operating budget

where the state assistance payment was made and was added back in fiscal note 4.

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Co-Chair Merrick thanked Mr. Steininger for finding the cost savings.

[4:32:32 PM](#)

AT EASE

[4:32:56 PM](#)

RECONVENED

Representative Rasmussen MOVED to report SB 55 out of Committee with individual recommendations and the accompanying fiscal notes.

There being NO OBJECTION, it was so ordered.

SB 55 was REPORTED out of committee with a "do pass" recommendation and with

Co-Chair Merrick reviewed the agenda for the following day.

#

ADJOURNMENT

[4:33:44 PM](#)

The meeting was adjourned at 4:33 p.m.