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COMMITTEE REPORT

HOUSE

FURTHER: FINANCE

(5)

3/31/82

Date: 4/22/82

Mr. Speaker:

The Committee on COMMUNITY & REGIONAL AFFAIRS has had SB 612

"An Act relating to increasing the amount of corporate income tax revenue that may be shared with municipalities."

under consideration and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass do not pass
- do pass with attached amendments(s)
- replace with CS for _____ same title
 new title
- and recommends _____
- AND attaches a "Letter of Intent" New Fiscal Note
- reports it back without recommendation
- referred to the _____ Committee

MEMBERS SIGNING
DO PASS

[Signature]

MEMBERS HAVING
OTHER RECOMMENDATIONS:

[Signature]

[Signature]
CHAIRMAN

(b) A resident individual is entitled to a tax credit equal to 16 percent of the tax credit claimed by the individual on his federal income tax return for household and dependent care services necessary for his personal employment.

(c) The commissioner of revenue shall pay the amount of a tax credit allowed by this section to a resident individual who makes a return as provided in AS 43.20.015. A credit under this section shall be paid in the manner provided in AS 43.20.030(e) for the payment of refunds and payment may not be made without an appropriation for that purpose.
§ 2 ch 1 SSSLA 1980; am § 2 ch 1 SSSLA 1980; § 2 ch 2 SSSLA 1980)

Editor's amendments. — Section 9, ch 1 SSSLA 1980 substituted "§100" for "§9" in the introductory language of subsection (a).

Effective dates. — Section 12 of ch. 1 provides that this section is retroactive to January 1, 1980, and § 10 of ch. 2, pro-

vides that this section is retroactive to January 1, 1979.

Editor's notes. — For legislative findings and purpose of the enacting legislation, see § 1, ch. 1, SSSLA 1980, and § 1, ch. 2, SSSLA 1980, in the 1980 Temporary and Special Acts and Resolves.

Sec. 43.20.015. Individual tax credit.

Repealed by § 10 ch 1 SSSLA 1980 and § 9 ch 2 SSSLA 1980.

Editor's notes. — The repealed section, derived from § 1, ch. 144, SLA 1978. For legislative findings and purpose of

repealing acts, see § 1, ch. 1, SSSLA 1980, and § 1, ch. 2, SSSLA 1980, in the 1980 Temporary and Special Acts and Resolves.

Sec. 43.20.016. Sharing of corporate income tax revenue with municipalities. (a) There is established within the Department of Revenue the municipal assistance fund. The legislature may appropriate to the fund during each fiscal year an amount equal to or greater than 10 percent of the income tax revenue received by the state under AS 43.20.015(e) and AS 43.21.010 — 43.21.120 for the previous fiscal year. The Department of Revenue shall distribute money from the fund to each organized borough and each city of any class on an annual basis as provided in (b) and (c) of this section. A borough or city may not receive payment under (b) or (c) of this section until it submits to the Department of Revenue a resolution approved by the governing body of the municipality that requests the funds. Distribution of money from the fund to a city or organized borough with a fiscal year beginning on January 1 shall be made on February 1 of the state fiscal year for which the appropriation to the fund is made. Distribution of money from the fund to all other cities and organized boroughs shall be made on June 1 of the state fiscal year for which the appropriation to the fund is made. A borough or city that incorporates after December 31 of a state fiscal year is not eligible for a distribution under this section until the following state fiscal year.

(b) The base amount to be distributed from the fund to each borough and city for the fiscal year shall be the amount received by the borough

Tax 31
New Cities
and Employees

Tax 32
Public Revenue
and Employees

Tax 33
Public Revenue

Tax 38
Public Lands

or city during fiscal year 1978 under AS 43.70.080; however, if the amount appropriated to the fund by the legislature under (a) of this section is insufficient for distribution of the full base amount, the Department of Revenue shall prorate the amount available for distribution on the basis of amounts received during fiscal year 1978 under AS 43.70.080. A city incorporated within an organized borough after June 30, 1977 shall receive as a base amount a share of the amount distributed to the borough in which it is located based on the ratio of population in the city to the total population in the borough. A city incorporated outside an organized borough after June 30, 1977 shall receive as a base amount the amount received by the city in the state most closely approximating it in population at the time of its incorporation. A borough incorporated after June 30, 1977 shall receive as a base amount the amount received by the borough in the state most closely approximating it in population at the time of its incorporation.

