

ALASKA STATE LEGISLATURE
HOUSE COMMUNITY AND REGIONAL AFFAIRS STANDING COMMITTEE

April 2, 2024

8:02 a.m.

MEMBERS PRESENT

Representative CJ McCormick, Chair
Representative Kevin McCabe, Vice Chair
Representative Tom McKay
Representative Thomas Baker
Representative Justin Ruffridge
Representative Rebecca Himschoot
Representative Donna Mears

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

CS FOR SENATE BILL NO. 161(CRA) AM

"An Act relating to municipal taxation of farm land and farm structures; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 133

"An Act exempting municipal service area boards from the requirements of the Open Meetings Act; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 220

"An Act establishing a bed tax; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: SB 161

SHORT TITLE: TAX EXEMPTION FOR FARM LAND/STRUCTURES

SPONSOR(S): SENATOR(S) BJORKMAN

01/16/24 (S) PREFILE RELEASED 1/8/24
 01/16/24 (S) READ THE FIRST TIME - REFERRALS
 01/16/24 (S) CRA
 01/30/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 01/30/24 (S) Heard & Held
 01/30/24 (S) MINUTE(CRA)
 02/01/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 02/01/24 (S) Heard & Held
 02/01/24 (S) MINUTE(CRA)
 02/15/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 02/15/24 (S) <Above Item Removed from Agenda>
 02/15/24 (S) MINUTE(CRA)
 02/22/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 02/22/24 (S) -- Invited & Public Testimony --
 02/27/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 02/27/24 (S) <Bill Hearing Rescheduled to 02/29/24>
 02/29/24 (S) CRA AT 1:30 PM BELTZ 105 (TSBldg)
 02/29/24 (S) Moved CSSB 161(CRA) Out of Committee
 02/29/24 (S) MINUTE(CRA)
 03/01/24 (S) CRA RPT CS 4DP NEW TITLE
 03/01/24 (S) DP: DUNBAR, GRAY-JACKSON, GIESSEL,
 BJORKMAN

 03/18/24 (S) TRANSMITTED TO (H)
 03/18/24 (S) VERSION: CSSB 161(CRA) AM
 03/18/24 (S) VERSION: CSSB 161(CRA) AM
 03/20/24 (H) READ THE FIRST TIME - REFERRALS
 03/20/24 (H) CRA
 04/02/24 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 133

SHORT TITLE: PUBLIC MEETINGS: EXEMPT MUNI SVC AREA BD
 SPONSOR(S): REPRESENTATIVE(S) SUMNER

03/27/23 (H) READ THE FIRST TIME - REFERRALS
 03/27/23 (H) CRA, STA
 04/27/23 (H) CRA AT 8:00 AM BARNES 124
 04/27/23 (H) Heard & Held
 04/27/23 (H) MINUTE(CRA)
 03/28/24 (H) CRA AT 8:00 AM BARNES 124
 03/28/24 (H) Heard & Held
 03/28/24 (H) MINUTE(CRA)
 04/02/24 (H) CRA AT 8:00 AM BARNES 124

BILL: HB 220

SHORT TITLE: ROOM RENT TAX
 SPONSOR(S): REPRESENTATIVE(S) GRAY

01/16/24 (H) PREFILE RELEASED 1/8/24
01/16/24 (H) READ THE FIRST TIME - REFERRALS
01/16/24 (H) CRA, STA, L&C, FIN
04/02/24 (H) CRA AT 8:00 AM BARNES 124

WITNESS REGISTER

SENATOR JESSE BJORKMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, presented CSSB 161(CRA) am.

LAURA ACHEE, Staff
Senator Jesse Bjorkman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Answered questions during the hearing on CSSB 161(CRA) am, on behalf of Senator Bjorkman, prime sponsor.

AMY SEITZ, Executive Director
Alaska Farm Bureau
Soldotna, Alaska

POSITION STATEMENT: Gave invited testimony during the hearing on CSSB 161(CRA) am.

