

SENATE FINANCE COMMITTEE
February 14, 2024
1:45 p.m.

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CALL TO ORDER

Co-Chair Olson called the Senate Finance Committee meeting to order at 1:45 p.m.

MEMBERS PRESENT

Senator Donny Olson, Co-Chair
Senator Lyman Hoffman, Co-Chair
Senator Click Bishop
Senator Jesse Kiehl
Senator Kelly Merrick
Senator David Wilson

MEMBERS ABSENT

Senator Bert Stedman, Co-Chair

ALSO PRESENT

John Bitney, Staff for Senator Click Bishop; Brandon Spanos, Tax Director, Department of Revenue; Paloma Harbour, Director, Division of Employment and training Services, Department of Labor and Workforce Development; Dan Robinson, Chief Economist, Department of Labor and Workforce Development; Dr. Madeline Aguiard, Superintendent, Kuspuk School District; Kimberly Hankins, Superintendent, Lower Kuskokwim School District.

SUMMARY

SB 132 EMPLOYMENT TAX FOR EDUCATION FACILITIES

SB 132 was heard and HELD in Committee for further consideration.

#sb132

SENATE BILL NO. 132

"An Act imposing an annual educational facilities maintenance and construction tax on net earnings from

self-employment and wages; relating to the administration and enforcement of the educational facilities maintenance and construction tax; and providing for an effective date."

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Co-Chair Olson relayed that it was the first hearing for SB 132.

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Senator Click Bishop, Sponsor, offered an introduction to the bill by reminding that the legislature had a constitutional obligation to provide quality and public education for Alaska's children. He recounted that he came from the private sector in the construction industry before coming to Juneau as the commissioner for the Department of Labor and Workforce Development (DLWD). He emphasized that deferred maintenance was a liability in the private sector. He noted that the state's deferred maintenance in education, on the major maintenance list, and on the school construction list was monumental. He cited that in the current year the major maintenance list for all funds was about \$330 million. The school construction list was \$395 million. He asserted that the bill would be a small step forward to start reducing the list.

Senator Bishop noted that he represented 10 school districts and had heard that districts were having to cut maintenance hours in half in order to maintain teachers in the classroom. Money was being taken from classrooms to fix leaky roofs. He thought the committee was well aware of the issue. The University of Alaska (UA) had a deferred maintenance list of \$1.45 billion. He cited that the total figure for educational facilities in Alaska between the three lists was \$2.18 billion.

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Senator Bishop continued his remarks. He referenced Alaska Economic Trends magazine [published by the Department of Labor and Workforce Development.] He told an anecdote about learning that part of his payroll deductions went towards school. He noted that the bill had been introduced several times. The employment tax for education had been repealed in 1980 and had been introduced 15 times since, not

counting his four attempts. He thought Alaska had the best research and analysis division of any state in the country. He mentioned the current economic trends magazine that referenced non-resident employment. Data showed 20 to 21 percent non-resident wages, which resulted in about \$3 billion leaving the state. He surmised that the out-of-state workers were being taxed most likely had to contribute towards taxes for education at their place of residence. He mentioned work on the North Slope and a positive outlook for the state. He thought wages would continue to rise.

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JOHN BITNEY, STAFF FOR SENATOR CLICK BISHOP, discussed the specific provisions of the bill. He offered a quick synopsis in that SB 132 proposed to revive the head tax that was repealed in 1980. The tax would collect \$30 from each person employed in the state and would be withheld from each employee's first paycheck of the year. The amount would be deductible from federal income taxes. He indicated that according to the fiscal notes, the bill was expected to generate about \$14 million per year. There was language in the bill that marked the disposition of the funds for the Educational Facilities Maintenance and Construction Fund. The fund was within the General Fund and was available for school construction and maintenance and also for UA. He thanked the Department of Labor and Workforce Development for its assistance.

Mr. Bitney read from a Sectional Analysis (copy on file):

Alaska Education Facilities, Maintenance, and Construction Tax

Section 1 amends AS 23.05.060 relating to the powers of the Department of Labor and Workforce Development by adding a new subsection allowing the department to collect the tax if requested to do so by the Department of Revenue.

