

ALASKA
7273

LEGISLATURE
HOUSE STATE

COMMITTEE
AFFAIRS

FILES

1991-1992

8672

Is it really fair, logical, or economically sound to give 184,000 children checks for \$931.00 each while taxing their parents twice or three times that amount? This is no way to secure the happiness of the people. You are going to tax Mom and Dad just to give the kids a dividend check. It used to be the responsibility of the parents to give their children an allowance. Today we are telling the children that from now on they shouldn't bug Mom and Dad about an allowance - just talk to your legislator. In most cases, with both parents working and considering a high percentage of single parents working in Alaska, there will be no net gain from the dividend checks, because the taxes will be higher than the dividends.

Let's compare taxing the working class to give \$3,000 to everyone over 65. Is it really fair (and of what government purpose) to tax a single parent who is barely making ends meet, while giving a bonus to retired persons who, in more than 25% of cases, have larger incomes. The average per capita income for Alaska in 1990 was \$28,187.00. All persons over 65 receive a bonus plus their permanent fund dividend check. The bonus amounts to \$63,000,000 for 21,000 people, which if continued, would come from 63,000 workers who are taxed at least \$1,000 each. All working people making more than \$15,000 would be taxed - which would in many cases go to someone who is drawing a higher income in retirement. Of the 21,000 senior citizens who, as of March 1, 1991, were receiving \$3,000 each; 5,000 had incomes of \$30,000 or more. It would take 15,000 taxpayers, at \$1,000 each, just to pay \$15,000,000 for this group whose incomes already exceed the average Alaskan's annual wage. This amounts to stealing from the have-nots to give to those who have enough. Those who are proposing this unjustified tax on the people who toil for their bread (so others can eat it) must realize the burden they are placing on the people who can least afford it. When legislators impose an unnecessary tax on the state's citizens, we hurt hundreds of thousands of people. This is especially true when we try to regulate human behavior (force charity), since some envision themselves the redistributors of personal income.

Some legislators reason it to be the purpose of government to equalize economic power. Can the working people of Alaska carry the increased burden of government spending to support the desires of a large non-working segment of our state who demand not only unnecessary services, but in addition, enormous amounts of cold cash to elevate their buying power? I find no reason why we must concern

ourselves with the redistribution of the working people's personal income while we continue to give out hundreds of millions of dollars to every citizen who does nothing to earn it.

Now the question is, "How many non-workers can the workers support?" We have to know where the line of refusal to support stops in our system. Maybe it runs until it becomes impossible for the workers to handle the job any longer or when they see they can have a higher income by not working. Are we approaching the breaking point? Here are some of the figures for people who help increase the costs of government, but for obvious reasons contribute little to pay those costs: 179,939 under the age of 19; 25,000 college students in Alaska at full-time equivalency; 22,095 seniors over the age of 65, 3/4 of whom have no tax liability; 2,350 inmates in the state correction system; 17,300 average per year unemployed - a total of 229,384 individuals receiving permanent fund dividend checks (excluding felons who are now ineligible). In essence, this results in the employed workers of Alaska being forced to pay for almost 230,000 dividend checks distributed to individuals who are not working.

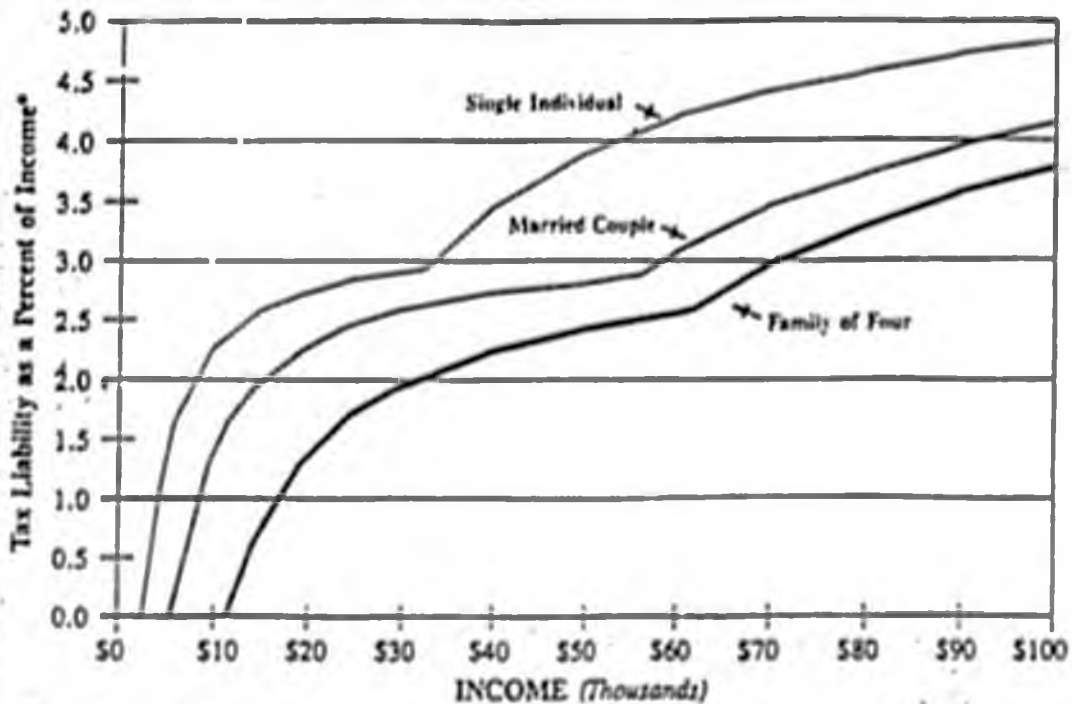
**Taxing the working class and giving the revenues to the non-working segment of a population
is the worst sort of inflation a state government can put into the economy.**

An interesting side note to this issue is that under the permanent fund dividend program "hold harmless" provisions, the state will pay \$24 million in federal income taxes on behalf of certain low income PFD recipients to ensure that they will not be taxed, because they exceed their low income limits and thereby become ineligible for federal government programs they are currently covered under. An additional \$5 million plus is allocated by the state to pay federal taxes under the hold harmless benefit for recipients of the longevity bonus, who would become ineligible for programs such as Medicaid with the additional income. Each of the 158,000 taxpayers would have to pay \$120 to pay this tax of the "poor".

Of course, these hold harmless provisions are just two tax exemption benefits allowed to certain groups of people. Another well-known state subsidy is the payment of \$3 million in property taxes to municipalities on behalf of senior citizens. How about the state paying 80% of monthly rents for thousands who claim poverty but the income from the state is not counted.

Too many of my colleagues are crawling all over each other to be canonized as the patron saint and savior of the permanent fund dividend program.

What Are The Personal Income Tax Rates?



Many legislators fail to see that the income tax they propose will take away any dividend the working-class and their children would receive. The new tax from the Department of Revenue designed from HB154 and proposed by members of the House Democrats in 1988 would have been sent to each taxpayer, making it clear by telling the taxpayer to subtract the dividend credit from their tax liability. The Department also estimates a rebate to the state of \$16.6 million from the dividends. Thus families earning more than \$25,000 for single taxpayers or \$40,000 for joint statements, will be deprived of the income of their children's dividend checks. Families (including children) who keep their income below \$12,000 a year will receive a full allocation of dividend checks.

Emotional slogans are useful for rallying people to a cause, but slogans are no substitute for thought. Take, for instance, "we must have an income tax to make the non-resident worker pay for working in the state." The Department of Revenue, in a hypothetical case, analyzed that a \$300 million income tax scenario would only bring in \$17 million from out-of-state workers. Does it make sense, then, to tax ourselves \$283 million just to get \$17 million? Resident workers would pay 95% of the tax, while out-of-staters would pay 5%.

Another rationale for paying state income taxes is that they can be deducted from your federal tax. Because we have no state income tax, \$86 million stays with the federal government each year

(out of \$399 million in federal taxes paid by Alaskans). This is termed the "federal tax leakage." In other words, if we had a state income tax, 22 cents out of every dollar in income tax paid to the IRS would stay in the state. Does it make sense to tax the working class \$316 million to save the \$86 million? If this is the case, then the same logic should apply to other leakages to the federal government. Why not stop giving out permanent fund dividends and save that \$100 million leakage? Is this not a reasonable trade-off? And who will benefit? - the working people. With the PFD check increasing each year, the federal tax leakage will dramatically increase.

I cannot really blame the Juneau representatives for pushing a state income tax because the program itself would employ, at a minimum, 92 new people with a payroll of at least \$4.1 million (\$50,000 for the average employee including benefits), plus an enormous start-up cost with new machinery and office space required. At the same time, we will still be employing 92 full-time equivalent employees to give out the dividend checks.

Currently, state employees and teachers across the state are complaining or threatening to go on strike for a 3% to 4% pay increase. However, many of them also say they support an income tax. I am bewildered by their rationalization. Don't they realize that an income tax is also a reduction in their wages? Do they not realize that government workers and teachers far and above receive a higher salary than the average private worker and would pay a higher percentage of taxes. As everyone has shared equally in the wealth of Alaska through the PFD checks, so everyone should also be willing to share equally in the loss through a reduction in the PFD. With an income tax, working people are being forced to take too great a portion of the burden in replacing the lost revenues.

Others who advocate reimposing the state income tax say people were more interested in government when they paid taxes. This is really grabbing at straws, and is not borne out by the facts. Figures show in Alaska that the public's participation in government, in terms of percentages of people who voted, has risen since the end of the income tax in 1980. I find the private sector even more interested today in protecting their pocketbooks from the government.

We should consider the tax revolt fever going on all over the nation. Take a hint from the state of Michigan, where the people recalled five Democrat state senators who voted to increase their income

taxes, and replaced them with conservative Republicans. I wouldn't be surprised to find a lot of requests for recall procedures in this state, to be used on those who pass any bill for a new income tax or see a lot of new faces after the November 3, 1992 election in the state legislature.

No other state allows a simple majority of the legislature to increase taxes on the citizens. A number of states, by their constitution or state laws, require a 2/3 or 3/4 majority, and one state even requires 4/5 of each house before a new tax increase can become effective. Voter approval is required in more than half the states, while here in Alaska, the people are denied this opportunity. The citizens of Alaska, in 1983, were even denied the right to petition through the initiative process for the right to vote on taxation.

It borders on tyranny if our current legislature would invoke a new tax on the citizens, the majority of whom they do not represent. It certainly would be an affront to the principles of a republic if such action were implemented.

