

HOUSE FINANCE COMMITTEE  
May 18, 2021  
9:06 a.m.

9:06:10 AM

CALL TO ORDER

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

MEMBERS PRESENT

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

MEMBERS ABSENT

Representative Bryce Edgmon

ALSO PRESENT

Representative Kreiss-Tompkins, Sponsor.

PRESENT VIA TELECONFERENCE

Denise Koch, Self, Juneau; Mike Coons, President, Association of Mature American Citizens, Palmer; Bert Houghtaling, Self, Big Lake; Chris Eichenlaub, Self, Wasilla; Marcy Sowers, Self, Wasilla; Tiffany Larson, Director, Division of Spill Prevention and Response, Department of Environmental Conservation, Fairbanks; Nicole Reynolds, Deputy Director, Tax Division, Department of Revenue; Jeffrey Schmitz, Director, Division of Motor Vehicles, Department of Revenue; Andy Mills, Special Assistant to the Commissioner, Department of Transportation and Public Facilities; Mike Coons, President, Association of Mature American Citizens, Palmer; Ian Laing, Executive

Director, Institute of the North; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Ruth Kostik, Administrative Services Director, Department of Environmental Conservation.

SUMMARY

HB 104 MOTOR FUEL TAX; VEHICLE REG. FEE

HB 104 was HEARD and HELD in committee for further consideration.

HJR 1 CONST AM: PERMANENT FUND; POMV; EARNINGS

HJR 1 was HEARD and HELD in committee for further consideration.

Co-Chair Merrick reviewed the agenda for the meeting.

#hb104

HOUSE BILL NO. 104

"An Act relating to vehicle registration and registration fees; relating to the motor fuel tax; and providing for an effective date."

[9:06:49 AM](#)

Co-Chair Merrick RE-OPENED public testimony.

[9:07:05 AM](#)

DENISE KOCH, SELF, JUNEAU (via teleconference), was the former director of the Division of Spill Prevention and Response (SPAR) within the Department of Environmental Conservation (DEC). She strongly supported HB 104. She urged members to pass the bill out immediately. She supported the entire bill but wanted to speak specifically to the refined fuel surcharge provision. It would increase the revenue for SPAR. She explained that SPAR was unique at DEC because the division did not receive undesignated general funds. Rather, it was a user fee program. The refined fuel surcharge was originally passed to provide SPAR with sustainable funding. Unfortunately, at the time, the Department of Revenue (DOR) underestimated collections and did not identify exclusions. She thought the effect of

passing HB 104 would be the facilitation of SPAR's original purpose.

Ms. Koch continued that SPAR had a serious revenue problem. However, it was not a result of uncontrolled spending. The Division of Spill Prevention and Response currently had the lowest amount of staff in over 25 years. She had worked at DEC over the course of many years within three different divisions. There had always been a pressure to stay lean. She recalled frequent conversations about streamlining and efficiencies. She agreed that it was good to apply a critical eye to a program making changes and cuts when needed. However, at the heart of the work of SPAR was its people. Since 2015 SPAR had eliminated 17 positions. She urged members to pass HB 104, a sustainable refined fuel surcharge bill which would help SPAR fulfill its mission.

[9:09:16 AM](#)

MIKE COONS, PRESIDENT, ASSOCIATION OF MATURE AMERICAN CITIZENS, PALMER (AMAC) (via teleconference), spoke in opposition to HB 104. He pointed to a letter sent to Speaker Stutes, Representative Tuck, and Representative Tilton opposing HB 104 from AMAC. The letter strongly opposed the motor fuel tax provisions of HB 104. Sections 5, 6, 7, and 8 contained the the fossil fuel tax increases. The letter indicated that the taxes were significant and punitive to Alaskans on fixed and limited incomes, such as seniors. He suggested that imposing more taxes at a time when the nation and Alaska were struggling to recover from the economic adversity resulting from Covid-19 was not a good idea. He relayed that such taxes would further hurt Alaska's economy. He also noted that energy taxes would increase the state and local government costs adding to the tax payer's burden. He reiterated noted many of the rising costs in the nation. He reiterated his opposition to the bill.

