

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

Anchorage, Alaska

September 3, 2021

1:03 p.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool (via teleconference)
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman (via teleconference)

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE BILL NO. 3006

"An Act relating to a state sales and use tax; relating to sales and use taxes levied by municipalities; authorizing the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

- HEARD & HELD

OVERVIEW: REVENUE OPTIONS

- HEARD

PREVIOUS COMMITTEE ACTION

BILL: HB3006

SHORT TITLE: STATE SALES AND USE TAX

SPONSOR(S): REPRESENTATIVE(S) TARR

08/30/21	(H)	READ THE FIRST TIME - REFERRALS
08/30/21	(H)	W&M, STA, FIN
09/03/21	(H)	W&M AT 1:00 PM ANCH LIO DENALI Rm

WITNESS REGISTER

REPRESENTATIVE GERAN TARR

Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, presented HB 3006.

DAVID SONG, Staff
Representative Geran Tarr
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 3006, read the sectional analysis on behalf of Representative Tarr, prime sponsor.

BRIAN FECHTER, Deputy Commissioner
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Revenue Options Discussion," dated 9/3/21.

NICOLE REYNOLDS, Deputy Director
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Revenue Options Discussion," dated 9/3/21.

DAN STICKEL, Chief Economist
Tax Division
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Revenue Options Discussion," dated 9/3/21.

COLLEEN GLOVER, Director
Tax Division
Department of Revenue
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "Revenue Options Discussion," dated 9/3/21.

ACTION NARRATIVE

[1:03:28 PM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 1:03 p.m. Representatives Schrage, Prax (via teleconference), Josephson, and Spohnholz were present at the call to order. Representatives Wool (via

teleconference), Eastman (via teleconference), and Story arrived as the meeting was in progress.

HB 3006-STATE SALES AND USE TAX

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CHAIR SPOHNHOLZ announced that the first order of business would be HOUSE BILL NO. 3006, "An Act relating to a state sales and use tax; relating to sales and use taxes levied by municipalities; authorizing the Department of Revenue to enter into the Streamlined Sales and Use Tax Agreement; and providing for an effective date."

[1:04:33 PM](#)

REPRESENTATIVE GERAN TARR, Alaska State Legislature, as prime sponsor, presented HB 3006 [hard copy of presentation included in the committee packet]. She gave a brief history of the bill's inception, emphasizing her willingness to see it modified and the importance of having the support of both bodies, as well as the governor. She talked about "spreading the burden among all who benefit from public services" and indicated an acceptance of the idea to establish a sales tax. She noted the burden on Alaska's small population to pay for all goods and services. She said 20 percent of the state's workforce is from out of state, and 2.26 million visitors come to Alaska. She said Alaskans who travel outside the state pay taxes to those locales, and she opined that visitors to Alaska should do the same.

[1:06:58 PM](#)

REPRESENTATIVE TARR advised that in coming up with a plan to raise revenue, two questions to ask are how much revenue could be raised by any single proposal and how soon that revenue could come to the state. One benefit of the proposal under HB 3006, she said, is that it can be implemented sooner. With an effective date of July 1, 2022, for Fiscal Year 2022 (FY 22), that would happen faster than an income tax, which is based on a calendar year. Pointing to a chart, labeled "Who pays, how soon," she listed payers as Alaskans, out-of-state workers, tourists, and businesses/oil companies, and she said it is likely that everyone would contribute to state services [through a sales tax]. She said that is not likely to be true with the other revenue sources [being considered]. She questioned what

the public's reaction would be to multiple revenue source proposals being introduced at one time.

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REPRESENTATIVE TARR turned to consideration of exemptions, shown on the next two pages of the presentation. Basic essentials would be exempted from sales tax, including groceries, medical expenses, child care services, and feminine care products. She mentioned deductions that must be included, and she indicated those have to do with the state not being allowed to tax the federal government or tribes. Other deductions to be considered may include financial services and non-profit agencies.

REPRESENTATIVE TARR talked about management and said HB 3006 envisions a streamlined approach for general sales and use tax; the bill has provisions to allow municipalities and boroughs the ability to levy tax, and the state would collect the tax and distribute it back to those local governments. She indicated that the exemptions previously mentioned would also become exemptions at the local level. She said her staff would offer a sectional analysis of HB 3006. She said it would include Title 28, regarding motor vehicles; Title 29, regarding municipal government; and Title 43, regarding revenue and taxation.