Section 2 adds a new chapter to AS 43 creating the Education Facilities Maintenance and Construction Tax.

- Sec. 43.45.011 authorizes the Department of Revenue to levy a tax of \$30 on wages and net earnings from self-employment on all individuals,

both resident and nonresident, with income from a source in Alaska.

- Sec. 43.45.021 requires employers to withhold the tax from an employee's first paycheck of the calendar year. Failure to submit the tax may result in a civil penalty imposed on the employer in an amount up to five times the tax due. The Department of Revenue shall adopt regulations regarding the payment and maintenance of tax records. Finally, the Department of Revenue shall coordinate with the Department of Labor and Workforce Development to collect and report the tax in a manner similar to employment security contributions if it will result in cost savings for the state.

- Sec. 43.45.031 requires self-employed individuals to remit the tax due in accordance with regulations adopted by the Department of Revenue.

- Sec. 43.45.041 outlines the process for the refund of overpayments.

- Sec. 43.45.051 requires a person to report to the Department of Revenue any payments to a self-employed individual if the same is required by the Internal Revenue Service.

- Sec. 43.45.061 establishes the education facilities maintenance and construction fund as a separate account in the general fund.

- Sec. 43.45.099 establishes the definitions for key terms.

Section 3 is uncodified law pertaining to the adoption and implementation of regulations by the Department of Revenue.

Section 4 provides an immediate effective date for section 3, the adoption of regulations.

Section 5 provides an effective date of January 1, 2024 for all other sections of the bill.

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Mr. Bitney discussed a presentation entitled "Senate Bill 132 - Education Head Tax Introduction," (copy on file). He showed slide 4, "Where the money goes," which showed details about the Educational Facilities Maintenance and

Construction Fund, where the bill proposed to direct tax revenue to designate the funds for school maintenance construction and facilities of UA. Mr. Bitney continued discussing the Sectional Analysis. He noted that the proposed effective date had passed and would possibly have to be updated before the bill advanced.

Senator Merrick asked why the head tax had been repealed in 1980.

Senator Bishop was not certain. He suggested that at the time the legislature was considering a repeal of the income tax, while Prudhoe Bay was increasing production, and the North Slope was online. He thought Co-Chair Hoffman had been present at the time.

Co-Chair Olson reminded that the atmosphere in the state had been positive because of large leases on the North Slope, and the taxes were not necessary.

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Senator Kiehl asked about the definition of a part-time state resident or part-year state resident. He asked if the definition was in statute or if it needed to be.

Mr. Bitney noted that the definitions were not in the bill. He thought the bill language referenced wages that were earned in the state.

Co-Chair Olson thought there were definitions from past legislation.

Senator Kiehl wanted to ensure that any workers in seasonal jobs were excluded from paying the tax, while excluding a self-employed individual that was in the state on vacation. He thought the amount of money proposed to be raised by the bill would not handle the state's deferred maintenance backlogs, nor current maintenance needs. He asked the sponsor to discuss the decision of the current dollar amount in the bill.

Senator Bishop thought it was necessary to start somewhere and recalled that the same number had been in the bill proposed in 2015. He thought the number had been adjusted for inflation from when the original tax had been repealed.

Senator Bishop cited that currently there were about 390,465 employed individuals in the state.

Senator Kiehl read the bill language, and considered that a person living on a trust fund would not be subject to the tax. He wondered if the exclusion had been a tax policy decision or if it was due to the difficulty of collection.

Senator Bishop relayed that the bill was in aid of revitalizing territorial intent and that the exclusion was not factored into the bill design.

Senator Wilson noted that there was a fiscal note from the Department of Revenue (DOR) and a fiscal note from DLWD, and thought the notes were vastly different with regard to collection of the tax and the cost to do so. He pointed out differences in the estimated fiscal impact wondered if it would be better for DLWD to do all the collection because it appeared much less expensive.