ADAM JENSKI. Representing self
MatSu, Alaska

POSITION STATEMENT: Gave invited testimony during the hearing on CSSB 161(CRA) am.

SANDRA MOLLER, Director
Division of Community & Regional Affairs
Department of Commerce, Community & Economic Development
Anchorage, Alaska

POSITION STATEMENT: Answered questions during the hearing on CSSB 161(CRA) am.

REPRESENTATIVE JESSE SUMNER
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, gave a brief overview of HB 133.

REPRESENTATIVE ANDREW GRAY
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As prime sponsor, presented HB 220.

DAVID SONG, Staff
Representative Andrew Gray
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: Presented the sectional analysis for HB 220 and a PowerPoint presentation, on behalf of Representative Gray, prime sponsor.

KEVIN BERRY, PhD, Associate Professor of Economics
Department of Economics
University of Alaska Anchorage
Anchorage, Alaska

POSITION STATEMENT: Presented a PowerPoint on HB 220, entitled "HB 220 An Act establishing a bed tax; and providing for an effective date."

ACTION NARRATIVE

[8:02:25 AM](#)

CHAIR MCCORMICK called the House Community and Regional Affairs Standing Committee meeting to order at 8:02 a.m. Representatives McKay, Baker, Ruffridge, Himschoot, Mears, McCabe, and McCormick were present at the call to order.

SB 161-TAX EXEMPTION FOR FARM LAND/STRUCTURES

[8:03:18 AM](#)

CHAIR MCCORMICK announced that the first order of business would be CS FOR SENATE BILL NO. 161(CRA) am, "An Act relating to municipal taxation of farm land and farm structures; and providing for an effective date."

[8:03:34 AM](#)

SENATOR JESSE BJORKMAN, Alaska State Legislature, prime sponsor, presented CSSB 161(CRA) am. He referenced a PowerPoint, titled "SB 161 Tax Exemption for Farm Use Land" [included in the committee packet], and spoke to slide 2, "Optional Tax Exemption: AS 29.45.050(t)," which read as follows [original punctuation provided]:

Current Statute

- Optional full or partial property tax exemption

- Applies to farm structures
- Applies to operations that produce food for humans or livestock
- Requires that 10% of income come from farm operations

SB 161 expands what is covered on a farm and types of farms that are eligible

- Optional full or partial property tax exemption
- Applies to farm structures and farmland
- Applies to all agricultural operations and to aquaculture
- Requires \$1,000 in annual farm product sales and filing an IRS Schedule F

[8:06:50 AM](#)

SENATOR BJORKMAN continued to slide 3, "Mandatory Tax Breaks: AS 29.45.060," which read as follows [original punctuation provided]:

Current Statute

- Mandatory tax break
- Applies to farmland
- Applies to all agricultural operations
- Requires that 10% of income come from farm operations

SB 161 expands what is covered on a farm while narrowing the types of farms that are eligible to those that produce food for humans or livestock

- Mandatory tax break
- Applies to farmland and farm structures
- Applies to farms that produce food for human or livestock consumption
- Requires \$1,000 in annual farm product sales and filing an IRS Schedule F

CHAIR MCCORMICK sought questions from committee members.

[8:08:26 AM](#)

REPRESENTATIVE MEARS shared her understanding that the bill would redefine a farm by requiring \$1,000 in farm product sales and filing a Schedule F instead of 10 percent of income. She asked whether that would apply to current exemptions for farmland as well.

SENATOR BJORKMAN answered yes.

REPRESENTATIVE MEARS recalled that Fairbanks had passed a ballot initiative to include farm structures with the 10 percent threshold, which was state code at the time. She asked whether the bill would supersede municipal code.

[8:09:40 AM](#)

LAURA ACHEE, Staff, Senator Jesse Bjorkman, Alaska State Legislature, stated that the code in Fairbanks would stand as written. If the borough assembly wanted to change it, they would need to take action to match the new statute.