(c) If the amount in the fund at the time of distribution exceeds the base amount to be distributed under (b) of this section, the excess amount shall be distributed to each borough and city on the basis of population. For the purpose of this subsection, the population of a city within an organized borough shall be deducted from the population of the borough. Population, for the purpose of this section, shall be as certified by the commissioner of community and regional affairs.

(d) The intent of (c) of this section is that local governments which levy property taxes reduce those levies in reasonable proportion to the amount of increased state aid received by a local government. The governing body of each local government shall furnish a notice with the tax statement describing its use of this increased state aid. (§ 2 ch 144 SLA 1978; am § 1 ch 51 SLA 1981)

Effect of amendments. — The 1981 amendment added the fourth through seventh sentences of subsection (a).

Editor's notes. — Section 6, ch. 144, SLA 1978, provides: "TRANSITIONAL RULES FOR REVENUE SHARING UNDER THIS ACT. The revenue raised under AS 43.70 (AS 43.70.020 — 43.70.120) which relates to the 1978 calendar year (including the \$25 license fee due March 1, 1978 and the fee on the total gross receipts for 1978 which accompany

returns filed in 1979 under AS 43.70.030(d)) is the source of revenue to be shared in 1979 in accordance with AS 43.70.080. The increase in the corporate income tax which goes into effect in 1979 is the source of revenue to be shared with the municipalities under AS 43.20.016 in 1980 and subsequent years. This Act does not entitle any organized borough or any city of any class to revenue under both AS 43.70.080 and AS 43.20.016, for the same period of time."

Sec. 43.20.017. Individual tax exemptions.

Repealed by § 10 ch 1 SSSLA 1980 and § 9 ch 2 SSSLA 1980.

Editor's notes. — The repealed section derived from § 1, ch. 22, SLA 1980.

For legislative findings and purpose of repealing act, see § 1, ch. 1, SSSLA 1980, and § 1, ch. 2, SSSLA 1980, in the 1980

Temporary and Special Acts and Resolutions. In *Williams v. Zobel*, Sup. Ct. Order (File No. 8400-8421), P.2d (Sept. 4, 1980), the supreme court held the tax exemption (AS 43.20.017) enacted by ch.

22 SLA 1980, unconstitutional as violative of the equal protection provision of art. I, § 1 of the Alaska constitution.

Sec. 43.20.021. Internal Revenue Code.
(a) Subtitle F and chapter 1 of subchapter C of the Internal Revenue Code, Public Law 83-591, as amended, and any amendments thereto, in part of AS 43.20.010 — 43.20.350, shall be adopted and amended or modify exemptions from tax or by reference as a part of AS 43.20.010 — 43.20.350, effective January 1 following the effective date of the Internal Revenue Code by AS 43.20.010 — 43.20.350 unless exceptions of AS 43.20.010 — 43.20.350.

(b) For purposes of calculating the tax on the income of holding companies provided for in the Internal Revenue Code § 541, the rate is 12.6 percent.

(c) For purposes of calculating the tax on the income of partnerships provided for in the provisions of the Internal Revenue Code, the rate is 4.5 percent for corporations.

(d) Where a credit allowed under the Internal Revenue Code is allowed in computing Alaska income tax, the amount of credit for purposes which is attributable to

(e) Repealed by § 10 ch 1 SSSLA 1980.

(f) For the purpose of calculating the tax on the income of individuals for preferences provided for in §§ 56 and 58 of the Internal Revenue Code (26 U.S.C. §§ 56 — 58), the rate is 16 percent, the applicable minimum federal tax rate.

(g) For purposes of calculating the tax on the income of individuals provided in § 531 of the Internal Revenue Code, the amount of the first \$100,000 of accumulated taxable income in 1975; am §§ 1, 2 ch 125 SLA 1976; §§ 3 — 5, 10 ch 1 SSSLA 1980; a

Effect of amendments. — The first 1980 amendment, retroactive to January 1, 1980, in subsection (d), deleted "of the amount of the credit determined for federal income tax purposes" following "is limited to 16 percent", inserted "and fiduciaries," and added "of the amount of credit determined for federal income tax purposes which is attributable to Alaska", and added subsection (g).