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REPRESENTATIVE TARR spoke about the beginnings of her efforts toward HB 3006 and other legislation addressing the issue of revenue. She spoke of issues that effect the economy. She addressed the impact of the proposed legislation, which would be a 2 percent general sales and use tax. She said those in the lower economic income brackets would "come out ahead" under the proposed legislation, while those on the higher end, who may not consider their permanent fund dividend (PFD) as necessary income, could view their PFD as a way to pay the higher sales tax on expensive purchases, such as a new vehicle. She called this a "win-win" situation.

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REPRESENTATIVE TARR offered ideas for further consideration, such as including exemptions for diapers and other supplies for children, which she noted could be included under the food definition if it were amended. She said some have questioned the necessity of state management. She explained that [HB 3006]

was based off a draft former Governor Bill Walker had created in 2015. Since then an online sales tax has been implemented, and municipalities have had to track the online sales tax, in addition to their own local taxes. She pointed out that because there is software "that helps delineate all of that," so it could be that state management is not necessary. She talked about splitting the collection of taxes between municipalities and the state so that municipalities can maintain their sales tax and not lose revenue. She related another conversation has been held regarding 501(c) organizations and the idea of allowing exemptions for volunteer fire departments, organizations for veterans, and chambers of commerce, for example. In conclusion, Representative Tarr acknowledged that HB 3006 may require numerous hearings to hone.

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REPRESENTATIVE TARR, in response to Representative Prax, stated that the Department of Revenue has figured that a fully implemented sales tax would garner the state approximately \$300 million per year.

REPRESENTATIVE PRAX asked if the bill sponsor had considered that people might buy more expensive items from states without sales tax.

REPRESENTATIVE TARR talked about the proximity of states with no sales tax to Alaska. Oregon has income tax, but no sales tax; the other states [with no sales tax] are Delaware, Montana, and New Hampshire. She suggested it may end up being more costly for someone to buy a vehicle, for example, in one of those states and then have to pay to ship it to Alaska. She acknowledged that Alaskans used to buy items in Washington; however, the policy that allowed non-residents to forgo paying the State of Washington's sales tax was eliminated. She suggested the proposed sales tax for Alaska could include a cap.

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REPRESENTATIVE PRAX opined that those factors need to be considered when addressing HB 3006.

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CHAIR SPOHNHOLZ asked David Song to give the sectional analysis for HB 3006.

[1:32:16 PM](#)

DAVID SONG, Staff, Representative Geran Tarr, on behalf of Representative Tarr, prime sponsor of HB 3006, read the six-page sectional analysis for the record [hard copy available in the committee packet].

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CHAIR SPOHNHOLZ announced that HB 3006 was held over.

OVERVIEW: Revenue Options

[1:55:26 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be an overview of Revenue Options.

[1:56:14 PM](#)

BRIAN FECHTER, Deputy Commissioner, Department of Revenue, co-provided a PowerPoint presentation, titled "Revenue Options Discussion," dated 9/3/21. As shown on slide 2, he said he would define the problem, mention revenue options proposed through legislation, and discuss other revenue options. As shown on slide 3, he said that with a 50/50 permanent fund dividend (PFD), there will be a deficit of \$1 billion. He said he has heard that any sort of robust PFD will result in a \$1 billion deficit "forever into the future," which he said is "not quite true." He pointed to an additional \$3 million dollars in fiscal year 2023 (FY 23). He said, "The real target is really in the order of \$5 million - revenues or reductions."

[1:57:23 PM](#)

NICOLE REYNOLDS, Deputy Director, Tax Division, Department of Revenue, continued with the PowerPoint, bringing focus to slide 4, entitled "Revenue Options In Brief: Legislature Consideration," which shows a breakdown of each piece of legislation discussed in more detail in upcoming slides.

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CHAIR SPOHNHOLZ noted that the department had not included an analysis of any of the income taxes that were introduced this year, and she asked that the presenters address that point.

[1:58:01 PM](#)

MR. FECHTER said the governor had set "borders" related to fiscal solutions: no income tax; no less than a 50 percent PFD; and contemplation of a spending cap. In response to a follow-up question, he said the department could return at a later date [to address questions about income tax proposals].

[1:58:55 PM](#)

REPRESENTATIVE JOSEPHSON asked for confirmation of his understanding that the governor would support a sales tax, with a vote of the people, but he would veto an income tax.

MR. FECHTER spoke of constitutional amendments and the requirement of any future broad-based taxes to get voter approval. He indicated a sales tax would pass the legislature prior to getting to the ballot. He said, "As long as it's part of a full fiscal solution that includes the three borders that I mentioned earlier, ... it is likely that he would let that go through."