REPRESENTATIVE MEARS shared her understanding that another provision in the bill would allow for these changes to be made administratively by the local assembly instead of going through the public process again.

MS. ACHEE responded, "That's correct."

[8:10:37 AM](#)

REPRESENTATIVE HIMSCHOOT asked whether the sale of flowers would be considered consumption.

SENATOR BJORKMAN said it would depend on the products being made from the flowers. He shared, for example, that if fireweed was being grown to produce jam or some edible food, that would be consumable. He added that flowers would be considered a non-edible farm product that could be eligible for the "optional" exemption. Accordingly, a local city or political subdivision could, through action of the assembly or city council, take that under the optional provision and reduce the property taxes to zero.

[8:11:50 AM](#)

REPRESENTATIVE MEARS raised a concern about larger properties that were being under utilized and the ability for assessors to apportion parcels based on utilization.

SENATOR BJORKMAN acknowledged that apportioned assessment is an important part of how municipalities assess farm use land, as well as structures. He explained that similar to how a tax accountant might apportion someone's home office space, an

assessor would determine what percentage of the ground and buildings are being used for farm uses.

REPRESENTATIVE HIMSCHOOT asked for an example of aquaculture and how it applies to the bill.

SENATOR BJORKMAN defined aquaculture as the growing of kelp and seaweed for human consumption.

CHAIR MCCORMICK opened invited testimony.

8:14:35 AM

AMY SEITZ, Executive Director, Alaska Farm Bureau, gave invited testimony during the hearing on CSSB 161(CRA) am. She gave a brief overview of the bureau, stating that it is a nonprofit organization whose mission is to improve and expand agriculture in Alaska. The bureau's focus is advocacy and support of agriculture-friendly policies that help Alaskan farmers and ranchers build businesses; increasing production; and increasing the number of successful farms in Alaska. She said that the agriculture industry has significant potential and opportunities in Alaska, and developing this industry will benefit the state. She noted that farming and ranching comes with its challenges. Some policies can be lessened with good policy, for example, high input costs and access to capital. While efforts to find ways to expand access to loans and grants are underway, another way to get funding is through reduced input costs. An example of input cost is property taxes. She said that reducing the amount paid in property taxes allows farmers to invest those monies back into farm expansion and easier production. This results in increased sales and food availability.

8:16:32 AM

MS. SEITZ highlighted the benefits of CSSB 161(CRA) am. She explained that the bill would include structures used for farming business in the mandatory tax reduction statute and streamline the process to apply and qualify. With the inclusion of farm structures in this provision, SB 161 would incentivize farmers to improve existing structures or build new ones, such as storage or processing facilities. These are two of the main infrastructure needs on a farm. Storage extends the availability of food throughout the year, while processing facilities enhance the ability to reach specific markets. Incentives to build farm infrastructure would help increase production and sales. The expectation is that growth will

compound over the years. Each year, farmers could reinvest dollars saved through property tax reductions, thereby increasing livestock, crops, sales, and the number of successful farms. The bill would also streamline the process for farmers to qualify and apply for property tax reduction by tying it directly to farm income. The 2017 Census of Agriculture indicated that "more than half of Alaska's producers have off-farm jobs as their primary occupation and source of income." She said access to healthcare and a high percentage of new and beginning farmers account for this statistic. Other sources of income are necessary while individuals grow their farming businesses. Alaskan farmers compete with established markets. Grocery stores, restaurants, and institutions have established distributors who primarily source products outside Alaska. Although the number of Alaska grown products is increasing in grocery stores and restaurants, the lack of infrastructure and services means that each farmer must navigate these systems individually. It takes time to figure out how to enter established markets and build a customer base. SB 161 streamlines the process for farmers to qualify for the property tax reduction by tying qualification directly to the farm instead of off-farm income. An off-farm income does not mean an individual lacks commitment to farming; additional sources of income are needed for individuals to foster growth. Ms. Seitz pointed out that, according to the Census of Agriculture, there are around 1,000 farms in Alaska. Many of these farms are located in areas that do not impose property taxes, so the number of farms per municipality is not large. She concluded by thanking the bill sponsor for looking at ways to ease burdens on farmers and ranchers and help them expand. She thanked committee members for hearing CSSB 161(CRA) am.