Senator Bishop suggested Senator Wilson's question be posed to the departments. He did not disagree with Senator Wilson and thought DLWD could do the work more cost effectively.

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BRANDON SPANOS, TAX DIRECTOR, DEPARTMENT OF REVENUE, addressed Senator Wilson's question and relayed that DOR had a very modern and robust tax revenue system of any of the 50 states. He mentioned paying taxes via a mobile device. He mentioned the improvement in reporting. He described that the cost shown in the fiscal note was for a new module for the tax revenue management system. He acknowledged that the new system was costly but noted that the department was very happy with the end product.

Mr. Spanos commented that if a resident of Alaska were to pay an income tax, he would prefer it to be as simple as possible. He mentioned that the Internal Revenue Service (IRS) was doing a beta program in 12 states and excluded Alaska because 1099 forms were issued for the Permanent Fund Dividend (PFD). The beta program was called Free File. The program was intended to allow taxpayers to file for free through the IRS website rather than paying a third party. The program would be expanded to all states if Congress continued the funding. He noted that if the bill

were to pass, it would be a simple thing to file through the existing system.

Senator Wilson considered the personnel cost, which seemed to be very different between the two fiscal notes. He did not see how there would be vastly different fiscal notes for a similar service, beyond the technology. He wondered why the DOR note was so much more costly than the DLWD note.

Mr. Spanos appreciated Senator Wilson's question. He noted that there was no other state with a comparable tax, so it was difficult to compare. He relayed that the department had talked to other states about similar taxes. He considered the taxpayer base and 8 employees to administer a tax for 400,000 people. He referenced the number of employees necessary to administer the PFD. He mentioned self-employed individuals, individuals with more than one job, and other circumstances that would call for technical assistance and potential refunds.

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Senator Kiehl asked if Mr. Spanos' comments were the reason for the difference in cost between the two fiscal notes.

Mr. Spanos could not speak to DLWD's fiscal note. He explained that DOR's note used income statics and U.S. taxpayer information to develop the analysis and formulate the cost and revenue estimates.

Senator Kiehl asked if there was a typo in FY 29, or a bump in the expense.

Mr. Spanos noted that the department had submitted a new fiscal note and had addressed the item in the fiscal note analysis. He explained that there were necessary system upgrades required every few years, and the system upgrade cost was reflected in the fiscal note.

Senator Kiehl asked if the system upgrade was unique to a head tax module, or if the cost was a portion of the period upgrade of the entire tax system.

Mr. Spanos relayed that there was no separate cost for one module, but the amount reflected the cost of a stand-alone module. The cost would apply to the system as a whole.

Senator Kiehl asked if the cost was specifically attributed to passage of the bill or if the cost would to be paid regardless of the legislation.

Mr. Spanos relayed that there was currently no budget for the cost, and the department had to request the upgrade when the time came. With a broad-based tax of the size in the bill, the department added the cost to the fiscal note to reflect how much it would cost to administer the tax.

Senator Wilson asked about having the module built for \$10 million and paying another \$7 million to upgrade the system in four years.

Mr. Spanos explained that the cost for the upgrade would occur as often as was possible. The recommendation from the vendor was to do the upgrade once every five years.

Senator Wilson asked how much revenue would be earned each year.

Mr. Spanos cited that the revenue would be \$14.3 million in the first full year after implementation.

Senator Wilson asked if the state would be losing half the anticipated revenue every four years.

Mr. Spanos explained that there would be a cost to the system, and it was not dependent upon the revenue raised.

Senator Wilson thought the administrative cost would be about half of the yearly projected revenue from the proposed tax. He asked if he made an accurate statement.

Mr. Spanos answered, "If this is the way you would like us to administer it, then yes."

Co-Chair Olson thought that revenue amounts were only a projection, and the real cost and revenue was not exactly known.

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Senator Kiehl thought he heard the answer differently. He thought that every four or five years, the cost of

upgrading the entire system would be attributed to the proposed tax in the bill.

Senator Bishop thought Senator Kiehl had done a good job with his comment. He wanted to know the cost of upgrades to the system that collected oil and gas tax revenue. He asked about the system model.