CHAIR SPOHNHOLZ reminded committee members that they had heard from Alexei Painter, Director of the Division of Legislative Finance, regarding the PFD and the governor's proposal for a 50/50 formula, and she related it to the \$500 million number referenced by Mr. Fechter.

[2:01:28 PM](#)

MS. REYNOLDS returned to the presentation and noted that slide 5 shows other revenue options. Slide 6, "Revenue Options for Consideration," shows the current legislative proposals for revenue sources, which are: SB 106, HB 130, HB 104, HB 110, HB 3006, HB 3007, and SB 13. [The ensuing slides detail each proposal.] She covered Slides 7 and 8, options "A" and "B," regarding SB 106 and HB 130, respectively, which read as follows [original punctuation provided, with some formatting changes]:

A: Pass-Through Oil and Gas Tax Revisions (SB 106 - Sen Wielechowski)

Description: This bill extends Alaska's existing corporate income tax for oil and gas corporations to apply to pass-through entities with qualified taxable income over \$4 million that are engaged in oil and gas exploration or production in Alaska. For purposes of

this bill, a passthrough entity is a sole proprietorship, partnership, and S-Corporation, but the definition does not include LLCs with a single owner that are treated for federal income tax purposes as disregarded entities. The bill defines "qualified taxable income" to mean income from the production of oil or gas from a lease or property in the state or from the transportation of oil or gas by pipeline in the state.

First Full Year Impact: \$46.0 million in FY 2023 This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of \$0.8 million.

B: Corporate Income Tax Revisions (HB 130 - Rep Wool)

Description: This bill makes several revisions to the State's current corporate income tax (CIT):

1. It expands the existing corporate income tax to all oil and gas producers doing business here. Currently, only "C" corporations pay this tax on their Alaska net income.

2. As part of the CARES Act, corporations were permitted to carryback any 2018-2020 tax year losses to a prior tax year via an amended tax return. This bill decouples the state CIT from that federal provision.

3. The bill also includes several other modifications to the CIT provisions: modifies federal tax credits, eliminates the 80% deduction, and repeals stranded gas development provisions.

First Full Year Impact: \$141.7 million in FY 2022

The first-year impact is primarily from the CARES Act change. The FY 2023 revenue impact is \$32.6 million. This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of \$0.9 million.

[2:06:11 PM](#)

MS. REYNOLDS, in response to Representative Josephson, offered her understanding of the distinction between "worldwide" reporting and "water's edge combined reporting."

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MS. REYNOLDS next covered slides 9 and 10, options "C" and "D," regarding HB 104 and HB 110, respectively, which read as follows [original punctuation provided, with some formatting changes]:

C: Motor Fuel Tax (HB 104 - Rep Josephson)

Description: A tax is levied on purchases of highway and marine diesel and gasoline, aviation gas, and jet fuel. Tax rates are as follows: Highway = \$0.08/gal, Marine = \$0.05/gal, Aviation = \$0.047/gal, Jet Fuel = \$0.032/gal. Certain refined fuel sales are also subject to a \$0.0095/gal Surcharge.

This bill doubles the tax rates for highway and marine fuel only. It does not increase the rates for aviation or jet fuel. This option also increases the fuel surcharge to \$0.015/gal.

First Full Year Impact: \$35.8 million in FY 2023 This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are no incremental costs to implement this change.

D: E-Cigarette Tax (HB 110 - Rep Hannan)

Description: This is a parity tax bill making any vapor product, component, or solution used in electronic cigarettes subject to the excise tax on tobacco products. This change would only apply to solutions containing nicotine. Currently, these products do not fall under the definition of tobacco products and are not subject to tax at the state level.

First Full Year Impact: \$2.4 million in FY 2023 This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are no incremental costs to implement this change.

[2:10:09 PM](#)

DAN STICKEL, Chief Economist, Tax Division, Department of Revenue, showed slide 11, option "E," regarding HB 3006, which read as follows [original punctuation provided, with some formatting changes]:

E: Sales Tax (HB 3006 - Rep Tarr)

Description: This bill implements a 2% statewide sales tax. Notable exemptions include: Groceries, financial services, goods for resale, real property, aviation fuel, healthcare services, pharmaceuticals, and childcare. The bill envisions the Department collecting both the state sales tax and the sales tax for the 140+ sales taxes levied locally and remitting the funds back to those municipalities. The tax base in this bill is considered to be a "mid base" tax base.

First Full Year Impact: \$300 million in FY 2023 This estimate does not account for changes in behavior as a result of a tax rate change.

Costs: There are one-time programming costs of \$6 million. The Department would need 74 new positions at a cost about \$8.5 million per year.