[8:21:57 AM](#)

REPRESENTATIVE MEARS discussed the challenges surrounding food processing and asked whether the bill would complement the governor's crop bill with the expansion of the Agricultural Revolving Loan Fund (ARLF) to include processing.

MS. SEITZ answered yes, anything that makes it easier for farmers to have additional funds to invest in the farm. She added that the property tax reduction would make it easier on the farm in the long term.

[8:23:55 AM](#)

REPRESENTATIVE HIMSCHOOT asked whether kelp processing would be considered a farm, especially if the kelp was being rendered into fertilizer for shipment out of state.

MS. SETIZ shared her understanding that it could be included in the local option at the municipality's discretion.

SENATOR BJORKMAN agreed that it would fall under the 050 optional portion of Title 29. He added that it would be incumbent on the aquaculture farmer to file a Schedule F.

[8:25:37 AM](#)

REPRESENTATIVE MCCABE asked whether a flower farm could qualify under the farm exemption if it produced honey. Secondly, he asked whether acres of birch trees could be considered a farm if syrup was produced from the trees. He questioned whether it's only incumbent on \$1,000 [in sales] and the Schedule F.

MS. ACHEE shared her understanding that an assessor would assess the land underneath the bee hives and any structures related to the processing of the honey as qualifying for the exemption, but not the flower field itself. She added that timber land would not be covered under this exemption.

[8:28:31 AM](#)

ADAM JENSKI, representing self, gave invited testimony during the hearing on CSSB 161 (CRA) am. He expressed his strong support for the bill and shared that he had been farming for the past twenty years. He explained that the inability to defer taxes on farm structures has resulted in lost farmland and less investment in farm structures. He added that he would like to see the bill go farther to include timber land.

CHAIR MCCORMICK invited closing remarks from the bill sponsor.

[8:30:27 AM](#)

SENATOR BJORKMAN, in closing, emphasized the importance of giving local municipalities the option to reduce the property tax to zero on buildings and farm use land, because it allows them to pick and choose whether to exempt marijuana growing industries, for example, and other things that are not for human consumption. With the changes to AS 29.45.050, the bill would allow municipalities to make those changes administratively to adjust for peony growers or other consumptive uses. He

reiterated that that the intent of CSSB 161(CRA) is not to include marijuana as food.

MS. ACHEE added that the mandatory tax exemption in the underlying statute was not intended to provide an economic boost to a specific industry. Instead, it was designed to protect farmers from being driven out of business by high property taxes. The original statute was designed to ensure that farmland would remain farmland even when it would be more valuable as a mall or housing. She noted the difficulty of creating an unfunded mandate, adding that although Alaska Statutes allow the legislature to reimburse municipalities, it has not happened. She explained that the optional tax exemption was expanded to give local governments the choice to offer economic incentive for something that doesn't increase Alaska's good supply.

[8:35:09 AM](#)

REPRESENTATIVE HIMSCHOOT asked whether the state assessor would be compelled to recognize a municipality's choice to assess at a lower rate.

SENATOR BJORKMAN deferred to Director Moller.

[8:36:09 AM](#)

SANDRA MOLLER, Director, Division of Community & Regional Affairs, Department of Commerce, Community & Economic Development (DCCED), offered to follow up with the requested information.

REPRESENTATIVE HIMSCHOOT pointed out that if the state assessment differs from the municipal assessment, that could greatly reduce what a local community is able to contribute to its schools.

SENATOR BJORKMAN shared his understanding that in determining that amount, the state assessor looks at the highest and true value of the property.

[8:38:43 AM](#)

CHAIR MCCORMICK sought closing remarks from the bill sponsor.