[9:11:37 AM](#)

BERT HOUGHTALING, SELF, BIG LAKE (via teleconference), strongly opposed HB 104. He spoke of Alaska's economy being decimated by Draconian lockdowns due to the COVID-19 pandemic. He reported many businesses losing everything. He suggested that folks such as himself put many miles on their vehicles and would see their bills increase by the thousands. If the bill were to pass, he would personally

experience a loss of more than \$1500 per year to cover the gap increase. He would be forced to pass the increase on to his customers. He queried the response by the trucking industry. He thought it was the wrong action at the wrong time. He suggested that legislators would not use the money raised by the tax for its intended purpose. He implored members to reject HB 104.

[9:13:44 AM](#)

Representative Josephson commented that his office had looked at the claims made by the testifier. The testifier would have to drive 180,000 miles per year consuming 18,000 gallons of fuel to have an increase in taxes of \$1500. He thought the testifier had overstated the issue.

Representative Carpenter requested an at ease.

[9:14:27 AM](#)

AT EASE

[9:16:19 AM](#)

RECONVENED

CHRIS EICHENLAUB, SELF, WASILLA (via teleconference), opposed HB 104. He agreed with the previous testifier. He noted in the prior year an exact match bill was offered and failed to pass. He recalled contacting his legislator to speak in opposition of the bill. At the time, the legislator did not support the bill. He hoped they would continue to oppose a motor fuel tax bill. He argued that Alaska paid the second highest gas prices in the nation. All he heard was that Alaska paid the lowest tax on motor fuel. He suggested that if Alaskans paid more in fuel prices, they should pay less in taxes. He thought it was easier to cut \$60 million from the budget, rather than putting the burden on Alaskans. The legislature was already taking their Permanent Fund Dividends (PFD) away.

[9:18:33 AM](#)

Representative Rasmussen asked how many miles he drove per year.

Mr. Eichenlaub was retired but sympathized with commuters. He estimated that a round trip from the Mat-Su to Anchorage was about 100 miles.

[9:19:21 AM](#)

MARCY SOWERS, SELF, WASILLA (via teleconference), opposed the motor fuel tax legislation. She mentioned the high price for fuel presently. She thought increasing the gas tax would compound financial issues due to the economic crisis the state was in. She opposed the bill. She asked members to support the voice of the people.

[9:21:29 AM](#)

Representative Rasmussen asked how many miles her husband drove per year.

Ms. Sowers was uncertain. However, she drove to Anchorage for medical appointments frequently. She did not want things more difficult for Alaskans.

[9:22:42 AM](#)

Co-Chair Merrick CLOSED public testimony.

Co-Chair Merrick asked Ms. Larson from the Department of Environmental Conservation (DEC) to review one of the two fiscal notes from the department (control code: ME00QH).

[9:23:21 AM](#)

TIFFANY LARSON, DIRECTOR, DIVISION OF SPILL PREVENTION AND RESPONSE, DEPARTMENT OF ENVIRONMENTAL CONSERVATION, FAIRBANKS (via teleconference), indicated DEC's fiscal note was zero.

[9:23:42 AM](#)

Co-Chair Merrick directed Ms. Reynolds from the Tax Division to review the department's fiscal note (control code: KLFPY).

[9:24:01 AM](#)

NICOLE REYNOLDS, DEPUTY DIRECTOR, TAX DIVISION, DEPARTMENT OF REVENUE (via teleconference), relayed the department estimated that the increase in the fuel surcharge would generate about \$1.5 million of new revenue in FY 22. The department estimated an increase in revenue of \$3.7 million

in FY 23. The amount of revenue would reduce to about \$3.4 million by FY 27. The surcharge revenue would be deposited into the unrestricted general fund. However, the proceeds would be set aside for the oil and hazardous substance release prevention account.

Ms. Reynolds continued that as for the tax and refund provisions of the bill, the department estimated for FY 22 there would be an increase in designated general fund revenues in the amount of \$12.2 million. In FY 23 the amount would increase to about \$31.35 million. By FY 27 the amount would reduce to approximately \$29.7 million.