Mr. Spanos relayed that the DOR did not have a plan for updating the system every few years. The original contract had only included implementation costs and a one-year service cost. There was no revenue in the budget at the time to pay for ongoing services after five years. The department had requested original funding and had updated the base budget to maintain the system. The current governor's budget reflected an additional amount for increased costs. He noted that there had been one upgrade from the original rollout in 2014, with an appropriation from the legislature.

Senator Bishop commented that he would like he preferred to refer to the proposed tax as the "education facilities maintenance and construction tax," and noted that it was not an income tax.

Co-Chair Olson asked if the funds collected would be used for school construction and maintenance.

Senator Bishop answered affirmatively and noted that the funds would also be used for UA deferred maintenance.

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PALOMA HARBOUR, DIRECTOR, DIVISION OF EMPLOYMENT AND TRAINING SERVICES, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, introduced herself and noted that she would address questions to the department's fiscal note.

Co-Chair Olson asked if Ms. Harbor wanted to comment on the previous discussion about revenue and maintenance costs as pointed out by Mr. Spanos.

Ms. Harbour relayed that currently DLWD had a mainframe-based tax system for the unemployment insurance tax, which could be programmed to collect the additional tax proposed in the bill. The system was less expensive, but she considered that the system was outdated and used decades-

old programming language. The department was looking towards a system upgrade and had a capital request in the FY 25 budget to start the preliminary work towards modernizing the system. She emphasized that the project would be expensive. She reiterated that DOLWD's system was outdated, and although easier to program was harder to maintain. She contrasted that DOR had a modern system that could accommodate the new tax but did come with an associated cost.

Senator Wilson asked for a ballpark figure cost of the modernization for the DLWD system.

Ms. Harbour did not have a ballpark figure to offer but noted that there was a current capital request for approximately \$450,000 to do the as-built documentation to assess the programming before going out to solicit a replacement system.

Senator Kiehl trusted that DLWD would include the cost of licensing and periodic upgrades. He asked if Ms. Harbour could speak to the difference in revenue estimates between the two fiscal notes. He observed that the DOLWD fiscal note showed about \$10 million including a guess on self-employment, which DOR's note showed at about \$14 million.

Ms. Harbour relayed that the fiscal note she submitted for DLWD had not included a revenue estimate, as DOR had the tax information to do a better estimation.

Senator Kiehl relayed that he would determine where he got the figure.

Ms. Harbour believed that the previous year DLWD may have submitted a fiscal note with a revenue estimate, but it had not been based on tax data.

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DAN ROBINSON, CHIEF ECONOMIST, DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT, introduced himself and relayed that he was prepared to answer questions about a statutorily required report on resident and non-resident workers in the state. He noted that there was an abbreviated version in the February issue of the Alaska Economic Trends publication. He referenced the report "Nonresidents Working in Alaska 2022" (copy on file).

Co-Chair Olson thought Senator Bishop had mentioned roughly 395,000 workers, and asked if it was close to the numbers that Mr. Robinson's department had come up with.

Mr. Robinson relayed that the report that was just released was for 2022, because of the time taken for the PFD applications to be matched with the wage records. The report showed 316,809 residents, and 86,368 non-residents. He noted that non-residents were defined as not having applied for the PFD, for which there were rigorous residency standards including living in the state for a full calendar year.

Co-Chair Olson asked if Mr. Robinson could comment on what the revenue forecast might be for the proposed tax.

Mr. Robinson mentioned discussions with DOR and worker counts relevance to tax revenue potential.

Co-Chair Olson considered the implementation of the new program, computer upgrades, and potential tax revenues and wondered if it was true that half the potential tax revenue would be used for system upgrades and maintenance.

Mr. Robinson relayed that he had no awareness of the issue.

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DR. MADELINE AGUILLARD, SUPERINTENDENT, KUSPUK SCHOOL DISTRICT, discussed a presentation entitled "SB 132: Employment Tax for Education Facilities" (copy on file).