SENATOR BJORKMAN thanked the committee for allowing him to bring a recommendation from the Food Strategy Task Force forward.

[8:39:06 AM](#)

CHAIR MCCORMICK announced that CSSB 161(CRA) am would be held over.

[8:39:24 AM](#)

The committee took an at-ease from 8:39 a.m. to 8:42 a.m.

HB 133-PUBLIC MEETINGS: EXEMPT MUNI SVC AREA BD

[8:42:36 AM](#)

CHAIR MCCORMICK announced that the next order of business would be HOUSE BILL NO. 133, "An Act exempting municipal service area boards from the requirements of the Open Meetings Act; and providing for an effective date."

[8:42:50 AM](#)

REPRESENTATIVE JESSE SUMNER, Alaska State Legislature, prime sponsor, said HB 133 seeks to exempt meetings of municipal service area boards from the Open Meetings Act (OMA). He noted that he would like to amend the bill to more narrowly tailor the legislation to fact finding missions for the observation or investigation of road or maintenance issues, as such a broad exemption could be problematic.

[8:43:44 AM](#)

CHAIR MCCORMICK opened public testimony. After ascertaining that no one wished to testify, he closed public testimony.

[8:44:31 AM](#)

REPRESENTATIVE SUMNER suggested that a forthcoming amendment could replace the exemption for administrative or managerial meetings with the investigation of road or maintenance issues, or solely to meet on matters that are administrative or managerial in nature.

CHAIR MCCORMICK announced that HB 133 would be held over.

[8:45:35 AM](#)

The committee took an at-ease from 8:45 a.m. to 9:48 p.m.

HB 220-ROOM RENT TAX

8:48:09 AM

CHAIR MCCORMICK announced that the final order of business would be HOUSE BILL NO. 220, "An Act establishing a bed tax; and providing for an effective date."

8:48:20 AM

REPRESENTATIVE ANDREW GRAY, Alaska State Legislature, prime sponsor, presented HB 220. He paraphrased the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

Alaska is the only state in the country that does not collect some sort of state revenue from tourist lodging. California and Nevada lack a formal statewide bed tax but collect state revenue from tourist lodging via other methods. House Bill 220 seeks to put Alaska on par with every other state by enacting a 6% statewide bed tax.

In 2019, the last normal tourism year prior to the COVID pandemic, we received approximately 2.5 million tourists - none of whom contributed to Alaska through state sales or bed taxes. HB 220 would capture this revenue so that the millions of visitors to Alaska can contribute to the services provided by the state. Legislative Research estimates that a 6% bed tax could generate a minimum of \$18 million annually for the state, creating a reliable source of revenue that will help address Alaska's fiscal woes. A six percent bed tax is the same as Texas and Florida. It is significantly lower than Connecticut's, which is 15%, and Hawaii's, which is over 14%.

HB 220 is a commonsense measure to join the rest of the country in enacting a statewide bed tax to generate revenue from our robust tourism industry. To not do so is leaving money on the table.

REPRESENTATIVE GRAY refuted the argument that a statewide bed tax would deter tourists from visiting Alaska. He asserted that most tourists have no idea before or after visiting Alaska that the state does not have a bed tax. With 49 other states

collecting a similar tax, he shared his belief that Alaska is making a huge strategic blunder by not implementing one. He reported that according to the Department of Revenue (DOR), a 6 percent bed tax could generate a minimum of \$58 million annually and serve as a reliable source of revenue that the state sorely needs. He added that 6 percent would be significantly lower than the bed tax in many other states.

[8:50:47 AM](#)

DAVID SONG, Staff, Representative Andrew Gray, Alaska State Legislature, on behalf of Representative Gray, prime sponsor of HB 220, presented the sectional analysis [included in the committee packet], which read as follows [original punctuation provided]:

Section 1: Amends AS 43.52 to create a new article 3 relating to the establishment of a statewide bed tax. This encompasses the following new sections:

Sec. 43.52.300 establishes a statewide bed tax of 6% for rooms that are being rented for the purpose of lodging.