We in Alaska have a golden opportunity to avoid the mistake numerous states and Congress have made by preventing the state from engaging in inflationary deficit spending, and forcing taxation on our children and our children's children - taxation they will be paying until the death of democracy.

On the other hand, what a unique legacy we can establish in Alaska, perhaps for the other states to emulate, where future generations - every child born in Alaska - can hope to grow up to enjoy no state taxation. Blessed may be the young Alaskans for they shall not inherit state debt. Once they start providing for themselves, being independent, self-reliant Alaskan breadwinners, they can be sure the state will not take a big slice of it. A new income tax is the worst type of capital punishment we could impose on the future generations, especially when the state is collecting more taxes than is absolutely necessary. This may be considered legalized robbery. It is said that the income tax has made more liars out of the American people than any other institution. Alaska does not need to add to this temptation.

Once a new tax is put into law, there would be no limit to how high future legislatures could raise it. Alaskans used to pay an additional 16% income tax of their federal tax to the state. Nor would there be any limit on the growth of state government as some suggest. You don't see the federal government decrease as people pay taxes, nor did the state government decrease when an income tax

was imposed. The new tax is a threat to every individual's personal and family well-being. The state does not need the extra revenue. The legislature was not created to devour the savings of the widows, nor the income of the single parent who struggles to provide for the needs of her or his children.

BLESSED BE A STATE WITHOUT INCOME TAX!!!

REIMPOSING THE PERSONAL INCOME TAX

Testimony of BP Exploration (Alaska) Inc.
to the House State Affairs Committee
on HB 525

By Thomas K. Williams
Director, Government & Public Affairs

April 13, 1992

Mr. Chairman, Members of the Committee. Good morning. My name is Tom Williams and I am Director of Government and Public Affairs for BP Exploration (Alaska) Inc. My testimony today will share with you some thoughts about the personal income tax and its potential for being part of a solution to the larger issue of balancing state spending and revenues as oil production declines.

Some of you may recall that I was Commissioner of Revenue when the personal income tax was repealed in 1980, and it may be useful to recall what happened then. State Representative Dick Randolph had been spearheading an initiative petition to "repeal" the personal income tax. Actually, since the state constitution does not allow initiatives to repeal taxes, the "Randolph Initiative" would have amended the tax rates so as to reduce the tax to insignificance. As an alternative to the Randolph Initiative, Governor Hammond and the Legislature chose not to repeal the tax, but to reduce it on the basis of how long an individual taxpayer had been an Alaska resident. Non-residents and those who had resided here for less than a year paid the full amount of tax. One-year residents paid two-thirds of what they otherwise would have paid, two-year residents paid only one-third. And those who had resided here for three years or longer would pay no tax at all. This approach was not unlike the one in the original Permanent Fund Dividend program enacted at the same time, under which each Alaska resident would have received a dividend of \$50 for each full year of residency since Statehood, up to a maximum of \$1,000.

Both the dividend program and the residency-based phase-out of the income tax were challenged in court in a suit called Zobel v. Williams, which was filed April 28, 1980. I was named as the defendant in the case because, as Commissioner of Revenue, I was responsible for administering both the dividends and the income

tax. On June 27, 1980 the state Superior Court struck down both programs as unconstitutional. The Alaska Supreme Court granted an expedited appeal, and on September 4, 1980 it issued an order affirming the Superior Court's ruling that the residency-based income tax is unconstitutional. The Supreme Court's opinion explaining its decision was issued September 19.

On September 4, 1980 -- the same day that the Alaska Supreme Court issued its order striking down the residency-based income tax -- Governor Hammond called a Special Session of the Legislature to convene on September 22nd. Acting in only three days, the Legislature passed a law repealing the personal income tax altogether, rejecting suggestions to suspend the tax for a period of time such as ten years. Governor Hammond signed the legislation into law on September 24, 1980 -- the same day the Special Session adjourned.

At the time, the repeal of the personal income tax was criticized for three different reasons. First, the critics warned that repealing the tax would cut off the citizens of Alaska from any sense of paying for the state governmental services they receive. With no cost to themselves, the public's appetite for such services would surely grow, according to the critics, and politicians would feed that appetite by pushing for more and more services and larger government. Second, the critics pointed out that repealing the income tax would throw out the one effective means Alaska had of taxing non-resident transients coming here to make lots of money from state resources like fish, and then going back home Outside without having made any contribution to Alaska. Third, the critics noted that, without the personal income tax or some similarly broad state tax, economic development would not end up paying for the legitimate demands for more schools, roads, etc. that such growth would generate. While development and diversification of the economy were seen as desirable, even essential for the state when it got to the down side of the "Prudhoe curve" of oil production, the critics cautioned that repealing the income tax would make the state government even more dependent on petroleum revenues because all the other sectors of the economy would be failing to pay their own way.

From the perspective of today, it looks like the critics of tax repeal were right. The size and cost of government have steadily increased despite repeated efforts by present and past Administrations and Legislatures to reverse the trend. Outsiders continue to exploit our resources and economy without paying for it. And, paradoxically, the growth of the non-petroleum sectors of Alaska's economy has put the state deeper in the hole in terms of dependency on petroleum revenues.

However, just because the warnings 12 years ago about repealing the personal income tax were correct, it does not necessarily follow that Alaska should re-impose the income tax now. Re-imposition of the tax is one of several options that Alaska could choose, separately or in combination, to deal with its looming budgetary problems. I would like to review briefly those options and then suggest to you a process for deciding what to do.

One option, which the House in particular has been considering this year, is user fees. In one sense user fees are the fairest approach to raising revenues because only those who use particular government services pay for those services. However, there are some drawbacks to user fees. First, for many government

programs user fees would be inappropriate, counterproductive or even absurd. It would make little sense, for example, to have user fees to cover the costs of processing applications for need-based welfare assistance. Second, user fees are regressive in the sense that they are the same regardless of how easy or hard it is for the user to afford them. Third, there could be legal problems with user fees for certain kinds of services, particularly if the "service" is something that the state has imposed as a requirement on its citizens.

A second option is to raise taxes. Among the options here the income tax is attractive because it can readily be a progressive tax -- in other words, those who can better afford to pay more do so because the rate goes up the higher their tax bracket is. Another possibility is a state sales tax. In its pure form this is a regressive tax, but some degree of progressivity can be created by exempting certain essentials like food or medicine from the tax. A third possibility is some type of value-added tax or a tax on gross receipts, but this is both regressive and inflationary since it causes prices for goods and services to rise.

A third option is to reduce spending. This is never an easy task politically, but in Alaska it is doubly difficult because half of the state operating budget is spent on formula programs. A third of the operating budget goes to municipalities and school districts. For those local areas with a fully developed, cash-based economy, these grant programs serve to reduce the amount of local taxes that otherwise would have to be paid. And for those areas where traditional non-cash lifestyles continue, these programs make the difference between having local services and going without.

A fourth option is to use income of the Permanent Fund. Historically, this is what the Permanent Fund was established for -- to be an endowment to help with the costs of government after the oil runs out. This is why the Permanent Fund amendment to the constitution says the income is to be deposited into the General Fund unless otherwise provided by law. The idea of dividends didn't become law until four years later, in 1980, when Governor Hammond saw dividends as a way to create a strong public constituency to defend the Permanent Fund and preserve it for the future. His idea certainly worked since now there is such a strong constituency for the Fund that proposing to tap the income from it may be tantamount to asking for tar and feathers.

To reach a solution to the impending budget crisis, it is not necessary that the Legislature and the Governor "jump off the cliff" together. Instead, it is necessary to educate the public and, through repeated feedback with them, develop consensus about what should be done. The efforts we are seeing this year are brave and commendable, but they seem to be tackling the problem backwards from how the public wants it do be done.

While you obviously have your own independent means of assessing public sentiment, our sense is that the public wants state spending to be cut before there are any significant new taxes, user fees or other measures to build up the revenue side of the state budget. In a sense this is unrealistic because only half of what the state is spending goes to the "bureaucracy" that the public wants cut; the rest goes directly to the public or local government through the formula grant programs. If

state spending is to be cut significantly, there will have to be cuts in formula spending, which in turn will mean either that local programs are cut or eliminated, or that local taxes will increase to compensate for the reduction in support coming from the state. This dimension of the budget problem is not well understood by the public -- in fact it does not seem to be well understood even by local school and municipal officials since so many of them have come to Juneau this year asking for *increases* in state grants and are not content with just the status quo. Clearly a program to inform Alaskans about the true nature of the spending problem needs to be undertaken.

At the same time the public is being educated about the formula grant programs and how state spending cuts have to affect local government services, there needs to be public discussion about what parts of the "bureaucracy" should continue and what parts need to go. So far the discussion has always been about where to cut the budget. This is an extremely difficult way to frame the discussion because every program has its constituency to defend it, and with almost every cut there will be real people who will be hurt or suffer as a result.

We believe the discussion will be more fruitful if -- instead of asking "Where should we cut?" -- you were asking people "What are the most important things that government is doing for you?" Asking people this question does not threaten their own pet programs, and hence they will not enter the discussion on the defensive. At the end of the process there will be a ranking of all the things the state is spending money on, and then it will be a straightforward matter of funding those programs with the highest priority first and continuing down through lower and lower priority programs until there is no more money left to spend. The remaining programs would then be discontinued or repealed.

This process will require a long discussion because it will have to be repeated several times with progressively finer levels of detail. It will require political leaders to give their voters feedback about the consensus that is emerging about which programs are most important. If, for example, education comes out with the highest priority, it does not mean an education monolith goes to the head of the line to receive funding in the budget. The next round of community discussion could ask, for example, what parts of the present educational system are most important -- vocational training, school sports, after-hours use of school facilities by the public, programs for the gifted, programs for the disabled, and so on. Or the second round of discussion could focus on which goals of the present education system are most important, so that programs best advancing the most important goals would have the highest priority. A third round of discussion could then identify the programs that are best at advancing the most important goals.

By such a process of dialogue with the public, feedback on the results of that dialogue and further rounds of dialogue and feedback, each community can develop a consensus about which areas of state spending should have the highest priority. It is in the Legislature that these local perspectives can then be fused into a statewide perspective. Each legislator should defend the priorities of her or his own district, and in the end those programs with the broadest consensus supporting them will get the votes to be funded and the unimportant ones won't.

Once the public has participated in the exercise of cutting the budget and real cuts have been made, they will be ready to discuss what revenue-enhancements, if any, they want to have in order to sustain the most important services that have been identified. A similar process of community dialogue and feedback will help form a second round of consensus about which revenue-generating options should be used.