Dr. Aguillard spoke to slide 2, "Alaska Schools - by the numbers":

131,212 students

53 school districts In business terms, largest employer in most communities

452 school facilities 55% are >40 years old

Dr. Aguillard referenced slide 3, "Ongoing Challenges: Deferred maintenance":

Growing maintenance needs, limited state funding

- Average building age: 42 years
- 71 buildings are over 60 years old

Current backlog:
Over \$300 million and growing

Dr. Aguillard commented that she came from a very small school district and noted that there were 9 buildings and 7 schools.

Dr. Aguillard discussed slide 4, "Jack Egnaty Senior School: Sleetmute, AK":

K-12 school - 45 years old
17 students
250 miles west of Anchorage along the Kuskokwim River
Only accessible by air or river travel
Community of 75 people

Dr. Aguillard noted that her district had multiple schools on the major maintenance list.

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Dr. Aguillard reviewed slide 5:

Capital Improvement Project: Major Maintenance application submitted for 14 years.

FY24 rank: 15th (after appeal)
FY25 rank: 23rd

-Immediate safety concerns prompted the district to contract LCG Lantech Inc. during the fall of 2023 to evaluate the integrity and damaged portion of the foundation and structure of the school.

Amount Requested: \$1,608,442

"There was a noticeable increase in the damage to several of the walls and the foundations based on the photos provided in the original DEED report from 2021.

This indicates that the structure is deteriorating quickly, increasing the potential for a collapse." - LCG Lantech Inc Nov. 2023

Dr. Aguillard mentioned major health and safety concerns and closing a portion of the school.

Dr. Aguillard showed slide 6, which showed a graphic of a school floor plan:

"...and a portion of the floor framing which could collapse under certain circumstances. All exterior foundation walls in these areas require replacement or retrofit prior to the space being occupiable once again." LCG Lantech Inc Nov. 2023

Dr. Aguillard noted that in 2021, the district had a conditions survey done, which was submitted with the application for major maintenance. Conditions had continued to deteriorate, followed by a follow-up study that indicated that the school faced imminent structural failure. She discussed the rapid increase in the severity of the problem that had started with a roof replacement. She noted that the red portion on the graphic denoted the closed parts of the school.

Dr. Aguillard discussed slide 7:

There are no other structures in Sleetmute large enough to accommodate students and staff during the school day, but that also means there is no other physical space for the community to gather.

Dr. Aguillard discussed the importance of school structures utilized as community buildings.

Dr. Aguillard showed slide 8:

Thank you! Questions?

Dr. Madeline Aguillard
maguillard@kuspuk.org

Dr. Aguillard summarized that the proposed tax would help provide funding for the backlog of major maintenance needs for Alaska school districts. She asked the committee to remember that other school districts across the state had the same needs.

Co-Chair Olson asked if Dr. Aguiyard had indicated that the Sleetmute school gymnasium was closed due to maintenance issues.

Dr. Aguiyard answered that half the school building, including the gym, a bathroom, and a shop were currently closed.

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KIMBERLY HANKINS, SUPERINTENDENT, LOWER KUSKOKWIM SCHOOL DISTRICT, discussed a presentation entitled "SB 132: Employment Tax for Education Facilities" (copy on file).

Ms. Hankins showed slide 2, "LKSD- by the numbers":

- 29 schools
- 24 communities
- 4,000 students
- 1,200 employees
- 22,000 square miles

Ms. Hankins shared that the Lower Kuskokwim School District (LKSD) had had major maintenance and school construction needs throughout the district. She mentioned that LKSD was the largest Regional Educational Attendance Area (REAA) in the state and relied heavily on Department of Education and Early Development's Capital Improvement Projects School Construction and Major Maintenance Grant Funds to support the needs of the district.