Sec. 43.52.310 establishes exemptions for the bed tax. These include room rentals that exceed 30 days, room rentals for federal/state officials or employees traveling on official business, and room rentals for officials or employees from foreign governments traveling on official business if the tax is prohibited by federal law or treaty.

Sec. 43.52.320(a) states that the bed tax is due at the time the room rent is paid, and that the tax shall be collected and paid to the department by either the person who provided the room for rent, or the rental room rental network company if the room rental was facilitated through that room rental network company.

Sec. 43.52.320(b) states that a room rental network company required to collect the bed tax shall register with the department.

Sec. 43.52.330 states that the statewide bed tax would be in addition to any municipal bed tax.

Sec. 43.52.350 lists definitions for terms used in AS 43.52.300-350.

Section 2: Establishes an effective date of July 1, 2024.

[8:52:38 AM](#)

MR. SONG directed attention to a PowerPoint presentation, entitled "House Bill 220 Statewide Bed Tax" [hard copy included in the committee packet]. He began on slide 2, "Background Information," which read as follows [original punctuation provided]:

- Alaska is the only state without any form of statewide bed tax in the country.
- Alaska receives over 2.5 million tourists annually.

[8:53:25 AM](#)

MR. SONG continued to slide 3, which featured a comparison of bed taxes by state. Six states, including Florida, Illinois, Maryland, Michigan, Pennsylvania, Texas, and West Virginia had implemented a 6 percent bed tax.

[8:54:14 AM](#)

MR. SONG concluded on slide 4, "What does HB 220 do?" Slide 4 read as follows [original punctuation provided]:

- House Bill 220 enacts a 6% statewide bed tax for room rentals that are less than 30 days.
- Applies to hotels, motels, short-term rentals, lodges, etc.
- State bed tax would be in addition to any municipal bed taxes.
- Would raise approx. \$60 million annually for the state.

CHAIR MCCORMICK sought questions from committee members.

[8:55:24 AM](#)

REPRESENTATIVE BAKER questioned the math for those Alaskans who use hotels for in-state travel.

REPRESENTATIVE GRAY said he was open to an amendment that would establish an exemption for Alaska residents. He explained that the \$60 million includes everyone; however, Alaskans make up a small percentage of the 2.5 million tourists.

REPRESENTATIVE BAKER questioned what percentage [of the 2.5 million tourists] are Alaskans.

REPRESENTATIVE GRAY offered to follow up with the requested information.

[8:57:01 AM](#)

REPRESENTATIVE RUFFRIDGE said he had similar concerns as Representative Baker. He asked whether the bill sponsor had considered a seasonal component.

REPRESENTATIVE GRAY reiterated that he was open to an amendment that would exclude Alaska residents with state identification. He added that he was less open to a seasonal exemption for fear of missing out on revenue that could be collected in the winter.

CHAIR MCCORMICK opened invited testimony.

[8:59:12 AM](#)

KEVIN BERRY, PhD, Associate Professor of Economics, Department of Economics, University of Alaska Anchorage, presented a PowerPoint, entitled "HB 220 An Act establishing a bed tax; and providing for an effective date" [hard copy included in the committee packet]. He began on slide 2, "Summary of Bill," which read as follows [original punctuation provided]:

- 6% tax on the amount of room rented for lodging
 - Excludes rentals over 30 days
 - Excludes government employees
 - Excludes foreign officials
- Collected by the person or firm renting the room to a guest
- In addition to municipal bed taxes

[8:59:58 AM](#)

DR. BERRY proceeded to slide 3, "Context," which read as follows [original punctuation provided]:

- Alaska had 2.4 million visitors in 2019
 - 1.33 million cruise passengers
 - 1 million air passengers
 - 99,000 highway/ferry passengers
- Spending of \$2.79 billion in 2019
- Tourists do bring revenue to the State of Alaska
 - AK Railroad revenues
 - Fish and Game licenses/tags
 - Commercial Passenger Vessel Tax
 - AK Marine Highways System revenues
- Lodging is only part of the price of a trip to Alaska