The challenges of establishing a transition between today's spending and tomorrow's means are great. This is true for the oil industry as well as the state. We are striving for new ways of doing our business smarter, more effectively with fewer people, by forming creative problem-solving partnerships with our contractors and suppliers, by continually challenging what we are doing ourselves to see if someone else can do it as well or better for less cost, and by comparing notes with our partners in the fields to identify and implement the best and most effective operating practices. While this is difficult and often painful for us, we have no choice but to respond to the decline in production.

The state, no less than industry, must address the realities imposed by declining oil production. We can share with you our successes and failures in our responses, to the extent they may be helpful in deciding what government should do. Our employees can share -- indeed, we encourage their participation -- in the community dialogues that must be held to determine which government services have the highest and best value. It will be a difficult and time-consuming process that all Alaskans must go through, and it will not be completed by this year's elections. Indeed it is a process that should be ongoing. But we must devote the time and energy to this process and make it work, for it is scarcely an exaggeration to say that the future course of our state depends on the results.

Thank you for this to appear today and address the Committee.

OPINION

Charter gets bad rap because of misinformation

Senate Bill 397 simply makes it clear that the Board of Fisheries may distinguish, for the purpose of regulation, between the guided sport and traditional sportfisheries, and between resident and non-resident sportfishermen, which the board is already doing.

any reason to change regs where they are currently working.

Why is the charter industry so adamantly opposed to being recognized as a user category, or to being regulated if and when it is necessary to protect the resources, the other user groups, or even their own industry? Why do they insist on being seen as "just regular sportfishermen?"

I believe it is because the charter industry is hiding behind the creed of the sportfisherman. They know that there is something almost sacred in Alaska about protecting the rights of resident sports anglers. We all see sportfishing, for plea-

to also impose on regular sportfishing. But without the ability to separate the two user groups, resident sportfishermen may have to be overly restricted, even in a situation where they are not the cause of a problem.

Opponents of the bill have tried to convince sportfishermen that this bill is an anti-sport effort by commercial fishermen. But the bill doesn't do anything for commercial fishing interests.

I am insulted by the insinuation that my being a commercial troller explains my motivation for introducing this bill. A lot more of my constituents are resident sportfishermen than commercial fisher-

tant scare tactic that is. I would never have introduced this bill if I thought for one minute that this bill would allow the Board of Fisheries to make arbitrary decisions or to act on some sort of perceived "vendetta" against the charter industry.

The guided sportfishing industry contributes jobs, visitors and diversity to the economy, and its responsible development should be a priority.

This bill will not hurt that industry, or the many businesses that are related to it. In fact, I am convinced that the guided sport industry will benefit by the more precise, sound, responsible fisheries management that is encouraged by this bill.

I urge everyone to get the facts about Senate Bill 397. Copies of the bill are available from the Legislative Information Offices — ask for CSSIB 397 (Res) or CSIB 606 (Res). If you have any questions please contact my office or Rep. Mackie's office.

Let's ensure that the state has the tools it needs to deal with complex management issues. Please contact your dis-

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Fees

Continued from page B1

capped, disabled veterans or residents 65 years old or older who have filed for an exemption with the Alaska Division of Motor Vehicles would get free plates or tags.

Other Motor Vehicles fees or charges also would increase. Vehicle title fees, title transfers and duplicates would increase from \$5 to \$25. Driver's license fees for non-commercial vehicles and motorcycles would jump from \$10 to \$25.

Frank J. Dillon, executive director of the Alaska Trucking Association, said the bill comes at a bad time.

"We're hurting now as an industry and the economy is softening," Dillon said. "This will drive a stake in the heart of Alaska business."

Trucking companies don't have a strong enough profit margin to absorb the increases without passing them on to their customers, he said.

Kevin Garity, general manag-

'I will pay \$24,500 in state registration fees on the 700 cars I will buy for this summer. This bill would add another \$28,000. I will have no choice but to pass the cost on to the consumer.'

— Kevin Garity,
general manager of Dollar Rent A Car

er of Dollar Rent A Car and a spokesman for the Car and Truck Renting and Leasing Association, called the increases "unrealistic."

"I will pay \$24,500 in state registration fees on the 700 cars I will buy for this summer," Garity said. "This bill would add another \$28,000. I will have no choice but to pass the cost on to the consumer."

Division of Motor Vehicles director Jay N. Dulany said he authored the rate hikes at the request of the Legislature for proposals to increase income, and he based his decisions on an analysis of similar vehicle tax levels in other states.

"I can't blame anyone but myself for the final numbers, Dulany said. "I didn't use any set for-

mula or percentages. The Legislature will look at them and make a decision."

Even with the increases, Alaska vehicle registration fees for both private and commercial use still will be lower than those paid in most states, he said.

Elgee said a safety department schedule of vehicle fees and taxes for all states places Alaska "in the middle of the pack" with the rates included in the bill.

"Passenger car fees would be a little higher than average, but commercial vehicle fees would be lower except for the upper categories," Dulany said.

Alaska driver's licenses are good for five years, making the cost of a license \$5 per year, compared to a national average of

\$4.50 per year, he said.

Some fees are not expected to bear up under legislative scrutiny, Dulany said.

"I believe you will see a committee substitute bill that will return Pearl Harbor survivors and prisoners of war to a free status," he said. "There are only 23 Pearl Harbor plates out there now. The revenue loss would be insignificant."

Elgee said the bill would receive its first hearing Monday, and is being redrafted to remove the Pearl Harbor survivor and POW fees.

Dulany agreed that instituting a \$25 registration fee for all state-owned vehicles appeared to be taking money out of one pocket and putting it in another.

This reflects the fact that the Alaska Department of Transportation and Public Facilities requires other departments to pay a charge for vehicles DOT provides them, he said.

"I personally don't believe there should be registration fees on state-owned vehicles," he said. "That will probably be sorted out, as well."

the purchase agreement allowed the Tanners to buy back a 12-unit apartment building there for \$5,000 and pay a monthly lease to operate it.

The couple also secured a \$10,000 deposit to be refunded when the building is removed from the land.

with them."

"We had nothing to do with the figure they calculated that we needed to be paying them a month," said Kristan Tanner. "There was no negotiating involved. They just said this would be the amount we would be paying."

them, we will certainly look into changing the amounts," he said.

Indiak Investments, a partnership of the Tanners and John Kay of Indiana, first bought the building near the George Parks Highway in June 1990 for \$125,271 from the Federal Deposit Insurance Corp.

p.m. to 2 p.m. today at Ken's Forest Lawn Chapel and will be followed by a funeral at 2 p.m. A memorial service will be held at a later date in Homer. Memorial contributions can be made to the American Diabetes Association, 3101 Penland Parkway, Anchorage, AK, 99508-1908. Arrange-

ence Drive, Anchorage, AK, 99508.

Arrangements: Evergreen Memorial Home.

James Michael

Retired U.S. Army
James Michael H.

Woman raped, handcuffed to her steering wheel Friday afternoon

TIMES STAFF

An Anchorage woman who was found handcuffed to the steering wheel of her pickup truck told police a man got into her car at a midtown restaurant and forced her to drive to a Muldoon-area park where he raped her.

Officers were called to the house of the victim's sister where they found the woman still handcuffed to the steering wheel of her

truck about 2 p.m. Friday.

She told police the man got into her car at a fast-food restaurant and forced her at gunpoint to drive to a wooded area where she was attacked.

The suspect then ordered the woman to drive down Muldoon Road where he jumped out.

The woman also suffered a bruised cheek in the attack, officer Pat Ryder said.

Applications are now available for the **1992-93 SOUTHCENTRAL ALASKA COMBINED FEDERAL CAMPAIGN**

Qualifying local health and human service agencies are invited to apply for inclusion in the 1992-93 Combined Federal Campaign for the Southcentral Alaska Area.

Local agencies must apply for the Southcentral Alaska Combined Federal Campaign Committee by April 30, 1992.

Applications are available from:

*Combined Federal Campaign
c/o United Way of Anchorage
341 West Tudor Road, Suite 106
Anchorage, Alaska 99503*

For further information please call:

*Nancy Bernard
United Way of Anchorage
(907) 562-6483*

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d/b/a Ega
555 W. 5th**

*** Interested p
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NOTICE OF ROAD CLOSURE

NOTICE OF ROAD CONSTRUCTION

THE RALPHURBY ROAD PROJECT, FROM NORTHWARD STREET
TO EIGHTH STREET, WILL BE CLOSED APRIL 1, 1992.

NOTI GLENN

State legislators consider jacking up vehicle fees

By BERT TARRANT

TIMES BUSINESS WRITER

State motor vehicle registration fees, now among the lowest in the country, would more than double and in some cases skyrocket by more than 400 percent if a House bill introduced this week becomes law.

The increases would be in addition to those proposed in a bill now before the Senate that would raise municipal motor vehicle registration taxes by 70 percent over two years.

Under House Bill 574, annual registration fees for passenger vehicles and motor homes would increase from \$35 to \$75; pickup trucks and vans not exceeding 6,000 pounds, from \$40 to \$75; and taxicabs, from \$75 to \$200.

The proposed fee increases are intended to stave off planned cuts in the Alaska Department of Public Safety, said Allison Elgee, a spokeswoman for Rep. Mike Navarre, D-Kenai, co-chairman of the House Finance Committee.

The House Finance Committee reviewed proposed reductions in Public

Safety and didn't like them because the cuts would come in the number of state troopers and Fish and Wildlife officers," Elgee said. "This bill is an effort to raise money to help support those activities."

Commercial vehicles would be hardest hit by the bill, which one trucking industry representative called an "absolute disaster."

The fee for light trucks and vans weighing up to 5,000 pounds would increase from \$51 to \$200, while semi-trailers 5,000 pounds to 12,000 pounds would jump from \$86 to \$400.

Fees for semi-tractors weighing 12,000 pounds to 18,000 pounds would jump from \$156 to \$600, and vehicles over 18,000 pounds would see fees rise from \$221 to \$800.

And, with three exceptions, all motor vehicles would be affected regardless of ownership. Pearl Harbor survivors and former prisoners of war, who previously paid no state registration fee, would be assessed \$50 per vehicle.