Ms. Hankins turned to slide 3, "Ongoing Challenge: Deferred maintenance":

- LKSD has nearly \$14M of deferred maintenance projects on the FY25 Capital Improvement Projects Major Maintenance Grant Fund list
 - Bethel Campus Fire Pump House (11)
 - Akula Elitnaurvik K-12 Renovation (15)
 - Akiuk Memorial School Renovation (56)
 - BRHS Boardwalk Replacement (59)
 - GJE School Heating Mains Replacement (61)*

Ms. Hankins discussed the projects on the major maintenance list. She pointed out that LKSD funded the heating mains replacement five years previously and had sought to be

reimbursed for the cost of the project, which was over \$1 million and needed for classroom education.

Ms. Hankins showed slide 4, "Deferred Maintenance," which showed two pictures of the gymnasium in Akiuk Memorial School. She noted that project 56 was for the gym, which was closed for the second year due to roof issues. She described that students currently commuted to neighboring schools to use gym space to practice team sports.

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Ms. Hankins referenced slide 5, "Ongoing Challenge: School Construction":

- William Miller Memorial School in Napakiak has been funded
- Approximately 1/3 of the existing school has been demolished
- Students continue classes in the remaining section of the school

Ms. Hankins discussed projects on the school construction list. She relayed that even with funding, the Napakiak school would take several years to construct, while the students used the un-demolished portion of the school shown in the picture on the slide. She noted that she had been the principal of Napakiak School in 2009, when the district had communicated about issues of erosion affecting the school. The project was on the CIP list without receiving funding until it was an emergency situation and then funded in 2021. She noted that if erosion continued at the same rate, the school would not be able to be used and alternate locations would need to be found until the new school was complete.

Ms. Hankins referenced slide 6, "Ongoing Challenge: School Construction":

- LKSD has over \$167M of projects on the FY25 Capital Improvement Projects School Construction Grant Fund list
- Newtok/Mertarvik (1)
- Nelson Island School Replacement (2)
- Anna Tobeluk Renovation (4)
- Water Storage/Treatment, Kong (9)
- Bethel Campus Upgrades (16)

Ms. Hankins showed slide 7, which had two photos of Newtok. The photo on the left showed the school, and the photo on the right showed demolition of a water treatment plant. She relayed that the project was completed late the previous summer, and if it had not been finished the plant would be in a portion of the river. She noted that there were still approximately 30 students in the school, and there was currently no running water. Students were provided with time during the day to go home for bathroom breaks. She recounted "sounding the alarm" for needed school funding for years before receiving the needed funds.

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Ms. Hankins spoke to slide 8, which showed two photos of Nunapitchuk. The photos showed a collapsed ramp, which had caused injury to an employee. She noted that a structural engineer had completed an analysis of the entire building. As a result, a portion of two classrooms in the school were closed. She relayed that the school's application also suffered from overcrowding. The school district was tasked with finding money to shore up the foundation as it waited for the funding for renovation.

Ms. Hankins spoke to slide 9, which showed photos of the school in Goodnews Bay. There were foundational issues at the school. She noted that the school was not on the CIP list as of yet. She commented on the cost of submitting a school condition report and the need for the district to prioritize the competing needs of the schools.

Ms. Hankins showed slide 10:

Thank you! Questions?

Kimberly Hankins
Lower Kuskokwim School District

Ms. Hankins expressed her support for the bill as a means of generating more funding for major maintenance and school construction around the state.

Co-Chair Olson asked about the progress of relocation efforts for the new school in Newtok.

Ms. Hankins relayed that the district was working on the foundation portion of the new school in Mertarvik. She noted that there were plans to close the school in Newtok at the end of the year and demolish the school due to health and safety concerns. Most school age students would be moving to Mertarvik the following year. The district would be providing education in the emergency evacuation center in the community.

Co-Chair Olson asked if there would be a heated facility with bathrooms available for students.

Ms. Hankins affirmed that the evacuation center in Mertarvik was currently used as the school and had heat and bathrooms. The facility would be used until the new school was complete.

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Co-Chair Olson OPENED public testimony.

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Co-Chair Olson CLOSED public testimony.

SB 132 was heard and HELD in Committee for further consideration.

Co-Chair Olson discussed the agenda for the following day.

#

ADJOURNMENT

[2:47:11 PM](#)

The meeting was adjourned at 2:47 p.m.