MR. STICKEL, referring to the prior question about people buying expensive items outside of Alaska [to avoid paying sales tax], pointed out that HB 3006 proposes a sales and use tax. A person buying a car out of state and bringing it to Alaska would pay a use tax.

[2:12:08 PM](#)

COLLEEN GLOVER, Director, Tax Division, Department of Revenue, addressed slide 12, option "F," regarding HB 3007, which read as follows [original punctuation provided, with some formatting changes]:

F: Reduce Sliding Scale per Barrel Credit from \$8.00 to \$4.00 (HB 3007 - Ways and Means)

Description: This bill changes the maximum the sliding scale per barrel credit in AS 43.55.024(j) depending on Alaska North Slope (ANS) oil prices. This tax credit is available for "legacy" oil produced on the North Slope. This bill reduces the amount of the tax credit for each taxable barrel of oil from \$8 to \$4 when the average gross value at the point of production for the month is less than \$80 a barrel. The bill scales down the tax credit amount when the average gross value at the point of production for a month is \$80 or more. Under the bill, the amount of the tax credit for a taxable barrel of oil would be

zero if the average gross value at the point of production for the month is \$110 or more.

First Full Year Impact: \$174.0 million in FY 2023

Costs: There are no incremental costs to implement this change.

MS. GLOVER noted that HB 3007 would not change the flat per barrel credit.

MS. GLOVER next addressed Slide 13, option "G," regarding SB 13, which read as follows [original punctuation provided, with some formatting changes]:

G: Petroleum Property Tax (SB 13 - BEGICH)

Description: The state levies a tax at a rate of 20 mills (2%) of the assessed value. The tax paid to a municipality on oil and gas property acts as a credit toward the payment to the state, reducing state revenue by the tax levied in those municipalities. This bill increases the tax by 10 mills (1%) but does not allow the additional tax to be used as a credit for municipalities. This tax would reduce Corporate Income tax as well as Oil and Gas Production Tax because property tax payments are a deductible expenditure for those tax types.

First Full Year Impact: \$272.1 million in FY 2022 (Designated to specific purposes) Using the Spring ANS price forecast, the estimate is that this could increase production [sic] tax revenue by \$228 to \$272 million per year from FY 2022 to FY 2027. The range is due to forecasted changes in production, oil prices, and anticipated company spending during this period.

Costs: There are no incremental costs to implement this change.

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REPRESENTATIVE JOSEPHSON suggested that in the second paragraph, the word "production" was a typographical error and should read "property."

MS. GLOVER confirmed the word should be "property." She added that property tax is "a deduction against oil and gas production tax," a lease expenditure, and a deductible against corporate income tax, and it can impact the royalty revenue.

[2:16:18 PM](#)

MS. GLOVER, in response to Representative Prax, confirmed that the \$272 million is the incremental increase to the state. She added that "it shows it's designated," so under SB 13, the revenues are set between a higher education fund, the Alaska capital fund, and shared with local governments to offset personal property tax exemptions required by the state.

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CHAIR SPOHNHOLZ sought to confirm that Ms. Glover was saying that the petroleum property tax is deductible from corporate income taxes and petroleum production taxes, and that the revenue estimate of \$22.1 million "is net of those impacts."

MS. GLOVER answered that's correct. She added that they are designated funds, not undesignated general funds (UGF).

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MS. REYNOLDS drew attention to slide 14, "Other Revenue Options," which lists the options as follows [original punctuation provided]:

Revenue Options

- A. Modernize Corporation Income Tax (CIT) statutes to better reflect business activity of highly digitized businesses
- B. Require Oil & Gas pass-through entities to pay CIT
- C. Generate revenues/Reduce Expenses by monetizing our carbon offsets
- D. Implement a 2% broad-based sales tax
- E. Modify maximum sliding scale per barrel credit from \$8.00 to \$5.00.
- F. Establish legalized gambling in our State: Internet gaming, sports betting, lottery, and casinos
- G. Use of Federal Funds for revenue replacement
- H. Draw from the ERA as a Bridge/Transition fund

MS. REYNOLDS addressed item "A" on slide 14, by discussing the details of the "Digital Business Corporate Income Tax" on slide 15, which read as follows [original punctuation provided, with some formatting changes]:

A: Digital Business Corporate Income Tax

Description: The digital revolution has changed our economic reality. This option is to modernize the Corporate Income Tax (CIT) statutes by adding a new apportionment methodology that is specific to e-commerce. The new apportionment methodology is intended to incorporate all types of e-commerce to include revenues generated from on-line purchases, TV streaming, online advertising, consumer data sales, music, video, software as a service, app purchases, etc. An apportionment methodology that is based on a single factor: US sales apportioned to Alaska based on Alaska sales will capture these lost revenues.