Only vehicle owners who are handi-
See Fees, back page

State vehicle registrations

Proposed fee increases

	CURRENT COST	PROPOSED COST
Passenger vehicle, motor home	\$35	\$75
Light pickup truck or van	\$40	\$75
Taxicab	\$75	\$200
Motorcycle	\$20	\$50
Commercial vehicle:		
-up to 5,000 lbs.	\$51	\$200
-5,000-12,000lbs.	\$86	\$400
-12,000-18,000 lbs.	\$156	\$600
-over 18,000 lbs.	\$221	\$800

Special registration

Pearl Harbor survivors	\$0	\$50
Former prisoners of war	\$0	\$50
Veterans/retrees	\$30	\$50
Purple Heart recipients	\$30	\$50
Non-commercial vehicle, motorcycle driver's license	\$10	\$25

DIVISION OF LEGAL SERVICES

**LEGISLATIVE AFFAIRS AGENCY
STATE OF ALASKA**

A

(907) 465-3867 or 465-2450
F: LX (907) 465-2029
Mail Stop 3101

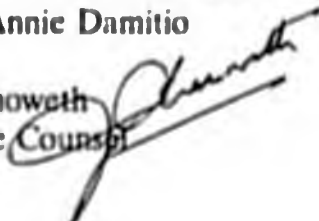
240 Main Street, Suite 500
Juneau, Alaska 99801-2101

MEMORANDUM

April 1, 1992

SUBJECT: House Bill 525, reimposing individual income tax (Work Order No. 7LS-2075D)

TO: Representative Gene Kubina, Chair
House State Affairs Committee
ATTN: Annie Damitio

FROM: Jack Chenoweth
Legislative Counsel 

House Bill 525 would reimpose the individual income tax. If enacted in the form introduced, the bill would take effect January 1, 1993, and apply to income received on and after that date.

You have asked whether the measure may be enacted (i.e. become law with or without signature of the governor or by override of a governor's veto) with a provision that the measure's operative provisions would be indefinitely suspended.

In my opinion, the legislature may pass a bill that, within it, contains a provision for the indefinite suspension or delay of the operation of the measure's substantive provisions, ^U and the passage of the measure containing a suspension provision

^U To accomplish suspension, as a drafting matter, the individual income taxes should (1) be imposed and, at the same time, (2) be suspended, (3) with the provision that makes the suspension subject to repeal by law. To that end, section 18 of the current bill should be eliminated and the following new material substituted:

• Sec. 18. The taxes levied by [enumerate the specific AS sections and subsections amended by the bill] are suspended as of January 1, 1993, and do not take effect until the effective date of an Act that repeals this section.

• Sec. 19. This Act takes effect January 1, 1993.

A title change in the bill to call attention to the suspension of the tax and the means of its actual imposition would also be warranted.

(continued...)

would probably survive any challenge under a key constitutional provision generally setting limitations on the legislature's authority to tax.

Suspension of a statute is defined as the temporary displacement of a valid legislative enactment by the execution of a later statute which is to prevail . . ." Sutherland, *Statutory Construction*, 1A, sec. 23.30. Suspension contemplates the revival of the act that has been superseded. That revival may occur through a variety of mechanisms including the legislature's passage of a measure that suspends the operation of a suspending act. U.S. ex rel Levey v. Stockslager, 129 U.S. 470, 32 L.Ed. 785, 9 S.Ct. 382 (1889) (joint resolution of Congress suspending an earlier Congressional Act providing relief for certain heirs "until the further order of Congress" given its intended effect). See also King v. Sununu, 490 A.2d 796, 799-800 (N.H. 1985); Strand v. Village of Watson, 72 N.W.2d 609 (Minn. 1955), at 614. Though typically a legislature forestalls the coming into effect of a new law through use of a delayed effective date clause, I have found nothing that would preclude, and cannot think of any good reason that would preclude, putting into the legislation that enacts a provision directing the suspension or delay of the measure's operative provisions.

A provision suspending the operative provisions of a revived individual income tax should not be found to contravene article IX, section 1 of the Alaska constitution, the provision barring suspension of the legislature's authority to levy and collect taxes:

TAXING POWER. The power of taxation shall never be surrendered. This power shall not be suspended or contracted away, except as provided in this article.²⁷

(Emphasis added.) Alaska's courts have not been called upon to determine whether this provision would prevent the indefinite suspension of the operative provisions of

U(...continued)

I suggest that this is the best way to proceed. Under this approach, failure of the effective date provision (sec. 19, above) to obtain a two-thirds vote might make editorial matters messy but would not jeopardize the intent of the legislature to reimpose the levy, suspend that re-imposition, and direct the manner of termination of the suspension.

²⁷ Elsewhere in article IX, explicit provision is made for certain types of tax exemptions. Section 4 collects and sets out a series of exemptions. The principal one exempts "[t]he real and personal property of the State or its political subdivisions . . . under conditions and exceptions which may be provided by law." The section also extends an exemption to "[a]ll, or any portion of, property used exclusively for non-profit religious, charitable, cemetery, or educational purposes, as defined by law" Finally, the section provides that "[a]ll valid existing exemptions shall be retained until otherwise provided by law."

the income tax in the manner contemplated by the committee. The very brief deliberations on this provision during the Constitutional Convention are not dispositive.³

Decisions in other jurisdiction may be helpful to an understanding of the purpose of the language of this section.

The former Montana constitution, dating from the end of the last century, contained a provision facially similar to Alaska's but limited in its effect to taxation of corporations:

The power to tax corporations or corporate property shall never be relinquished or suspended, and all corporations in this state, or doing business therein, shall be subject to taxation . . . on real and personal property owned by them and not by this constitution exempted from taxation.

Article 12, section 7, Montana Constitution of 1889. In a challenge to a statute imposing an income tax, but exempting corporations from the levy, the Montana Supreme Court, in Mills v. State Board of Equalization, 33 P.2d 563 (Mont. 1934), related this history:

[V]alid statutes exempting property, rights, or franchises, if made for a valuable consideration received by the Legislature which enacted such statutes, are within the rules of decision specifying the description of contracts entitled to protection from modification or repeal under

³ I did not find the record of the Alaska Constitutional Convention helpful. In the Minutes of the Constitutional Convention, at page 2320, this exchange appears:

KILCHER: . . . [I]n Section 1 [of Article IX], a similar question, in the second line, the power "shall never be suspended or contracted." Could you consider that the power of taxation—could you consider that taxes could be suspended, taxes applying to farms as a part of the integral industry?

NERLAND: I would suspect that if all farms in the Territory were so included, that perhaps they could be.

KILCHER: Yes, that's what I had in mind. Thank you.

PRESIDENT EOAN: Mr. Barr.

BARR: Mr. President, in line with that, in our property tax, which is now repealed, there was a clause in there exempting homesteads from taxation until one year after the owner gains clear title from the federal government. That was the case of taxes exempt for short periods.

the [impairment of contract] guaranty of the Federal Constitution. Such was the holding of the Supreme Court of the United States prior to the adoption of [the Montana] constitution, in Union Pass. R. Co. v. Philadelphia, 103 U.S. 528, 532, 25 L.Ed. 912 [(1880)], wherein it was said: "Stipulations in a statute of a State, exempting certain property, rights, or franchises from taxation, or engaging that the same shall be taxed only at a certain rate, if made for a valuable consideration received by the State whose legislature enacted the stipulation, is a contract, and as such comes within the rules of decision specifying the description of contracts entitled to protection from modification or repeal under the tenth section of the first article of the Constitution."

...

The manifest purpose of the prohibition against the relinquishment or suspension of the power of taxation was to prevent the creation of corporations under provisions of law whereby the right to tax such corporation or corporations was either relinquished during the existence of the corporation or suspended for a definite period of time.

33 P.2d, at 566 (emphasis added). Constitutions of a great number of western states--generally those admitted to the union after the Civil War--contain similar provisions. By the middle of the 20th century, the language of these provisions had been revised and broadened, with reference to "relinquishment" and "surrender" of the taxation power no longer limited to corporations. In its revised and expanded context, the concept and language were also urged on many states that were contemplating constitutional reform. In the context of the Model State Constitution prepared and presented by the National Municipal League, the language also was successfully urged on Alaskans during the 1955-56 Constitutional Convention.

Similar provisions in other state constitutions have generally been construed in light of the impairment of contract clause cited by the Montana court. Generally, courts are reluctant to conclude that particular legislation amounts to a surrender or suspension of the taxing authority in the absence of evidence of the legislature's making an irrevocable grant of exemption. Where the legislature chooses not to impose a tax or where it retains the power to increase or decrease taxes, the courts have determined that the legislature has retained full control over the taxing authority of the jurisdiction. Ziegler v. Witherspoon, 49 N.W.2d 318, 328 (Mich. 1951); Gruen v. Tax Commission, 211 P.2d 651 (Wash. 1949) (where "the legislature did not in any way relinquish or yield its right to impose a tax," there is no surrender of the power to tax). The form of the measure you have described to me and that I have prepared would seem to fit both requirements: the legislature is opting to put into place a mechanism to levy and collect a tax on individual income, has chosen not to burden individuals with that levy at this time, has not committed to a delay for a set period, and, in the law establishing the suspension, has explicitly reserved the right of a future

Representative Gene Kubina

April 1, 1992

Page 5

legislature to act by law to remove the suspension, thereby imposing the individual income tax levy.

The provisions postponing the taking effect of the operations of the levy do not, to my mind, constitute a "suspension" of the taxing authority outside of article IX. In its Gruen decision, the Washington Supreme Court defined "suspension" as "temporarily inactive or inoperative--that is, held in abeyance." Gruen, at 680. Suspension of the tax is precisely the situation that is what is contemplated in this committee substitute. However, suspension of the operative provisions of the proposed income tax is not the equivalent of the legislature's surrendering its authority to levy or its placing in abeyance its authority to levy and collect a tax. Indeed, the language I am suggesting in the footnote makes clear that the legislature contemplates a future imposition of the tax and declares that suspension of the individual income tax provisions may be set aside by law.

I trust this is sufficient for your purposes.

JBC:gc

92-268.glc

Enclosure

FISCAL NOTE

STATE OF ALASKA
1992 LEGISLATIVE SESSION

BILL NO. HB 525

Revision Date: March 20, 1992
Title: Taxation of Income and Individual
tax credits
Sponsor: Rep. Koonen
Requestor: _____

Department Affected: Department of Revenue
BRU: Revenue Operations
Component: Income and Excise Audit

COMPONENT SERIAL NO. | 1 | 1 | 3 |

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 93	FY 94	FY 95	FY 96	FY 97	FY 98
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LANDS & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	****	****	****	****	****	****
CAPITAL	****	****	****	****	****	****
REVENUE FUND SOURCE	****	****	****	****	****	****

FUNDING: (Thousands of Dollars)

GENERAL FUND	****	****	****	****	****	****
FEDERAL FUNDS						
OTHER FUND SOURCE						
TOTAL	****	****	****	****	****	****

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of current year impact: _____

ANALYSIS:

**** SEE ATTACHED

Prepared By: Rod Mourant *Rod Mourant* Phone: (907) 465-2300
Division: Income and Excise Audit Date: March 20, 1992

Approved by Commissioner: Darrel J. Rexwinkel *Darrel Rexwinkel*
Agency: Department of Revenue Date: 1/5/92

Distribution (by preparer): Leg. Fin., Legislative Sponsor, Requestor, OMB/DBR, Gov. Legis. Off., & Impacted Agency(ies)

3-25-92

Darrel J. Rexwinkel, Commissioner
Department of Revenue
State of Alaska

Dear Commissioner Rexwinkel:

I have been asked about the possibility of doing an individual income tax analysis for the State of Alaska and what such a venture would entail.