9:03:09 AM

MR. BERRY advanced to slide 4, "Who would bear the burden of the tax?" Slide 4 read as follows [original punctuation provided]:

- Even if companies collect the tax, they may pass the burden on to customers through higher prices
 - Their ability to do this depends upon how responsive demand is to changes in price
- Bibler, Teltser and Tremblay (2021 RESTAT https://doi.org/10.1162/rest_a_00910)
 - Use data on Airbnb listings and examine a change in tax enforcement
 - Find demand for short term rentals (Airbnb's) is not responsive to changes in price
 - Tax burden disproportionately falls on consumers (tourists)
 - There is little change in the amount of Airbnb activity
- Are Airbnb's special?
 - Small existing literature for other forms of tourism with mixed results
 - For locations with close substitutes demand is more responsive

9:05:57 AM

MR. BERRY continued to slide 5, "Other Comments," which read as follows [original punctuation provided]:

- Fiscal note assumes no significant impact on the demand for room rentals

- It is estimated to raise between \$18 million and \$52 million
- Revenue is smaller if demand is more responsive
- Some communities already have significant bed taxes that they use for revenue
 - Highest rate: Anchorage, Bethel, Kaktovik, Nuiqsut
 - Highest revenue (over \$1 million): Anchorage, Denali Borough, Fairbanks, Fairbanks (borough), Juneau, Mat-Su Borough
- Issues with capping combined state and municipal room taxes

[9:07:06 AM](#)

MR. BERRY concluded on slide 6, "Comments on the bill," which read as follows [original punctuation provided]:

- The combined tax would be higher in municipalities with existing taxes
- Caps on the combined tax would either
 - Reduce local revenue (if state paid first)
 - Reduce state revenue (if municipality paid first)
 - Municipalities would have incentive to tax to the cap

[9:09:40 AM](#)

REPRESENTATIVE GRAY said his intention is for cruise ship passengers to pay the bed tax if they spend a night off ship on an excursion, for example. This means that any all-inclusive packages would need to be increased to account for the 6 percent bed tax.

[9:10:41 AM](#)

REPRESENTATIVE MCCABE asked how the number of days spent in Alaska is measured, specifically for cruise ship passengers.

MR. BERRY explained that that data weighed heavily on three different reports from the McKinley Research group.

s

REPRESENTATIVE MCCABE referenced slide 4 and asked how the bill would affect a borough that only funds its government through bed taxes from one or two hotels.

MR. BERRY shared his understanding that if there were a total cap, the state's payment would take priority. Representative McCabe's concern could be ameliorated by giving thought to the order in which local or state governments are paid, as well as the total level of the cap, he said.

[9:14:21 AM](#)

REPRESENTATIVE GRAY stated his belief that the appropriate [total] cap would be 15 percent. He reported that the Denali borough would be well below that at 13.5 percent.

REPRESENTATIVE HIMSCHOOT asked who would create the cap.

MR. BERRY clarified that he was discussing a hypothetical cap. He explained that if the intention is to avoid a high bed tax by imposing a total cap, the existing local revenue would need to be considered.

[9:17:00 AM](#)

REPRESENTATIVE HIMSCHOOT asked why cruise ships with overnights in open waters would be excluded from the bed tax.

MR. BERRY pointed out that most cruise ships are not docked at port overnight. He said it's a valid point worth considering and that he was unsure how to answer the question at this time.

REPRESENTATIVE HIMSCHOOT asked how a bed tax would be calculated for all-inclusive packages.

REPRESENTATIVE GRAY explained that the pre-arranged price would need to include the 6 percent bed tax. He pointed out that other states do this already, and shared his belief that Alaska could figure it out too.