[9:25:42 AM](#)

Representative Carpenter asked why the revenue was doubling between FY 22 and FY 23.

Ms. Reynolds explained that the bill had an effective date of January 1, 2022 which was halfway through the fiscal year. The numbers for FY 22 represented half of a fiscal year.

[9:26:35 AM](#)

Co-Chair Merrick asked Mr. Schmitz from the Division of Motor Vehicles to review the department's fiscal note (control code: JLZKL).

JEFFREY SCHMITZ, DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF REVENUE (via teleconference), explained that the fiscal note, related to section 3 of the bill, dealt with registration fees for electric vehicles. It reflected programming costs necessary to alter the DMV's system and anticipated revenues resulting from the increase in registration fees for electric vehicles.

Co-Chair Merrick asked Mr. Mills from the Department of Transportation and Public Facilities (DOT) to review the department's fiscal note (control code: RBASY).

[9:28:05 AM](#)

ANDY MILLS, SPECIAL ASSISTANT TO THE COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES (via teleconference), reported the fiscal note reflected a decline in motor fuel tax over several years that impacted

the two results delivery units (RDU's) within the department. He indicated the Highways, Aviation, and Facilities RDU had experienced a shortfall. Motor fuel tax constituted about one-fourth of the funding for the RDU that was further appropriated to the three regional highway and aviation components for DOT: Northern Region, Central Region, and South Coast Region. The receipts the department received for the Alaska Marine Highway System (AMHS) constituted about 3 percent of funding for AMHS. Receipts had declined over the years due to hybrid and electric vehicle promulgating on the streets. Also, in the prior year because of Covid-19 there were not as many cars on the road. There was approximately \$4.4 million less in FY 21 with an estimated shortfall in FY 22 of \$600,000. He pointed to the list on the bottom of the fiscal note showing what things might be accomplished with increased motor fuel tax receipts. The list was first seen in a slide presentation on the committee's first hearing of the bill.

[9:30:19 AM](#)

Co-Chair Merrick directed Ms. Kostik to review the department's fiscal note (control code: MEOQH).

RUTH KOSTIK, ADMINISTRATIVE SERVICES DIRECTOR, DEPARTMENT OF ENVIRONMENTAL CONSERVATION (via teleconference), reported that the fiscal note reflected the funds transfer of the refined fuel surcharge from the general fund into the prevention account of the oil and hazardous substance release prevention and response fund.

[9:31:00 AM](#)

AT EASE

[9:32:58 AM](#)

RECONVENED

Co-Chair Merrick relayed that she would provide an amendment deadline at the afternoon's meeting.

HB 104 was HEARD and HELD in committee for further consideration.

#hjr1

HOUSE JOINT RESOLUTION NO. 1

Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund and to appropriations from the Alaska permanent fund.

[9:33:13 AM](#)

Co-Chair Merrick OPENED public testimony.

MIKE COONS, PRESIDENT, ASSOCIATION OF MATURE AMERICAN CITIZENS, PALMER (via teleconference), spoke of people being frustrated with testifying, as constituents were not being heard. He spoke in support of SJR 6 but opposed HJR 1. He wanted to see the PFD off the table and out of legislators' hands. He reiterated his opposition to HJR 1. He thought the changes made to SJR 6 in the Senate Judiciary Committee strengthened the legislation.

[9:35:55 AM](#)

BERT HOUGHTALING, SELF, BIG LAKE (via teleconference), completely opposed HJR 1. He argued that the mineral rights belonged to the public. He believed the issue should be brought to a vote of the people to decide how the money would be spent in the future and the PFD payout. The legislation was an erosion of the security of a future PFD. The language in the bill suggested the legislature "might" pay a PFD, leaving the payout at the discretion of the legislature. He was against anything outside of a statutory PFD formula payout. He suggested looking at SJR 1 offered by Senator Wielechowski which would protect the PFD for future generations. He did not fully support SJR 6 but thought it was better than HJR 1. He did not support PFD-stealing bills. He wondered if legislators cared about the children of Alaska. He responded to the question asked earlier regarding HB 104 and how many miles he drove each year. He reported driving over 130,000 miles per year. Some years he drove over 200,000 miles. He did not believe legislators cared about what constituents had to say.