The second 1980 amendment, retroactive to January 1, 1980, deleted "and 4 percent for individuals and fiduciaries" from the end of subsection (c), "16 percent

- 4/12/82 Notified OCAA to testify
- 4/12 - He will send comparison costs -
- 4/12 - Called David Rogers / Bankwork's Office -
- 4/12 - Requested Back-up from D. Rogers.
- 4/12 - Notified Dept of Revenue @ 4:20pm

2/22 Committee Mtg - ~~Frank~~

Chitwood - AMH

When Cross to the Tax was repealed - MIA was enacted -
 and was not longer dedicated
 Nurses used last years (6482) entitlements for
 day relief. ~~in~~



STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAN 21 1982

JAY S. HAMMOND, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

January 20, 1982

The Honorable Donald E. Gilman
Chairman
Senate Community and Regional
Affairs Committee
Room 203 - Behrends Building
Juneau, AK 99811

Dear Senator Gilman:

Re: Senate Bill No. 612

Senate Bill No. 612, an Act relating to increasing the amount of corporate income tax revenue that may be shared with municipalities, was introduced in the Senate on January 11, 1982, and was referred to the Senate Community and Regional Affairs and Finance Committees.

For consideration of the Senate Community and Regional Affairs Committee, I am enclosing copies of Fiscal Notes prepared by Mr. P. A. Wall, Director, Administrative Services Division, and Mary Ellen Frank, Research Analyst, Research Section, Department of Revenue, concerning the proposed legislation.

Sincerely,

R. D. Stevenson
Special Assistant

RDS:jas

Enclosure

cc: The Honorable Don Bennett
The Honorable H. E. Dankworth
Co-Chairmen
Senate Finance Committee

Joseph K. Donohue
Deputy Commissioner, Taxation
Department of Revenue

P. W. Wall, Director
Administrative Services Division
Department of Revenue

Vincent Wright
Research Section
Department of Revenue

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST
Bill/Resolution No. SB 612
Title Relating to increasing the amount of corporate income tax revenue that may be shared with municipalities Date _____

REQUESTED BY _____
II. FISCAL DETAIL
Agency Affected Revenue
Program Category Affected Revenue Collection and Management
BRU, Program, Or Subprogram(s) Affected Administration & Support, Admn. Svcs.
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-				

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-				
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

There is no effect upon administrative costs.

IV. DATE January 18, 1982 PREPARED BY 
AGENCY Revenue
PHONE 465-2313

Original: Legislative Finance
cc: Budget and Management
Prime Sponsor (First Legislator Named)
33-001 (Rev. 12/81)

THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. Senate Bill 612
 Title An Act relating to municipal revenue sharing.
 Requested by Senate Community & Regional Affairs Date 1/11/82

II. FISCAL DETAIL

Agency Affected _____
 Program Category Affected _____
 BRU, Program, Or Subprogram(s) Affected _____
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
TOTAL						

FUNDING (~~Thousands~~ ^{Millions} of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
GENERAL FUND	(223)	(101)	(119)	(125)		
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

SEE ATTACHMENT.

IV. DATE 01/20/82 PREPARED BY Mary Ellen Frank
 AGENCY Dept. of Revenue
 Original: Legislative Finance PHONE 465-2173
 cc: Budget and Management
Prime Sponsor (First Legislator Named)
 33-001 (Rev. 12/81)

Revenue Sharing Impact
(Millions of Current Dollars)

FY	Corporation Taxes (Previous Statutes)		TOTAL Corp. Taxes (TCT)	10% TCT	Corporation Taxes (Current Statutes)		TOTAL Corp. Taxes (TCT)	10% TCT	30% TCT	FY
	43.20 Non Petroleum	43.21 Petroleum			43.20 amended Non Petroleum	43.20 amended Petroleum				
82	\$35	\$1047	\$1082	\$108	\$31	\$713	\$744	\$74	\$223	82
83	42	1101	1143	114	31	304	335	34	101	83
84	49	1233	1282	128	37	360	397	40	119	84
85	56	1436	1492	149	42	373	415	42	125	85

The comparisons, for illustrative purposes only, reveal what would have been shared if previous statutes had been in effect versus what will in fact be shared, assuming this proposal is implemented in conjunction with current statutes. The aforementioned general fund numbers represent total amounts of revenue to be shared under this proposal.

February 4, 1982

The Honorable Jaimar Kerttula
President of the Senate
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. President:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill which revises the revenue sharing and municipal assistance programs for municipalities and unincorporated communities in the state.