[9:19:21 AM](#)

REPRESENTATIVE HIMSCHOOT sought to clarify whether Representative Gray had stated that the entire package would be taxed at 6 percent.

REPRESENTATIVE GRAY clarified that the price of the bed would be taxed at 6 percent and that amount would be included in the total package price.

MR. SONG reiterated that the 6 percent would only apply to the "room rent" cost, not the entire package.

REPRESENTATIVE HIMSCHOOT asked who sets the value of that part of the package.

REPRESENTATIVE GRAY said cruise ships often negotiate the package price with the owner of the lodge who decides how much they need to be paid per night per person.

[9:21:42 AM](#)

REPRESENTATIVE MCCABE suggested that the lodge owner could comp the bed tax to compete with other lodges.

REPRESENTATIVE GRAY stated that if lodges are offering free lodging to tourists, they need to be offering free lodging to Alaskans.

[9:23:13 AM](#)

REPRESENTATIVE HIMSCHOOT asked whether a portion of the [bed tax] revenue could be distributed back to its source.

REPRESENTATIVE GRAY said he would be open to that amendment.

CHAIR MCCORMICK invited Mr. Berry to contribute to the discussion.

[9:24:10 AM](#)

MR. BERRY suggested that if lodges were using creative pricing to avoid imposing the bed tax, a fair market value per bed could be used to calculate a minimum tax amount.

CHAIR MCCORMICK referred to slide 3 and asked why the bed tax was so high in Connecticut at 15 percent.

CHAIR MCCORMICK shared his understanding that Connecticut had imposed a 15 percent statewide bed tax instead of local municipal bed taxes. He reported that last year, Anchorage collected \$43 million from its 12 percent bed tax.

CHAIR MCCORMICK said it would be illuminating to know how recently the states with high bed taxes were implemented.

[9:26:41 AM](#)

REPRESENTATIVE HIMSCHOOT pointed out that local sales tax was not included in the calculation of bed tax. For example, Sitka has a bed tax of 6 percent and a sales tax of 6 percent, putting the city at 12 percent tax to the visitor. Another 6 percent in statewide bed tax would put Sitka at 18 percent. She was unsure at what point the taxes would "price people out." She expressed concern that without including sales tax, the burden on communities is not being accurately reflected.

REPRESENTATIVE GRAY opined that bed tax is not a driving factor in where people choose to travel.

[9:28:58 AM](#)

REPRESENTATIVE BAKER expressed concern about the burden on consumers, whether they are Alaskan or otherwise.

REPRESENTATIVE GRAY reiterated his belief that a resident exemption from the statewide bed tax would be a good amendment. He acknowledged that it would be interesting to see how the high bed tax of 22.7 percent in Columbus, Georgia has affected its tourism industry.

MR. BERRY referenced a study by Andrew Bibler, Keither Teltser, and Mark Tremblay, [titled Inferring Tax Compliance from Pass-through: Evidence from Airbnb Tax Enforcement Agreements], related to consumers' response to a rise in prices, which suggests that tourists are not responsive to that kind of price increase.

[9:31:04 AM](#)

REPRESENTATIVE MCCABE assumed that in a community like Nuiqsut, all of the bed tax comes from oil workers. He asked how Alaskans would be exempt from the bed tax without harming a city like Nuiqsut.

REPRESENTATIVE GRAY reiterated that Alaskans with a state ID would be exempt. He encouraged another amendment that would change [the exemption for room rentals] from 30 days to 90 days.

MR. SONG noted that the bill would not remove the ability for municipalities to create a local bed tax. He added that if there was an amendment to create an exemption, it would not affect the revenues that Nuiqsut is receiving.

9:32:59 AM

REPRESENTATIVE GRAY, in closing, expressed his hope that the conversation could continue, because some form of statewide bed tax would be extraordinarily beneficial to the state.

[HB 220 was held over.]

9:34:15 AM

ADJOURNMENT

There being no further business before the committee, the House Community and Regional Affairs Standing Committee meeting was adjourned at 9:34 a.m.