[9:38:22 AM](#)

CHRIS EICHENLAUB, SELF, WASILLA (via teleconference), was speaking for himself and his grandchildren. He strongly opposed HJR 1. His grandchildren were saving their PFD's so they could attend college. He urged members not to steal their PFDs and encouraged legislators to spend less money.

He would be happy to see the Permanent Fund grow significantly.

[9:40:01 AM](#)

Co-Chair Merrick CLOSED public testimony.

[9:40:17 AM](#)

IAN LAING, EXECUTIVE DIRECTOR, INSTITUTE OF THE NORTH (via teleconference), began his PowerPoint presentation of HJR 1 by relaying that the mission of the Institute of the North was centered on ensuring that Alaska did the most with the resources it shared. Fiscal policy would normally be an odd fit for the institute if there was not an eminent and real threat to the Permanent Fund (PF) at present. He quoted Governor Jay Hammond: "We've had dropped in our laps this monstrous golden goose egg. How we burnish it, how we tarnish it, or crack it right open, will leave a legacy for years to come." He brought the quote forward because the state had reached the moment in which it was deciding whether to crack the PF wide open. The decision would have long-lasting and irrevocable consequences for the state. He summarized his presentation by saying that in the opinion of the institute there was nothing more important to the future of the state than putting some form of the amendment on the ballot and before voters in 2022.

[9:41:57 AM](#)

Mr. Laing turned to slide 2: "Sustainable Use of the Permanent Fund." He pointed out that HJR 1 was good policy and good strategy. He also offered that prioritizing the amendment was the single best strategy for driving resolution of the larger fiscal challenge Alaska faced.

[9:42:25 AM](#)

Mr. Laing continued to slide 3 to discuss an old idea whose time had come. The idea of converting the PF to a simple endowment and limiting spending to a sustainable percent was an idea older than the sponsor of the bill. It was proposed by the people who created the fund immediately after the fund was created. There was no more thoroughly studied, consistently recommended, widely supported, but unimplemented piece of public policy in Alaska that he was aware of in public discourse currently. It had been the

consistent recommendation of the board of trustees for over 20 years. It had also been the fiscal conclusion of every fiscal planning commission that the state ever had. He noted that some form of the bill had been introduced almost 40 times over the years. The issue had always been recognized as the cornerstone of Alaska's future. However, the window was closing for the state to make the change before it started to incur the damage to the PF that had been speculated over the years.

[9:43:35 AM](#)

Mr. Laing reviewed Alaska's number one priority on slide 4. He relayed that the fiscal problem the state had struggled with the previous 7-8 years was still the largest nut to crack. The state had cut spending over the last many years by over 40 percent by eliminating the capital budget and trimming agency spending for most agencies to the lowest real level. Over the 7-8 years the state had spent its' non-PF savings. He wondered about the most likely outcome.

Mr. Laing moved to slide 5 to review the high level lessons the institute had learned. The first was that Alaska's fiscal politics were uniquely complex. Any other state would have a slight tension between government services and spending. However, Alaska's politics had been complicated by the addition of the dividend. Rather than having a binary debate, there was a more complicated dynamic to navigate. The approach the state had taken over the prior 7-8 years, to come to some grand bargain, had proved elusive. Without a solution, the state had defaulted to the path of least resistance - to spend savings. It was very difficult to see a different result given the same fundamental constraints. He suggested that as long as savings were available, they would be the resolution.

[9:46:06 AM](#)

Mr. Laing turned to slide 6 and asserted that, by default, spending down the PF was Alaska's fiscal plan. Although it was not an outcome that anyone wanted, it was the product of the current complicated dynamics. It was a tragedy of the commons as the state moved toward an outcome no one really wanted - Alaska did not have an effective vehicle for driving compromise. However, he believed the bill could be the vehicle for driving compromise.