This is an extremely complex project requiring detailed analysis in order for any semblance of accuracy to be achieved and to be able to answer the myriad of questions associated with such a project. The "quick and dirty approach" does not work with this type of analysis simply because of the complexity of some of the questions involved, tax code itself, and interrelated revenue impacts.

I assume if the analysis is to be pursued the decision makers want the best information available in order to make informed judgments not only for budgetary considerations but because of the economic impacts on various income class groups within the state. Also, if the state is to once again implement such a program, the administering agency needs the best information available.

In view of past experience in undertaking such a task, we have inevitably been asked about not only differing basic tax structures such as a progressive verses a flat verses something akin to being linked or piggybacked to the federal system but about characteristics and programs peculiar to the state of Alaska. For example, should local sales taxes be deductible, should the permanent fund dividend be excluded or included for taxation, should the longevity bonus and other programs be taxable, should the federal Cost of Living Allowance (COLA) be included or excluded as taxable income, etc. and what are the impacts of doing or not doing these things. I have found, invariably, that as a tax bill makes its way through the legislative process it is subject to the amendment process and individual requests requiring us to be responsive in providing good information. The determination of the type of tax structure and the associated revenue impacts as well as answers to the questions asked by decision makers about programs in Alaska requires the development of a basic model with built in data information described below. The Department of Revenue at one time constructed such a model which could be programmed to answer the questions of decision makers.

The last individual income tax model was developed by the Department of Revenue in 1986. Subsequent analysis was based on that particular model. The model no longer exists and so the following is a brief outline of what is required to construct a tax model for the state of Alaska.

- 1) The Federal IRS tapes pertaining to taxpayers in Alaska. The information is broken down by type of return (i.e. joint, married filing separately, single etc.), income class levels, type of income (i.e. dividends, wages & salaries, interest, capital gains, pensions, etc.), along with other crucial data such as exemptions and deductions, all of which is necessary in terms of giving one a data base and the income profile for tax payers in the state of Alaska. The state has a contract with the IRS to obtain these tapes and we currently have some in house but rigid confidentiality procedures and conditions must be followed before the tapes can be used for this type of analysis.
- 2) A computer program has to be separately developed to run against the IRS tapes to correct errors in the raw data. The federal tapes include return information from other states, keying errors, and other problems that must be corrected.
- 3) Still a different computer program must be developed to reflect the record lay out of the IRS tapes i.e a program is necessary to read or map the various fields within the IRS program itself. Once this procedure is completed, one can then mesh the various programs so that the data is readable or understood.
- 4) An econometric model profiling the state of Alaska in terms of possible future economic scenarios must be developed or existing models used. The economic parameters used focus in on population, non agricultural employment, personal income and other factors which then enables one to "marry" this data with that of the IRS tapes. The IRS tapes revolve around historical information only and as such via integrating the econometric modeling we can project into the future.
- 5) The staff must also be familiar with tax code. If, for example, we adopt conventional tax concepts or certain traits akin to the federal system regardless of whether or not we develop a tax that attaches itself to the federal system, staff must consider such items as inflation indexing, deductions, tax credits, personal exemptions, capital gains, and other elements all of which might be phased in at different points of time over a period of several years. If a piggyback approach were adopted, this phasing in process certainly would be the case. The equations have to be built for this process and incorporated into the modeling effort. In any event the elements of tax code itself must be understood.

The efforts of the past in constructing the modeling procedures involved three full time economists, thoroughly familiar with tax code, and a programmer with SAS and COBOL abilities. The project itself, from start to finish and with all resources immediately available including programs, mainframe, tapes, and personnel, took six months to complete such that answers could be provided. Even so, the team agreed that refinements and improvements were needed to enable the modeling effort to be totally satisfactory.

If you have any questions, feel free to call.

Sincerely,

Vincent D. Wright

Vincent D. Wright

March 30, 1992

KFP
Koncor Forest Products Company

3501 Denat. Suite 202
Anchorage, Alaska 99503
(907) 562-3335 FAX (907) 562-0599

House State Affairs Committee
Alaska State Legislature
Room 102, Capitol
P. O. Box V
Juneau, Alaska 99811

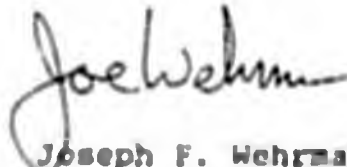
Dear Committee Members:

Koncor is a long-time, Alaskan owned and operated business that generates both revenues and jobs for a substantial number of our state's rural residents. You are preparing to consider HB 525 that would impose a graduated income tax on individuals in Alaska. We urge you not to allow this bill to pass out of your committee.

How can the legislature in good conscience even consider taxing the public while steadfastly refusing to halt the economic drain that the burgeoning and bloated state bureaucracy places on the budget? Why not look for ways that the state can cooperate with - and even encourage - businesses that will generate new jobs that pay a living wage to Alaskans instead of maintaining and increasing the size and funding appetite of the government?

Rather than pass an income tax, or any other form of revenue package that will serve to increase the present bureaucracy, you would far better serve the public interest by cutting the overall state budget back to reflect anticipated revenues from the present sources.

Sincerely,



Joseph F. Wehrman III
Governmental Relations Forester



Anchorage - Star of the North
Chamber of Commerce

**Testimony On HB 525
Presented By Ernie Hall, Chairman
Anchorage Chamber of Commerce
April 13, 1992**

Representative Kubena and Members of the House State Affairs
Committee:

I appreciate the invitation to testify before your committee as
Chairman of the Anchorage Chamber of Commerce and as a long time
Alaska businessperson.

The Chamber is aware of the fiscal gap and declining oil revenues. We
have made it a priority of the Chamber to raise public awareness of the
fiscal gap and we have passed a resolution that speaks to the issue.

We will provide a copy of this resolution with a written copy of this
testimony.

The Chamber has also drafted a resolution opposing new taxes, fees,
tolls or revenue enhancements this year.

This is not to say we do not believe that new taxes, fees, tolls or
revenue enhancements should not be enacted. The Chamber believes
that a band aid approach to taxes is not the answer.

The Legislature must look at the entire picture. Knowing the sources
of revenues and the areas where cuts can be made. Establish a plan for
dealing with the declines. A sequenced process must be established
before taxation is enacted.

page 2 Anchorage Chamber of Commerce

How can the State continue with entitlements such as the Permanent Fund and enact new taxes or increase taxes on the business community?

The Chamber believes this is not the appropriate time for a state income tax or any new taxes. Alaskans must be shown that there is a need for taxes after government has restructured spending priorities and established operational efficiencies at all levels of government.

We must see government acting in a responsible manner before new taxes are acceptable.

The Anchorage Chamber has said they will support those Legislators who make the difficult choices and make the cuts as long as those cuts are done in a fair and equitable manner.

As a businessman I cut back and make changes and adjustments if I know that there is going to be a declining economy. I don't continue spending at the same level until I go out of business. Sure, I look for revenue enhancements and aggressively market, but not without a plan or strategy. I also look at the capacity of my business and the people involved and plan accordingly.

I look for stability to continue to do business and live in Alaska. If the State of Alaska cannot provide a stable tax environment both on a business and personal level it will drive business away and discourage companies from doing business in Alaska.

Enacting a state personal income tax may be an answer, but not this year. We have this year to reduce, prioritize, evaluate and plan. If the plan includes new taxes there will be rational back-up and reasoning behind it making it much more acceptable to those on the paying end.

Thank you for allowing me the opportunity to testify.



Anchorage - Star of the North
Chamber of Commerce

Anchorage Chamber of Commerce
Resolution 2-92
Recommendations On The Fiscal Gap

Whereas the State of Alaska faces an excess of expenditures over projected revenues (Fiscal Gap), having a serious effect on funding for state government and;

Whereas there exists an opportunity to reduce the initial impact of the shortfall (Fiscal Gap) and provide time to formulate long term solutions by immediately restructuring spending priorities and assuring operational efficiencies at all levels of state government and;


Whereas the long term solutions should conform to state government spending for strictly defined traditional basic services (education, basic transportation, public health and safety).

Therefore be it resolved:

1. All functions of state and municipal government and school districts should be examined to eliminate waste, inefficiencies, duplications and excesses.
2. The State Legislature should work with the Governor, municipalities and school districts to prioritize and reduce spending to a defined level (fixed monetary figure) limited to traditional and efficiently operated basic government services (education, basic transportation, public health and safety).
3. Required funding for a streamlined and efficient government should be derived annually from realistic current revenue sources with minimum use of reserve funds and provide for a balanced state budget.
4. The state should aggressively seek supplemental revenue sources (e.g. in-kind contributions of assets in joint venture development activities with the private sector, encourage greater prudent economic development through a stable regulatory and taxation environment, user fees, privatization).
5. Evaluate entitlement programs to establish priorities for capping or elimination.

Signed on this 6th day of March, 1992.


Carol Heyman, President


Emie Hall, Chairman

Passed by the Anchorage Chamber of Commerce Board of Directors on March 6, 1992



Anchorage - Star of the North
Chamber of Commerce

**Anchorage Chamber of Commerce
Resolution 92-1
Creating Public Awareness Of The Fiscal Gap**

Whereas the Anchorage Chamber of Commerce Board of Directors and its Members have deemed "Finding Solutions To The Fiscal Gap" the number one priority facing the 1992 Legislative session; and

Whereas the general public needs to be aware of the budget crisis and create a public pressure to find solutions; and

Whereas the Legislators need to listen their constituents in finding solutions while continuing to protect the basic services of transportation, education, public health and safety.

Now, therefore the Anchorage Chamber of Commerce resolves to create awareness and educate the public on the budget crisis and fiscal gap through submission of public opinion pieces by the Chairman and follow-up letters to the editor and public opinion messages by the Board of Directors and Chamber members.