New Revenue Estimation: The preliminary estimate is that this could generate \$70 to \$90 million of annual revenues to the State.

Costs: Implementation costs have not been evaluated yet and are considered TBD. The system will need to be updated and will likely require one additional auditor to educate taxpayers.

MS. REYNOLDS noted that this is not a new approach; currently oil and gas tax payers use a modified apportionment formula, as do other transportation carriers, such as water carriers and airlines. The formula reflects a company's business activities and how it earns income in a state. The approach creates parity between brick and mortar businesses and "those businesses doing significant economic activity in Alaska without those brick and mortar stores in Alaska."

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REPRESENTATIVE JOSEPHSON asked whether Alaska was lagging "in capturing this revenue" compared to other states.

MS. REYNOLDS answered that Alaska is in need of updating its corporate income tax statutes. There is a multi-state compact Alaska is a part of, and it has been suggested to Alaska that it update its statutes. This option would provide the opportunity for the state to adopt some of the recommendations and update statute.

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REPRESENTATIVE PRAX sought clarification as to whether this option was in the proposal stage or whether the administration had some legislation "close to being prepared."

[2:22:03 PM](#)

MR. FECHTER answered that research and legislation is in development, and he offered to meet with Representative Prax to discuss this further.

CHAIR SPOHNHOLZ spoke about parity between local businesses and large conglomerates. She asked whether there is legislation recommended by the multi-state compact that could be referenced.

MR. FECHTER answered that this is a relatively new thing, with perhaps "a dozen and a half states" that are "somewhere in the legislative process contemplating things." He said Alaska would be "at least a little bit on the cutting edge" if it were to pass such a compact.

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MS. REYNOLDS, in response to a follow-up question from Chair Spohnholz, clarified that Alaska already has a corporate income tax; this option being discussed would modernize the state's existing tax rather than creating a new one.

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MS. REYNOLDS returned to the PowerPoint, to slide 16, which read as follows [original punctuation provided, with some formatting changes]:

B: Expand Corporate Income Tax to Oil and Gas Pass-through Entities

Description: This option proposes to tax oil and gas pass-through entities at the same rate as the current Corporate Income Tax on C-Corporations. This option defines "entities" to mean partnerships, S-Corporations, LLCs with a single owner that is treated as a disregarded entity, and other unincorporated entities. This option would apply to any business who files a return, claim for credit or report under AS 43.55 (oil and gas production tax).

First Full Year Impact: \$43 million in FY 2022 (Spring Forecast) Using our July 2021 ANS price update as the basis, the estimate is that this could increase corporate income revenue by \$47 to \$61 million per year from FY 2022 to FY 2030. The FY 2022 estimate includes retroactive application to 1/1/2021. The

range is due to forecasted changes in production, oil prices, and anticipated company profitability this period.

Costs: There are one-time programming costs of \$0.8 million.

MS. REYNOLDS noted there are different ways to define "entity" and "oil and gas entity."

[2:25:59 PM](#)

MR. STICKEL brought the committee's attention to slide 17, which read as follows [original punctuation provided, with some formatting changes]:

C: Carbon Offset Revenue Generation

Description: A newly emerging revenue opportunity is a Carbon Offset Program. This can be related to cap-and-trade systems in other jurisdictions, or to company or individual voluntary carbon reductions. Under this proposal, Alaska would place select SOA lands, i.e., forest land, into a carbon offset program in lieu of development and receive revenue from companies or individuals in exchange for associated carbon offset credits. Tax credit certificate holders will have an option to exchange the value of certificates for carbon offsets and can manage monetization of the offsets anywhere in the world.

New Revenue Estimation: The very preliminary estimate is that this could generate \$1.3 to \$25 million of annual revenues to the State. DOR and DNR are currently evaluating the details of the program that include lands, inventory of carbon offset, value of the carbon and the amount of Alaska carbon offsets the global market can absorb.

Costs: Implementation and annual administration costs have not been evaluated yet and are considered TBD.

MR. STICKEL said an alternate plan would be for Alaska to do a one-time sale for a larger amount.

[2:28:13 PM](#)

MR. FECHTER added that another item that the department contemplated was "to use these carbon offsets to redeem the outstanding oil and gas tax credit certificates"; the producers

would exchange the right to receive cash for the right to receive carbon offsets, which they could then use in other jurisdictions to satisfy their tax.