[9:46:45 AM](#)

Mr. Laing reviewed slide 7: "Alaska is Now an Endowment State." He pointed out that one of the major changes Alaska had gone through in the past several years was that for the first time it started using the PF to support government spending. Alaska had effectively become an endowment state. Oil was no longer the main source of revenue. The state had moved from reliance on oil to 65 percent to 75 percent of its budget being supported by the PF. From a revenue perspective, it was a massive shift. Although Alaska was operating as an endowment state, it did not have the protections in place to ensure that the endowment functioned the way it needed to in the current environment.

[9:47:42 AM](#)

Mr. Laing flipped through slide 8 which showed the problems with the status quo.

Mr. Laing spoke about technical challenges on slide 9. He relayed that the PF had a bifurcated structure with a protected corpus and an earnings reserve available for appropriation. The structure was a product of political compromise. He asserted that the structure was outdated and did not work well in the current environment in which the state depended on the PF to support government spending. There were work-arounds in place such as the 3X and 4X rule in the Earnings Reserve Account (ERA). The provisions would allow the state to get by but assumed it would not overspend the PF. He thought it would be a difficult discipline to exercise moving forward.

Mr. Laing continued that in the prior year the Alaska Permanent Fund Corporation (APFC) conducted a study where they looked at what the chances would be, in the new environment where the state was depending on the PF to support government spending, unable to make its' statutory POMV draw at some point in the following 20 years. The corporation looked back over the last 100 years in 20-year increments. They suggested that if the PF performed over the following 20 years as it had over the previous 20-year increments and drawing down the ERA during the period would the state be unable to get money out. The conclusion that the study came to was that it would be a 50/50 chance. There was a 50 percent chance the state would bottom out the ERA in the following 20 years. The scenario also

assumed the state was properly inflation proofing even though it was not required. The lack of inflation proofing would radically impact the percentage of failure. The scenario also assumed the state did not overdraw from the fund - a distinct risk.

[9:49:49 AM](#)

Mr. Laing continued to slide 10: "Fiscal Prudence." He suggested the more obvious issue would be that a smaller fund would generate fewer earnings. With smaller earnings there would be more of a fiscal gap to have to cover in the future. He relayed that for every billion the state spent in the present, \$50 million in earnings would be lost in perpetuity. If the state had the \$17 billion it had spent over the previous 7 to 8 years, the \$17 billion would be making \$850 million in sustainable earnings every year. It could have covered the dividend and left the state without a problem. It was a reality the state would have to live with. Moving forward, the state would be looking at doubling down on the approach. Currently, there happened to be \$17 billion in the ERA. Projecting forward 5 or 6 years, if the state was still having the same discussion but had spent down the PF by \$17 billion, the gap would be \$850,000. The problem would not be any easier to fix. Rather, it would only become more necessary. The outcome for Alaska's economy would only be worse by the delay of addressing the issue.

[9:51:30 AM](#)

Mr. Laing reviewed the concept of a small fund having fewer earnings on slide 11. He suggested that with a larger gap the state could only make up the gap in a few ways: larger cuts to services; greater taxes than the state would have otherwise needed; or the elimination of dividends.

[9:51:53 AM](#)

Mr. Laing turned to slide 12: "An Asset for ALL Generations." He reported that what brought the Institute of the North into the discussion was the largest unrepresented constituency - future Alaskans. Although the state could overspend from the ERA, it was not the state's money to spend. The Permanent Fund was always envisioned as an asset for converting non-renewable resources into renewable wealth. It had done that very effectively.

Alaskans, through polling, overwhelmingly supported that the PF be used as an inheritance to be passed on to future generations. Since the legislature created the fund, the state had brought in approximately \$150 billion in revenues and spent about 87.5 percent of it on the needs of the day. The money had been used to build infrastructure and created a stable economy in many ways. However, the idea that the state would spend down 13.5 percent for future generations was not a legacy he wanted to leave. He skipped slide 13.