Passed by the Anchorage Chamber of Commerce Board of Directors
February 21, 1992



CITY OF FAIRBANKS
Office of City Mayor
410 CUSHMAN STREET
FAIRBANKS, ALASKA 99701-4683
907-459-6772

April 10, 1992

The Honorable Eugene Kubina
House of Representative
State of Alaska
P. O. Box V
Juneau, AK 99811

Dear Representative Kubina:

I am in receipt of your letter of April 2, 1992 and apologize for my delay in responding and any inconvenience this delay may have caused. The reason for my delay is both personal and professional. I have had life-threatening illnesses in my family which have prevented an earlier response as well as critical city business which has required my immediate attention.

You have asked my opinion and input on HB 525 - relating to State Income Tax on Personal Income. I have mixed feelings regarding this issue because: 1) I have observed over a period of five years that the State has increasingly raised fees and workforce while the City has steadily decreased our workforce and services, jeopardizing the health, wealth, and welfare of our citizens; and 2) I feel that a state income tax on income would be beneficial if, and only if, the state were to allocate a certain percentage of those revenues to the municipalities and/or boroughs who are in such desperate straits.

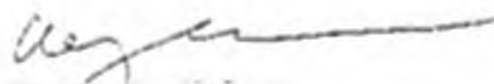
I do not advocate nor support an overwhelming tax burden placed on any individual with too many bureaucratic hands reaching into the pocket of the average income citizen, taking without any return to that individual. While I could and would support an income tax which is reasonable and would be shared locally, I could not and will not support an income tax that puts an undue financial burden on the individual; placing more monies in the State coffers, while local services decline, because of lack of funding, threatening the safety, health and welfare of every man, woman and child.

I do believe the HB 525 has merit but only with the municipality sharing that income on a per capita basis. It is time that the State recognizes that in this time of economic crisis, we need to share the financial burden and do what is expedient and in the best interests of the public as a whole.

Again, I regret my inability at this time to testify to this matter and would request that if this subject comes up at another time or if I can provide further information, please feel free to contact me.

With kindest regards, I am

Sincerely,
CITY OF FAIRBANKS



Wayne S. Nelson
Mayor

xc: Fairbanks City Council

**Municipality
of
Anchorage**



OFFICE OF THE MAYOR

P.O. BOX 198850
ANCHORAGE, ALASKA 99519-8850
(907) 343-4431
FAX 258-5210

**TOM FINK
MAYOR**

April 13, 1992

The Honorable Gene Kubina
Chairman, House State Affairs Committee
Alaska State Legislature
Juneau, AK

Dear Representative Kubina:

Mayor Fink has asked me to express his opposition to any legislation increasing the financial burden on Alaskans.

He has asked that a copy of his article printed in the April 11 issue of the Anchorage Times be included which fairly expresses his feeling on the subject.

Very truly yours,

Henry S. Pratt
Executive Assistant

Attachment

MAYOR'S REPORT

THE ANCHORAGE TIMES
APRIL 11, 1992

Voters do not want more taxes introduced

If I were to give one piece of advice to the legislators, it would be not to raise taxes or fees. Clearly, the Legislature and the governor have a substantial task in balancing next year's budget. The only cardinal sin would be to increase taxes or fees to balance it.

The public, whether in Anchorage, Alaska, or the United States, does not want additional taxes or fees imposed by government. The public is clearly saying — live within the money that you currently have.

In Alaska, that could mean continue the current spending by spending money out of the surplus accounts that we have, or it could mean cutting existing services, or a mixture of the two.

It appeared, a month ago, that the Legislature and the administration had decided to cut \$200 million to \$300 million from the maintenance level budget and to use \$500 million to \$600 million of some of the reserve accounts.

However, once the legislators started to particularize that \$200 million cut, they were no longer so eager to cut. When they found out that those kinds of cuts would result in a substantial reduction of services and a substantial reduction in state personnel, they began to get cold feet. Bills for new and increased taxes and increased fees began to move.

I grant the legislators that there is no absolute consensus in this state as to the appropriate public desires on state fiscal matters. There has been no vote for reduction of services, increased taxes and/or user fees, or the authorization of a maintenance budget using surplus funds. I also believe that there isn't any right or wrong correct answer other than the choice should be what the majority of the



Tom Fink

people want.

The primary pressure on the legislators is pressure from special interest groups that want to continue their programs. I do hope, however, that the legislators recognize the underlying attitude throughout Alaska and the country is against increased taxes or government fees.

The only exception in that anti-tax attitude, I believe, is that the public would be willing to pay, if money were dedicated to a purpose that the public approves. I do believe the public would approve, for example, a tax on motor fuel if the money were dedicated to the rebuilding or construction of roads.

By my count, there are over 20 proposed increases in taxes pending before the Legislature. The argument generally is that a particular tax hasn't been raised for a good number of years. Or that we're charging less than some other state. Or that we'll have to lay off some state troopers unless we increase the tax, etc.

Pressure on the legislators is from special interest groups that want to continue their programs. I hope that legislators recognize the underlying attitude throughout Alaska and the country is against increased taxes.

Another argument that doesn't fly is the one that we don't pay enough taxes. No one claims that we individuals are overtaxed comparatively. However, the burden is on those who want to increase taxes to show the public why it should pay more. The public says government is already wasting too much.

In addition to lack of a consensus to increase taxes, there is another reason not to increase taxes. Our economy is far from healthy. Increases in taxes or fees are not conducive to a healthier economy. Of course, laying off people is not conducive to a better economy either.

I believe that the public really wants government to be downsized, but not in a shocking manner. I would suggest that the legislators cut out some programs and reduce state personnel, but by attrition. I do suggest the legislators use whatever amount of surplus money is required.

The worst thing the Legislature could do today is raise taxes or impose fees in lieu of taxes.

Tom Fink is the Mayor of Anchorage.

NEWSPAPER COLUMN

If I were to give one piece of advice to the legislators, it would be not to raise taxes or fees. Clearly, the legislature and the Governor have a substantial task in balancing next year's budget. The only cardinal sin would be to increase taxes or fees to balance it.

The public, whether in Anchorage, Alaska, or the United States, does not want additional taxes or fees imposed by government. The public is clearly saying--live within the money that you currently have.

In Alaska, that could mean continue the current spending by spending money out of the surplus accounts that we have, or it could mean cutting existing services, or a mixture of the two.

It appeared, a month ago, that the legislature and the administration had decided to cut \$200 to \$300 million from the maintenance level budget and to use \$500 to \$600 million of some of the reserve accounts. However, once the legislators started to particularize that \$200 million cut, they were no longer so eager to cut. When they found out that those kinds of cuts would result in a substantial reduction of services AND a substantial reduction in state personnel, they began to get cold feet. Bills for new and increased taxes and increased fees began to move.

I grant the legislators that there is no absolute consensus in this state as to the approach the public desires on state fiscal matters. There has been no vote for reduction of services, increased taxes and/or user fees, or the continuation of a maintenance budget using surplus funds. I also believe that there isn't any right or wrong or correct answer other than the choice should be what the majority of the people want.

The primary pressure on the legislators is pressure from special interest groups that want to continue their programs. I do hope, however, that the legislators recognize the underlying attitude throughout Alaska and the country against increased taxes or government fees. The only exception in that anti-tax attitude, I believe, is that the public would be willing to pay if money were dedicated to a purpose that the public approves. I do believe the public would approve, for example, a tax on motor fuel if the money were dedicated to the rebuilding or construction of roads.

By my count, there are over 20 proposed increases in taxes pending before the legislature. The argument generally is that a particular tax hasn't been raised for a good number of years. Or that we're charging less than some other state. Or that we'll have to lay off some state troopers unless we increase the tax, etc.

Another argument that doesn't fly is the one that we don't pay enough taxes. No one claims that we individuals are overtaxed comparatively. However, the burden is on those who want to increase taxes to show the public why it should pay more. The public says government is already wasting too much.

In addition to lack of a consensus to increase taxes, there is another reason not to increase taxes. Our economy is far from healthy. Increases in taxes or fees are not conducive to a healthier economy. Of course, laying off people is not conducive to a better economy either.

I believe that the public really wants government to be downsized, but not in a shocking manner. I would suggest that the legislators cut out some programs and reduce state personnel, but by attrition. I do suggest the legislators use whatever amount of surplus money is required.

The worst thing the legislature could do today is raise taxes or impose fees in lieu of taxes.

Skip Bilhartz
P.O. Box 100360
Anchorage, Alaska 99510-0360

April 10, 1992

The Honorable Gene Kubina
Alaska State House of Representatives
State Capitol, Room 102
Juneau, AK 99801-1182

Dear Representative Kubina:

Thank you for your letter of April 2, 1992, requesting my personal thoughts on House Bill 525--Relating to State Income Tax on Personal Income. Clearly, the declining state revenue picture resulting from both lower oil prices and lower production levels is of considerable concern to all Alaskans. Developing and implementing sound plans now for dealing with the state's current and projected "fiscal gap" is of critical importance. I applaud your efforts in this regard.

Sound planning requires that realistic assumptions be made in assessing the future size of the fiscal gap. Current oil prices are low and world oil reserves are at record levels in an increasingly competitive international marketplace. With respect to North Slope production, oil rates will continue to decline. Even though massive investments in North Slope projects are scheduled, such as the Gas Handling Expansion "GHX-2 Project," these projects will only lessen the rate of decline.

Successful oil exploration can further mitigate production decline but only over the long term. The likelihood of another discovery the size of Prudhoe Bay is very, very remote. More likely, perhaps over the next few years, are one or two considerably smaller discoveries, such as the Point McIntyre oilfield. Nevertheless, oil exploration is extremely leveraging to both the state and the industry for the potential of longer-term revenues. The state has enormous power here to either discourage exploration efforts by adding costs to the industry, or to encourage

The Honorable Gene Kubina
April 10, 1992
Page 2

exploration through new leasing initiatives and streamlined permitting management.

To solve the "fiscal gap" problem, I believe a combination of several measures will likely be necessary--both on the expenditure reduction side and on the revenue enhancement side. On the expenditure reduction side, the Administration and the Legislature need to develop a consensus as to what is the appropriate and sustainable level of services that the state should provide in this new economic climate. Such a costed and prioritized list of services could be reality tested on a per capita basis against corresponding services provided by other states. Broad entitlement programs not common elsewhere will likely emerge for debate on the desirability of converting such programs to a "needs" basis. On the revenue enhancement side, the reinstatement of a personal income tax is certainly one measure that needs to be debated. Another such measure might be utilizing the Permanent Fund earnings that are now used for inflation proofing, for state operating budget purposes.