CHAIR SPOHNHOLZ remarked on the creativeness of being able to harmonize the state's other policy objectives with a way to "monetize those assets."

[2:29:39 PM](#)

MR. STICKEL turned attention to slide 18, which read as follows [original punctuation provided, with some formatting changes]:

C: Carbon Offset Revenue Generation

Benefits of Carbon Offset Revenue Program

A. Enables select Alaska lands to be placed into global registry programs where carbon offsets can be monetized and generate revenues

B. Establishes a program that enables the SOA to communicate responsible development and management of our lands to public, especially banks that prohibit investment in Alaska Arctic oil and gas projects.

C. Provides a carbon offset valuation of oil/gas tax certificates that positions holders of the credits to obtain the offset value instead of payment of SOA liability. Holders may then monetize in a manner that meets its ESG policies, offsets carbon taxes that may be required in other jurisdictions, or offsets to be carbon neutral.

[2:30:34 PM](#)

MR. STICKEL transitioned back to sales tax, on slide 19, which read as follows [original punctuation provided, with some formatting changes]:

D: State Sales Tax (styled on South Dakota Sales & Use Tax)

Description: A tax on purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the South Dakota Sales & Use Tax. This is a very broad-based tax that extends to a wide range of services and business inputs. There are few exemptions, which includes prescriptions and medical equipment.

First Full Year Impact: \$320 million per 1% levied in FY 2023

Costs: There are one-time programming costs of \$6 million. The Department would need 74 new positions at a cost about \$8.5 million per year.

MR. STICKEL explained that a benefit of having a broader tax base is having more revenue with a lower tax rate. He said South Dakota has one of the broadest tax bases.

MR. STICKEL, in response to Chair Spohnholz, said he thinks South Dakota does not have a cap on its tax, but he said he would follow up with an answer.

[2:32:49 PM](#)

MR. STICKEL moved on to slide 20, which read as follows [original punctuation provided, with some formatting changes]:

D: State Sales Tax (styled on Wyoming Sales & Use Tax)

Description: A tax on the purchase price on the sales of goods and services to consumers and businesses, taxing a range of activities similar to that of the Wyoming Sales & Use Tax. This is a broad-based tax that extends to many, but not all, services and business purchases. Exemptions include groceries, prescriptions, and medical equipment

First Full Year Impact: \$150 million per 1% Levied in FY 2023

Costs: There are one-time programming costs of \$6 million. The Department would need 74 new positions at a cost about \$8.5 million per year.

MR. STICKEL brought attention to Slide 21, which compares exemptions between South Dakota and Wyoming. Both states have broad-based taxes for individual purchases, with exemptions for prescription drugs, medical equipment, and big business purchases for resale. He noted that the main difference is that Wyoming exempts groceries, business to business services, and some oil field services, such as drilling costs and exploration services completed prior to setting up production.

[2:35:26 PM](#)

REPRESENTATIVE STORY expressed concern about taxing groceries due to increased prices and sought clarification on the

difference between taxable and non-taxed food purchases at grocery stores.

[2:37:18 PM](#)

REPRESENTATIVE SCHRAGE talked about accountability built into income tax and the higher likelihood of tax evasion with sales tax reporting, and he asked for comments on the subject.

[2:38:22 PM](#)

MR. FECHTER said income tax is on anyone who makes money working, while sales tax is only on businesses that are collecting the tax on a sale. He said he does not have a lot of information on how sales tax structures impact [tax evasion], but admitted that sales tax is frequently evaded to some extent, for example, when someone buys an appliance in another state and does not fill out a report to that effect. In response to a follow-up response, he said he would have to research to find out which form of taxing has a higher evasion rate.

[2:39:56 PM](#)

CHAIR SPOHNHOLZ talked about the many Alaskans that could be paying sales tax while that money gets funneled through the business owners, who have expressed not wanting the burden of becoming tax collectors.

[2:41:40 PM](#)

MS. GLOVER directed attention to slide 22, which read as follows [original punctuation provided, with some formatting changes]:

E: Reduce Sliding Scale per Barrel Tax Credit from \$8.00 to \$5.00

Description: This option enables an adjustment to the production tax value for the sliding scale per barrel credit in AS 43.55.024(j). This credit ranges from \$0 to \$8 per barrel depending on Alaska North Slope (ANS) oil prices. This tax credit is available for "legacy" oil produced on the North Slope. The option reduces the amount of the tax credit for each taxable barrel of oil from \$8 to \$5 when the average gross value at the point of production for the month is less than \$80 a barrel. The bill scales down the tax credit amount when the average gross value at the point of

production for a month is \$80 or more. Under the bill, the amount of the tax credit for a taxable barrel of oil would be zero if the average gross value at the point of production for the month is \$120 or more.