During fiscal year 1982, over \$140 million will be distributed to local governments under the revenue sharing and municipal assistance programs. The Department of Community and Regional Affairs has examined these programs and found that the following problems exist with both programs:

1. revenue sharing emphasizes tax effort and ability to raise taxes while municipal assistance emphasizes population and tax relief;

2. municipal assistance distributes money according to outdated indicators of business activity and is linked to the declining corporate income tax collections;

3. revenue sharing, which was revised in 1980, contains a provision that reduces the impact of the distribution formula by requiring that the amount of assistance be determined by the historical amount of appropriations;

4. localities are growing increasingly dependent on the state for the financing of property tax relief and increased local services at a time when state revenues continue to fall and a constitutional spending limit is being considered by the voters of the state;

5. municipal assistance encourages municipal incorporation while revenue sharing does not; and

6. the revenue sharing and municipal assistance programs are administered by two principal departments which have different reporting and accountability requirements.

To correct these problems, I am proposing legislation to consolidate revenue sharing and municipal assistance to provide one program of assistance to local governments. The consolidated program will have a level of funding that is at least equal to the proposed fiscal year 1983 level and will increase in future years at a reasonable rate that can be accommodated by the state budget.

Specifically, this bill repeals AS 43.20.016 which provides for the municipal assistance fund in the Department of Revenue and requires all assistance to be distributed under the revenue sharing program of the Department of Community and Regional Affairs. The bill provides that each recipient under the new program will receive at least the entitlement provided in fiscal year 1983. Any amounts appropriated to the program in excess of that required to meet this requirement must be distributed under the revenue sharing formula.

To promote local responsibility and accountability for service delivery, the bill requires that at least 50 percent of the assistance received by a municipality be dedicated to the provision of basic services. The remaining 50 percent could be used for any other lawful purpose determined by the municipality.

To facilitate local service delivery, I propose that the legislature adopt a statement of intent which clearly provides that future appropriations for assistance to local governments will increase at the same rate of increase established for the proposed constitutional spending limit amendment. As a corollary to this pledge, I believe that it is also appropriate for the legislature to pledge to "draw the line" on the amount of assistance provided through other appropriations to state agencies for basic municipal services. These appropriations should be annually reduced in the same manner as the assistance programs are increased.

The bill increases the minimum entitlement for each municipality to at least \$100,000. The current minimum entitlement is \$25,000 adjusted by an area cost-of-living differential. The higher amount is needed to promote capacity for self-government in small communities.

By this bill, I propose to create a separate program of financial assistance for unincorporated communities. The current revenue sharing program provides for a payment of \$25,000 to Alaska Native village governments. The Department of Law has concluded that this assistance must be

shared with all unincorporated communities and that all recipients must contract for specific service delivery rather than using state money for general administrative purposes. This bill deletes the current provision and amends the existing rural development assistance grant program (AS 44.47) to allow all unincorporated communities to apply for grants up to \$100,000 for capital projects, operation and maintenance expenses, or community services. The bill also allows the department to contract directly with Native village governments in unincorporated communities where that entity is the most appropriate service provider. However, these entities must remain accountable for their agreements to provide these services. Under this bill, a Native village government must waive its immunity from suit before it contracts with the state to provide services under a rural development assistance grant.

I believe that this legislation provides a simpler system of assistance to local governments and will result in a more equitable sharing of the state's financial resources.

Sincerely,

Jay S. Hammond
Governor

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

JAY S. HAMMOND, GOVERNOR

POUCH 5
JUNEAU, ALASKA 99811
PHONE: (907) 465-2300

February 4, 1982

The Honorable Donald E. Gilman
Chairman
Senate Community & Regional Affairs Committee
Pouch V
Juneau, AK 99811

Re: Senate Bill No. 612

Dear Mr. Chairman:

This Bill would amend AS 43.20.016(a) to increase the portion of net income tax proceeds from 10 percent to 30 percent that the Legislature may appropriate to the Municipal Assistance Fund. While the Administration believes that the methods of providing municipal assistance should be re-examined and overhauled (and will shortly be introducing legislation to that effect), the rationale in SB 612 for increasing this formula program from 10 to 30 percent is that legislation enacted last year significantly shifted State tax revenues from the oil and gas income tax to the oil and gas severance tax.

As a consequence that revenue shift between tax types, the amount of income taxes the State will collect in the future is materially reduced. For example, in FY 83, under the old oil and gas income tax laws, the revenue to the State would have been \$1086.8 million (according to the Legislative Finance Division). Add this to the \$35 million we project for the rest of the income tax, and the total income tax revenues the State would be receiving in FY 83 would have been \$1121.8 million. With the new law, we foresee some \$304 million in income tax in FY 83 from the oil industry and the same \$35 million, making a total of \$339.0 million.