Options such as these and others have been articulated well in the six ISER (Institute of Social and Economic Research) reports prepared between 1989 and 1991 at the University of Alaska. I have taken the liberty of enclosing ISER Report No. 6, April 1991, which does a good job of outlining four options for reducing the fiscal gap by \$500 million. Included in the paper is consideration of a state personal income tax. As presented, such a tax could generate revenues in the neighborhood of \$200 million annually. While it is unpleasant to consider the prospect of returning to such a tax, it may well be a preferred option over the elimination of state programs that are focused upon and critical to the well-being of our less advantaged citizens.

I believe it is both timely and appropriate for your State Affairs Committee to be debating measures that can help resolve the state's fiscal problems. I encourage a thoughtful

The Honorable Gene Kubina
April 10, 1992
Page 3

and collaborative, bipartisan discussion at your hearing on April 13. I appreciate your offer to attend the hearing in person or by teleconference, but regret that I will not be able to participate.

As you can well imagine, my company also is diligently continuing to work the similar issues of cost minimization and revenue enhancement--from production optimization. This will help us sustain our exploration program. I know how challenging and difficult working such issues are--and how painful it can be to take essential actions such as we took with our reduction-in-force program last September, and as others in the oil industry are taking now.

Thank you for soliciting my thoughts, and I wish you success in your efforts.

Sincerely,

SKIP

H. L. "Skip" Bilhartz



ISER FISCAL POLICY PAPERS

No. 6, April 1991

Institute of Social and Economic Research

University of Alaska Anchorage

Who Will Pay For Balancing the Budget?

Alaskans will pay more and get less from state government in the 1990s. But how will the burden of spending cuts and tax increases fall on richer and poorer and urban and rural households? That depends on which policies state officials choose.

Alaska faces big and growing budget deficits because the petroleum revenues that mostly paid for state government in the 1980s are steadily shrinking. When those deficits will start is uncertain, but low world oil prices are erasing the budget surplus state officials had expected as a result of the Middle East war. (See page 16.)

Whenever budget deficits start, state officials will face tough choices—how much to cut spending and how much to raise taxes; which programs to cut; whether to use Permanent Fund earnings; and many others. Those choices will affect all Alaska households, but not in the same way.

This paper assesses how different taxing and spending policies could affect different kinds of households. As a measure of those effects we examine relative losses in disposable household income.

Budget deficits will of course have other effects on households. Some households will be hurt a lot more than others by broad economic losses and reduced government services. Alaskans who lose their jobs will obviously suffer bigger losses than we describe.

But relative household income loss is a good measure of the equity of various fiscal policies. We estimate losses in disposable household income by comparing how various fiscal policies reduce state transfer payments and increase state and local taxes.

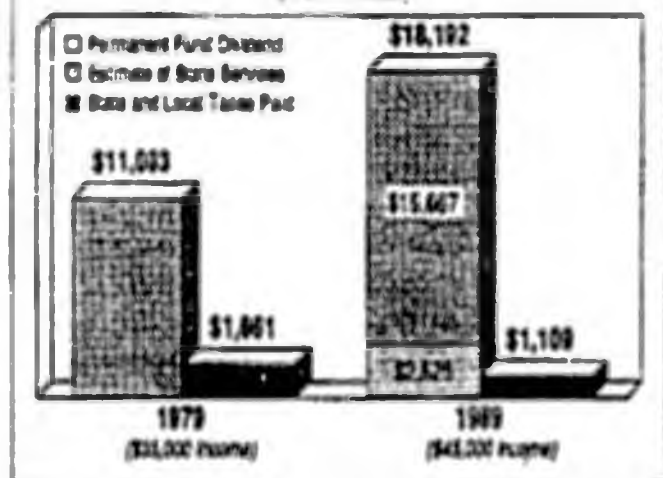
Figure 1 provides perspective by comparing services received and state and local taxes paid by a fairly typical Alaska household in 1979 and 1989. (All numbers are in 1989 dollars, to remove the effects of inflation.) Households generally get more in value of services than they pay

in state and local taxes, because businesses and the federal government help pay government costs. But in Alaska in the 1980s services grew, taxes dropped, and the state government began paying Permanent Fund dividends.

As the figure shows, a couple with one child and a median income in 1979 would have received about six times as much in state services as it paid in state and local taxes. By 1989, the same household with a median income would have collected 17 times as much in Permanent Fund dividends and state services as it paid in just local taxes. (No major state taxes existed in 1989.)

So within 10 years, Alaska households were getting 60 percent more from the state and paying 40 percent less in taxes. We're not suggesting what the relationship between value received and taxes paid ought to be. We're just pointing out that today Alaskans, regardless of income, pay little or nothing for state and local government—because there are no major state taxes and Permanent Fund dividends frequently exceed local taxes.

Figure 1. How Much Does a Typical Household Receive and Pay?
(in 1989 Dollars)



This is the sixth in a series of ISER Fiscal Policy Papers examining state government revenues and spending. We intend the papers to focus the attention of state officials and other Alaskans on the fiscal crisis in Alaska's future. The authors are Alexander Hill, Matt Berman, Linda Leach, and Scott Goldsmith. Monique Dalefos prepared the graphics. The series is financed by a grant from ARCO Alaska.

But what will happen when the budget ax begins to fall? We can assess the equity of potential fiscal policies by looking at their comparative effects on wealthier and poorer regions of Alaska, or at their comparative effects on wealthier and poorer households within any region.

To analyze how different fiscal policies could affect diverse households—both across and within regions—we developed specific sample households and broad household averages. We then analyzed how various fiscal policies would affect disposable household incomes of the sample households and of Alaska households on average. (Disposable income is defined on page 3.)

The facing page describes our sample households, which are similar to many actual Alaska households. The averages shown in figures throughout the rest of this paper illustrate how different fiscal policies would affect Alaska households, if every household paid the same amounts in taxes and collected the same amounts in transfer payments. They provide baselines for comparison.

We examine relative household income losses under various measures designed to fill a \$500 million budget deficit. We used a \$500 million gap because that's the magnitude of deficit likely to open sometime in the next five years. We wanted to illustrate the kinds of budget balancing measures that will be necessary in the relatively near future. The size of the gap, and the measures needed to fill it, will increase over time. The gap could be twice as large by the start of the next century, depending on world oil prices and other factors. (See page 16.)

We assess relative losses in disposable household income under individual taxes and under four fiscal packages that in various ways combine budget cuts, tax increases, and use of Permanent Fund earnings to fill a \$500 million budget gap. We also examine whether different kinds of households would lose more by giving up their Permanent Fund dividends or by paying new taxes.

Without advocating particular choices, we tried to cover a range of options open to policymakers. We also recognize that if policymakers in fact decided to implement or run options—like changing the Permanent Fund Dividend program, for instance—they'd first have to make statutory changes.

Figure 2 sets the stage for our analysis of household income losses by showing how much our

five sample households and Alaska households on average currently collect in state transfer payments and subsidies and how much they pay in state and local taxes. (Transfer payments and subsidies received by sample households are specified on the facing page. Major transfers included in calculations of the averages are the state portion of public assistance programs and the Permanent Fund Dividend, Power Cost Equalization, and Longevity Bonus programs.)

Three of the households—the single person and the families with median and higher incomes—collect just Permanent Fund dividends, which make up between 3 and 7 percent of their incomes. They pay between 3 and 4 percent of their incomes in state and local taxes.

The single parent's low income qualifies her for day care assistance and other subsidies in addition to Permanent Fund dividends; she depends on those payments and subsidies for a third of her income and pays about 2 percent in taxes. The retired couple qualifies for Longevity Bonus payments and Permanent Fund dividends, which make up nearly 20 percent of its income, and is exempt from property taxes. (That exemption was enacted so that older Alaskans on fixed incomes could afford to stay in their homes as property values increased.)

Pages 4 and 5 show distributive effects on households of imposing state sales, income, and property taxes and eliminating the Permanent Fund dividend. Pages 6 through 13 describe the four fiscal packages and show their distributive effects on disposable household income. The last pages offer conclusions.

Figure 2. Payments To and Taxes From Alaska Households, 1989

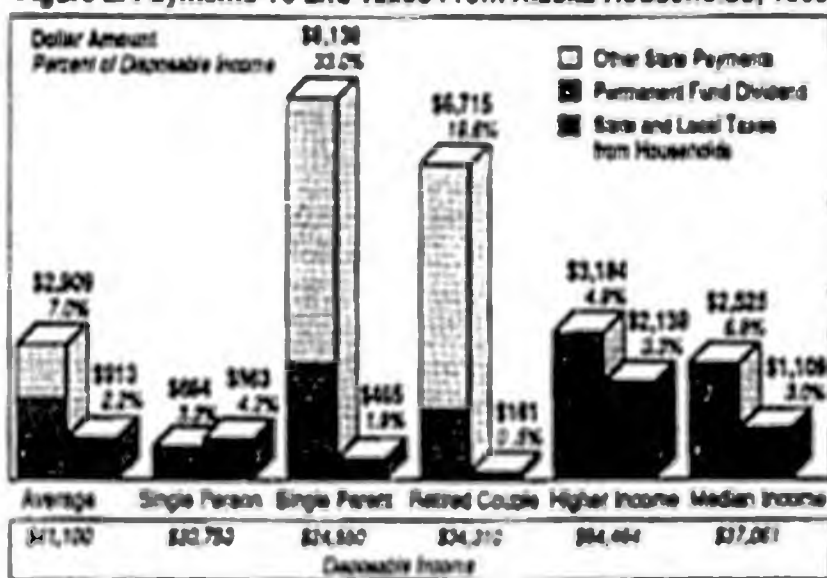







Table 1. Profiles of Sample Households

SAMPLE HOUSEHOLDS: Our five sample households are described in detail below. We chose them in part because each is similar to many actual Alaska households. The overviews of households make it plain that households in different circumstances, or at different phases in their life cycles, have very different tax burdens in relation to income. When we refer to income anywhere in this paper, we mean disposable income—which is total income, including subsidies and imputed rent, minus income taxes and Social Security taxes.