First Full Year Impact: \$94 million in FY 2023 (Spring Forecast) Using our July 2021 ANS price update as the basis, the estimate is that this could increase production tax revenue by \$110 to \$440 million per year from FY 2022 to FY 2030. The range is due to forecasted changes in production, oil prices, and anticipated company spending during this period.

Costs: There are no incremental costs to implement this change.

CHAIR SPOHNHOLZ commented on the range in this option.

MS. GLOVER pointed out that the estimates on HB 3007 were preliminary.

[2:43:27 PM](#)

REPRESENTATIVE WOOL returned to slides 21 and 22. He asked whether the department has an estimate on the services that would be taxed and whether there would be a cap. He then asked what the estimate on slide 22 would be on \$40 oil.

MR. STICKEL said he does not think there is a sales tax cap in either of the states shown on the slide. He said the department could break out the revenue from services and provide that in a follow-up.

[2:45:25 PM](#)

MS. GLOVER, to Representative Wool's question on slide 22, said the department has looked at the impact of different oil prices, and at \$40 per barrel "it basically is no impact at that price." She noted that when the fiscal note is completed, it will show multiple price points and their impacts. In response to a follow-up question, she explained that the \$80 showing on slide 22 is "the maximum per credit." She said the barrel credit changes. In response to another follow-up question, she confirmed that slide 22 is based on a spring forecast which is \$61 per barrel.

CO-CHAIR SPOHNHOLZ remarked on the volatility of oil prices.

[2:48:18 PM](#)

REPRESENTATIVE PRAX asked whether the revenue projections were based on current production or trends into the future.

MS. GLOVER answered that the forecast for the revenue is based on all spring forecast components, which are: price, production forecast, and anticipated spending by oil companies. In response to a follow-up question, she said the department did look at the possible impact of the proposed legislation on government take, which at a \$67 price range is currently about 50 percent and with the proposed change would be 54-55 percent. She said the fiscal note, when completed, will show the revenue impacts at varying oil price scenarios for eight years.

[2:51:39 PM](#)

REPRESENTATIVE JOSEPHSON questioned whether the administration doesn't think an increase to 54-55 percent would damage investment decisions. He asked whether the administration "supports this."

MR. FECHTER answered that these are items that the administration "would be agnostic about" and would accept if part of a full fiscal plan that includes the aforementioned borders.

[2:53:33 PM](#)

MS. GLOVER returned to the PowerPoint, to slide 23, which read as follows [original punctuation provided, with some formatting changes]:

F: Gaming: Casinos, Lotteries, Internet gaming

Description: Establish the Alaska Gaming Corporation which would have broad authority to determine the structure, management, and games of the corporation. Games could potentially include single- and multi-jurisdiction draw games, instant tickets, sports betting, keno, video lottery terminals, and casinos. First Full Year Impact in FY 2023: State Lottery and Internet Gambling: \$68.8 million

First Full Year Impact in FY 2025: Casinos and Video Gaming Terminals: \$75.3 million All Gaming Options: \$144.1 million

Costs: There are one-time programming costs of \$0.3 million. The Department would need four additional

positions at a cost about \$0.5 million per year. These are for Departmental costs only. Additionally, the Alaska Gaming Corporation would require approximately \$4.0 million annually with \$2 million in start-up costs.

MS. GLOVER said there would be a 10 percent casino tax on gross revenues and a 40 percent on gross revenues on Internet gambling and video gaming terminals. The tax portion would be managed by "the tax department." The report is in final review. There would be consideration on possible impacts to charitable gaming, as well as contemplation of provisions regarding "problem gambling."

[2:55:55 PM](#)

MS. GLOVER, in response to Chair Spohnholz, clarified that the amounts shown do not cover the considerations of the social aspects of gaming.

[2:56:21 PM](#)

REPRESENTATIVE JOSEPHSON said it strikes him that there would be an impact on children, as well as on "other investment opportunity," and he asked whether the report would consider any of that.

MR. FECHTER answered that it depends on how gaming is implemented. He indicated that the types of people who take part in charitable gaming are not necessarily the same as those who sit at a poker table; therefore, it is possible to gauge the impact depending on what aspects of gaming are implemented. He spoke about reaching out to stakeholders and the varying opinions on gambling.

[2:58:44 PM](#)

REPRESENTATIVE SCHRAGE inquired about fantasy leagues and the near-impossible nature of regulating gaming when cryptocurrency is involved.