[9:53:19 AM](#)

Mr. Laing turned to slide 14 to discuss a strategy for addressing Alaska's fiscal challenge. The gap that the legislature was trying to address would eventually be closed. It would happen one way or another. The sooner it was addressed, the better off the state would be. Any deal that was brokered presently would be better than any deal that could be made at a later time when there was a smaller fund and fewer earnings. He suggested that the bill was as much a good policy as it was a good strategy.

Mr. Laing explained that when the legislature passed HJR 1 or any version of the amendment that protected the real value of the PF moving forward, it would give the state a deadline for the first time in the discussion. If the legislature put it on the ballot in 2022 and went into effect in 2023 or later, it would be the point after which the legislature would no longer allow unstructured draws from the PF. Until then the state could overdraw the fund to address the state's short-term challenges. The deadline would drive negotiations on how else the legislature would fill the gap. He thought it was very necessary to overcome the challenges of the debate. It would give legislators a few more years to figure things out providing a defined runway.

[9:55:07 AM](#)

Mr. Laing turned to slide 15 to talk about timing. The legislature only had the chance to put something on the ballot every two years. If the legislature missed the window failing to put something on the ballot in 2022, it would have to go on the ballot in 2024 and into effect in 2025. If it were the case, he would leave the committee with the question of what the chances were that the legislature would already start to overspend from the fund.

He asserted that for every year legislators failed to take action, they were compromising the future in very material ways. He urged members support and encouraged them to continue to work on a comprehensive solution. However, no matter what happened, legislators needed to get some form of HJR 1 on the ballot in 2022. It was the first step to a sustainable plan and the one piece that everybody agreed on.

Mr. Laing addressed slide 16. He relayed that changing the constitution required a high bar for a reason, as it meant amending the document that spoke to what constituted Alaskans. In the context of the PF, Alaskans had to ask themselves what they stood for. The question was whether Alaskans would act to protect the long-term interest of the state or pass the problem onto future generations. He suggested the question would be answered one way or another - whether through action or inaction. He appreciated the committee's consideration of the bill.

[9:57:32 AM](#)

Co-Chair Merrick invited Ms. Rodell to comment on the presentation or contribute any closing comments.

[9:57:50 AM](#)

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION (via teleconference), thought there was a lot for the committee to digest. She was happy to answer any questions.

[9:58:15 AM](#)

REPRESENTATIVE KREISS-TOMPKINS, SPONSOR, had a couple of comments. He thought Mr. Laing's analysis was very important for legislators to consider. He hoped there were a couple of consensus take-aways independent of the solution. First, all Alaskans lose the further down the path the state traveled. Second, the status quo structure was untenable. The 50 percent chance of a failure of the POMV draw, given the current bifurcated structure, should cause some budgetary existential angst. There were irrefutable structural problems that were highlighted in the presentation. He hope everyone could work together for a solution.

[9:59:46 AM](#)

Representative Wool referred to slide 13: "Protecting the Permanent Fund" He relayed the first three items on the list: protecting against higher taxes, protecting dividends, and protecting services. He thought that if the state wanted to have all of the services currently in place, a statutory dividend, and no taxes, the situation would be irreconcilable. He supported protecting the PF and HJR 1 in its current form. However, maintaining the three items he mentioned would be difficult to attain simultaneously.

Representative Kreiss-Tompkins responded that even though he agreed with Representative Wool mathematically speaking, the legislature would have to settle on a political solution that reconciled that there was an additional constituency and program that had a constituency representing each of the items he had highlighted.

[10:02:37 AM](#)

Representative Carpenter pointed out that the one thing missing from the briefing was any reference to economic activity. He thought increased activity would make the budget problem go away. He suggested that when the legislature was looking at future options and created a bubble or conversation that excluded economic growth, they were doing a disservice. He thought the legislature should be including economic growth in the conversation. It would change the dynamics of the conversation. Taxes would not necessarily be needed. His point was that the legislature could not exclude a growing state economy from the debate about taxes and spending.

Co-Chair Merrick set the bill aside and reviewed the agenda for the afternoon meeting.

HJR 1 was HEARD and HELD in committee for further consideration.

#  
ADJOURNMENT

[10:04:22 AM](#)

The meeting was adjourned at 10:04 a.m.