You can see that the formulary 10 percent of the revenues under the old income tax laws would be \$112.18 million, whereas with the new laws it is \$33.90 million. If the 10 percent figure were changed to 30 percent, the formulary amount under the new income tax laws would be \$101.70 million. Thus, if the formulary approach is the one that the State continues to follow (and bear in mind that the Administration believes there are better alternatives to provide for municipal revenue sharing), the increase in the percentage from 10 to 30 percent under SB 612 would very nearly restore the formulary amount of income that may be shared with the municipalities to the level it would have been had oil and gas tax revenues not been shifted away from the income tax to the severance tax.

Donald / Pete

FEB 4 1982

then to bill file

Senator Don Gilman (SB 612)
February 4, 1982
Page 2

I hope this will be useful for your Committee in its deliberations on SB 612. Please do not hesitate to contact me if you have any further questions on the foregoing matters.

Sincerely,



Thomas K. Williams
Commissioner of Revenue

TKW:tw

cc: Senator Ed Dankworth

STATE OF ALASKA

JAY S. HAMMOND, GOVERNOR

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

POUCH 5 - BUREAU 99811

January 20, 1982

The Honorable Donald E. Gilman
Chairman
Senate Community and Regional
Affairs Committee
Room 203 - Behrends Building
Juneau, Alaska

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Sincerely,



R. D. Stevenson
Special Assistant

The Honorable Don Bennett
The Honorable M. E. Darkworth
Co-Chairmen
Senate Finance Committee

Joseph K. Donohue
Deputy Commissioner
Department of Revenue

P. A. Wall, Director
Administrative Services Division
Department of Revenue

Vincent Wright
Research Section
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THE LEGISLATURE OF THE STATE OF ALASKA
TWELFTH LEGISLATURE

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BRU, Program, Or Subprogram(s) Affected Administration & Support Admn Svcs.
(Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

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700 GRANTS, CLAIMS, ETC.						
TOTAL		-0-				

FUNDING (Thousands of Dollars)


GENERAL FUND		-0-				
FEDERAL FUNDS						
OTHER (Specify Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal note Preparation Instruction, Section III)

There is no effect upon administrative costs.

IV. DATE January 18, 1982 PREPARED BY  Phillip A. Wall
AGENCY Revenue
Original: Legislative Finance PHONE 465-2313
cc: Budget and Management
Prime Sponsor (First Legislator Named)
33-001 (Rev. 12/81)

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Revenue Sharing Impact
(Millions of Current Dollars)

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The comparisons, for illustrative purposes only, reveal what would have been shared if previous statutes had been in effect versus what will in fact be shared, assuming this proposal is implemented in conjunction with current statutes. The aforementioned general fund numbers represent total amounts of revenue to be shared under this proposal.

Municipal Assistance
Under
SB 612 Compared to Current Law
(\$ Millions)

FY	(1) Petroleum Income Tax	(2) Other Income Tax	(3) Total Income Tax	(4) Municipal Assistance @ 10%	(5) Municipal Assistance @ 30%
81	860.1	34.8	894.9		
82	713.0	31.0	744.0	89.5	268.5
83	304.0	35.0	339.0	74.4	223.2
84	-360.0	39.0	399.0	33.9	101.7
85	373.0	40.0	413.0	39.9	119.7
86	400.0	40.0	440.0	41.3	123.9
87	430.0	40.0	470.0	44.0	132.0
88	460.0	40.0	500.0	47.0	141.0
89	490.0	40.0	530.0	50.0	150.0
90	520.0	40.0	560.0	53.0	159.0

- Notes:
1. Computer report of Department of Revenue, January 1982; amounts exclude any gasoline income.
 2. FY 81-84 from "Revenue Sources", Alaska Department of Revenue, January 1982.
FY 85-90 projected to be 40.0 because growth in corporate income tax liabilities will be offset by the accelerated depreciation provisions of the Economic Recovery Tax Act of 1981.
 3. Col. 1 + Col. 2
 4. Under current law, an amount equal to or greater than 10% of the prior fiscal year's income tax revenue may be appropriated for municipal assistance.
 5. SB 612 would raise the amount to 30% or more; no effective date is specified, but presumably the first appropriation at the higher level is intended to be for FY 84. This would mean a slight decrease for FY 83. Of course, even under current law, any amount may be appropriated.

Prepared By: Legislative Finance
Milt Barker
1/25/82