[2:59:13 PM](#)

MR. FECHTER said he knows people fool the system, but said Internet technology (IT) can be used to perform an audit to find "where the traffic is going."

3:00:21 PM

REPRESENTATIVE PRAX asked how the negative impacts of gambling are assessed.

MR. FECHTER mentioned a gaming initiative and said there is a gaming contractor, Innovation Group, which supplied data regarding problem gaming, such as illegal gaming. This information was just supplied to his office, Mr. Fechter imparted, so he will look at it and share it with the committee. That said, he remarked that it is a common misperception that casinos increase crime rates, when a large mall complex, for example, can produce the same crime rates and 911 calls as a large casino.

3:02:37 PM

MR. FECHTER brought attention to slide 24, which read as follows [original punctuation provided, with some formatting changes]:

G: Use of Federal Offsets for Revenue Replacement

The American Rescue Plan Act's (ARPA) Coronavirus State and Local Fiscal Recovery Fund (CSLFRF) provided \$350 billion for eligible state, local, territorial, and Tribal governments to respond to the COVID-19 emergency and bring back jobs. The State of Alaska was allocated \$1.011 billion from this source. The following is a list of allowable uses

- Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control
- Replace lost revenue for eligible state governments
- Support immediate economic stabilization for households and businesses
- Address systemic public health and economic challenges that have contributed to the unequal impact of the pandemic

Currently, the legislature has allocated approximately half (~\$500M) of their allotment, electing to use \$250.0M for revenue replacement in FY2022.

A portion of the remaining ~\$500M in funds could be used to offset general fund spending and provide one-time fiscal relief

CHAIR SPOHNHOLZ indicated there is universal agreement related to this plan in restructuring the budget.

3:03:27 PM

MR. FECHTER continued to slide 25, which read as follows [original punctuation provided, with some formatting changes]:

H: Bridge Fund Usage

- A one time draw from the Permanent fund to ensure the Fund is permanently protected in the Constitution.
- Permanent Fund Earnings ~\$18.6 billion
- Buys valuable time for measures to be implemented
- Malan Rietveld - Director of the Investment Institute:
 - Ensuring the long-term sustainability of an endowment is far more important than an over-draw in any one particular year
- Other endowments are considering one-time increases in draws to capitalize on exceptional market performance:
 - Harvard's \$42 billion endowment increased from 5% to 7.5% on one-time basis
 - <https://www.thecrimson.com/article/2021/5/3/draw-further-endowment-fy22/>
 - <https://www.nytimes.com/2020/06/02/arts/endowments-coronavirus.html>

3:04:06 PM

REPRESENTATIVE SCHRAGE noted that at one point the state had a robust capital budget reserve (CBR) and [the state's budget] "could be in a very different place today" had the discussion focused on revenue rather than primarily on budget cuts. He explained that whenever he sees bridge funding suggested as a means for "buying us some time," it concerns him because the state had some time and "it didn't seem to get us where we needed to get to."

MR. FECHTER responded that while that is true, the difference in the proposed contract is that it would "lock up" the percent of market value (POMV) percentage so that it can never be used (indisc.) is sustainable.

REPRESENTATIVE SCHRAGE expressed concern regarding the timing of implementing revenue measures and a constitutional amendment, which he surmised would require bridge funding prior to that taking place, which could create risk.

[3:05:31 PM](#)

REPRESENTATIVE JOSEPHSON expressed his strong opposition to the bridge funding proposal.

[3:06:04 PM](#)

REPRESENTATIVE WOOL remarked that it seemed slightly disingenuous to have a conversation about different types of revenue if certain areas were off limits.

[3:06:58 PM](#)

MR. FECHTER noted that the governor had moved towards a 50/50 solution for the POMV.

CHAIR SPOHNHOLZ acknowledged and expressed appreciation for the governor's progress in recognizing the unaffordability of a statutory dividend; however, she said a 50/50 split of the POMV still leaves the state with a fiscal gap of well over \$1 billion that would diminish over time "based on fairly robust revenue productions." She said the state has spent \$16 billion out of savings trying to avoid adopting new taxes, which can only be done so often. She mentioned the bridge solution and said it does not seem consistent with a fiscally conservative position. At some point in time there will need to be compromise, she said, and she wishes "we were a little further along in the process."

[3:09:45 PM](#)

MR. FECHTER, in conclusion of the presentation, noted that the state was involved in a complicated math problem with a question lingering as to where the funds can come from that can fill the deficit gap.

CHAIR SPOHNHOLZ thanked the presenters.

[3:11:44 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 3:11 p.m.