Sample Households	Annual Income	Annual Expenditures
 <p>SINGLE PERSON: A single man living alone in a rented two-bedroom apartment and earning \$12 per hour. His major debt is his car payment.</p>	<p>Wages \$25,000 Perm Fund 950 Total Income 25,950 Disp. Income \$20,750</p>	<p>Federal Taxes \$5,800 Food 2,900 Rent 7,200 Transp 3,500 Other 6,400 Savings \$750</p>
 <p>SINGLE PARENT: A low-income single mother with two young children, living in a subsidized apartment. She is employed full-time for \$6.50 per hour. She receives several state and federal subsidies that substantially increase her disposable income—housing, day care, and energy cost subsidies and food stamps.</p>	<p>Wages \$13,200 Perm Fund 2,850 * Food Stamps 1,932 * Housing Sub 2,664 * Day Care Sub 5,400 * Energy Assist 168 Total Income 28,214 Disp. Income \$24,560</p>	<p>Federal Taxes \$1,664 Food 4,300 Rent 6,600 Transp 3,750 Day Care 6,300 Other 3,600 Savings 80</p>
 <p>RETIRED COUPLE: A retired couple, both over 70. The husband receives a pension, both receive Social Security and Longevity Bonuses. They own their home, so we add to their effective income an "imputed rent"—the amount they save in housing costs which is equivalent to the return on their home equity. As senior citizens they are exempt from property tax on their home.</p>	<p>Social Security 80,325 Pension 12,600 Longevity Bonus 6,000 Perm Fund 1,900 * Imputed Rent 6,000 Total Income 106,825 Disp. Income \$34,310</p>	<p>Federal Taxes \$1,515 Food 4,500 Transp 4,000 Misc. Home 4,200 * Imputed Rent 6,000 Health Care 2,000 Other 13,800 Savings 30</p>
 <p>HIGHER INCOME: A working couple with two children in elementary school. Both parents earn above-average wages. The family lives in a house valued at \$200,000 and carries a large mortgage.</p>	<p>Wages \$80,000 Perm Fund 3,800 Invest Income 600 Total Income 84,300 Disp. Income \$64,464</p>	<p>Federal Taxes \$19,826 Food 6,500 Mortgage 21,600 Transp 12,800 Day Care 3,600 Other 13,200 Savings \$4,200</p>
 <p>MEDIAN INCOME: A couple with one child. The husband earns above average wages and the wife cares for the child. Their home is valued at \$85,000 and they have little equity.</p>	<p>Wages \$42,000 Perm Fund 2,850 Invest Income 150 Total Income 45,000 Disp. Income \$37,061</p>	<p>Federal Taxes \$7,939 Food 5,400 Mortgage 8,450 Transp 6,100 Other 16,100 Savings \$2,000</p>

* Indicates subsidies or other forms of in-kind income that households don't receive as direct cash payments but which add to effective buying power of households. The U.S. Department of Commerce also includes these in its definition of personal income.

Sources: ISER household surveys, U.S. Bureau of the Census Consumer Expenditure Surveys and Current Population Survey, P-73, No. 12, State of Alaska, Office of Management and Budget Report 806-S1, Welfare Reform and Public Assistance Recipients in Alaska.

Details available on request.

Figure 3. Relative Effects of Raising Taxes

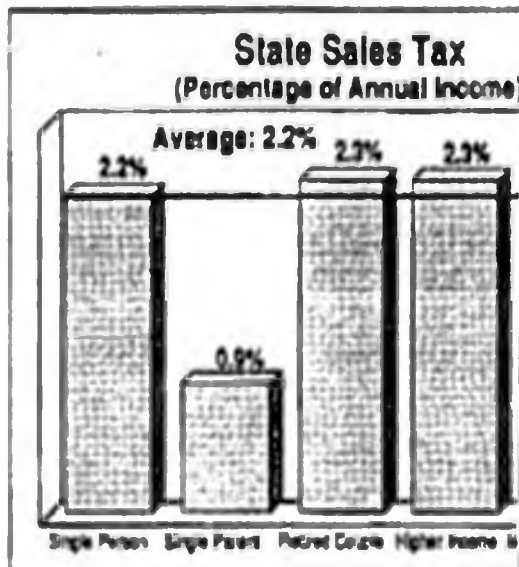
Sales Tax (\$216 million In Revenues)

Assumptions: Six percent state sales tax; food and most services excluded. Local sales taxes would be in addition to the state tax.

General: Proportion of income paid as sales tax is determined by how much of a household's spending is on taxed items. Households with large non-taxed subsidies or high housing costs would pay proportionately less, while households with more discretionary spending would pay more.

Percentage of Income: Because the state tax base excludes many types of spending, the effective tax rate for the average household would be about 2.2 percent of annual income. The single parent would pay relatively little, because much of her income is in subsidies that must be spent on non-taxed items.

Regional Differences: Rural families that rely heavily on subsistence (non-cash income) would pay less in sales taxes if the value of their non-cash income (subsistence food and imputed rent) were included in their disposable income. However, they might pay a larger portion of their



money income in sales taxes because a high money spent is on taxable items.

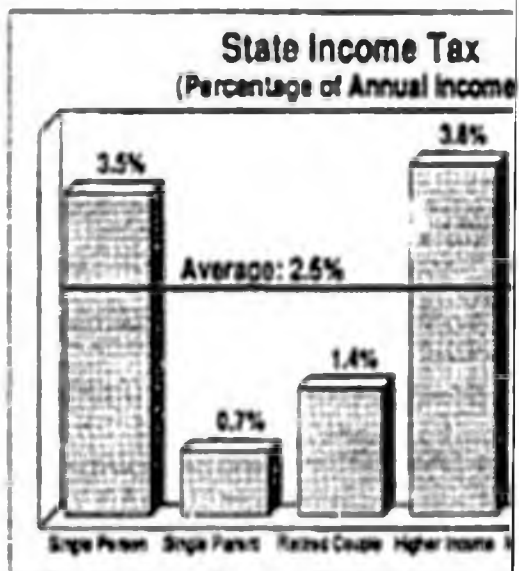
Income Tax (\$210 million In Revenues)

Assumptions: Adjusted gross income taxed at 3.2 percent for the first \$30,000 and 5.6 percent above that. Per person exemption of \$3,000. Tax bills of the median and the higher-income families are net of the reduction in federal income tax that would result from deducting state taxes on federal returns.

General: The income tax is structured to tax higher incomes at a higher rate, but actual payments depend on deductions, amount of non-taxable income, and subsidies that effectively increase income but aren't taxed.

Percentage of Income: Average cost to Alaska households would be about 2.6 percent of annual income. The single parent and the retired couple would pay less than average, because their incomes are below the median and portions are not taxed. The single person would pay about the same percentage as the median and higher income families, even though his income is much lower. That's because the families have more exemptions and can itemize deductions (including state taxes) on their federal income tax returns, while the single person can't.

Regional Differences: Rural incomes are generally lower than urban, so many rural households would pay



less income tax. However, some rural jobs equivalent urban jobs, since rural living costs so rural residents with higher wages would pay taxes and lose more buying power.

and Eliminating Permanent Fund Dividends

Property Tax (\$120 million in Revenues)

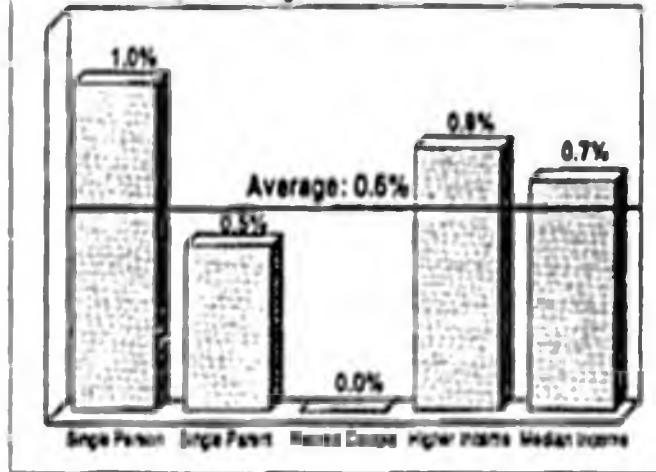
Assumptions: State property tax of 20 mills, with local property taxes (frozen at 1989 levels) deductible. The effective state tax rate is the difference between the existing local rate and 20 mills. Households that do not own property pay indirectly through increased rent.

General: The figures show potential additional property tax for Anchorage households, which we are using as a benchmark. Figures would differ for every community. Current local property tax rates vary considerably across regions; this measure would equalize mill rates statewide.

Percentage of Income: Average cost to Anchorage households would be about 0.6 percent. The single person would bear a relatively high burden, because he lives in an apartment that is more valuable than average while his income is below average. Those who live in mobile homes, by contrast, would pay a lot less. Alaskans over 65 are exempt from property tax.

Regional Differences: Areas which now have the lowest local property taxes would see the biggest increase under a combined state and local tax of 20 mills. Sitka, for instance, could see property taxes triple. Many rural areas

State Property Tax, Anchorage
(Percentage of Annual Income)



currently have no local property tax, so the increase would be large—but offsetting that increase would be the generally lower value of rural property.

Eliminate Permanent Fund Dividend (\$439 million in Revenues)

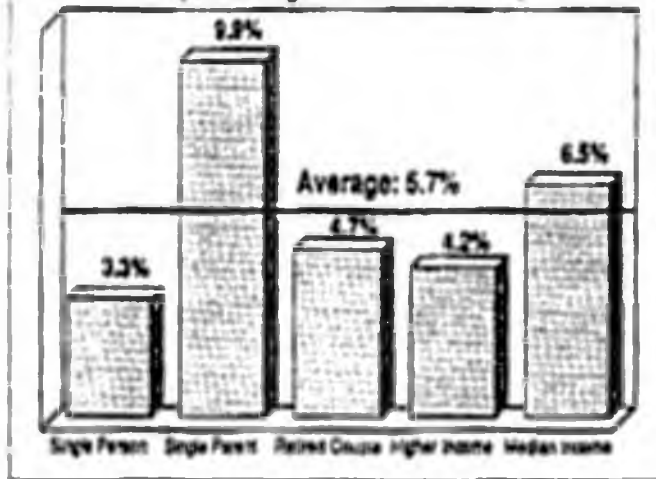
Assumptions: Permanent Fund dividend program eliminated.

General: Eliminating the dividend would cost larger, lower-income families a bigger share of income, since each member of every household is paid equally.

Percentage of Income: On average households would lose 6 percent of income. The single parent would lose nearly twice the average, because her household would lose three dividends and her income is low. The single person would lose less than average, because he has a moderate income and loses only one dividend. The higher income family would also lose less than average, even though they give up four dividends, because their income is so much higher than average.

Regional Differences: Rural households on the whole tend to be bigger and to have smaller incomes than urban households—so in general rural income losses would be larger.

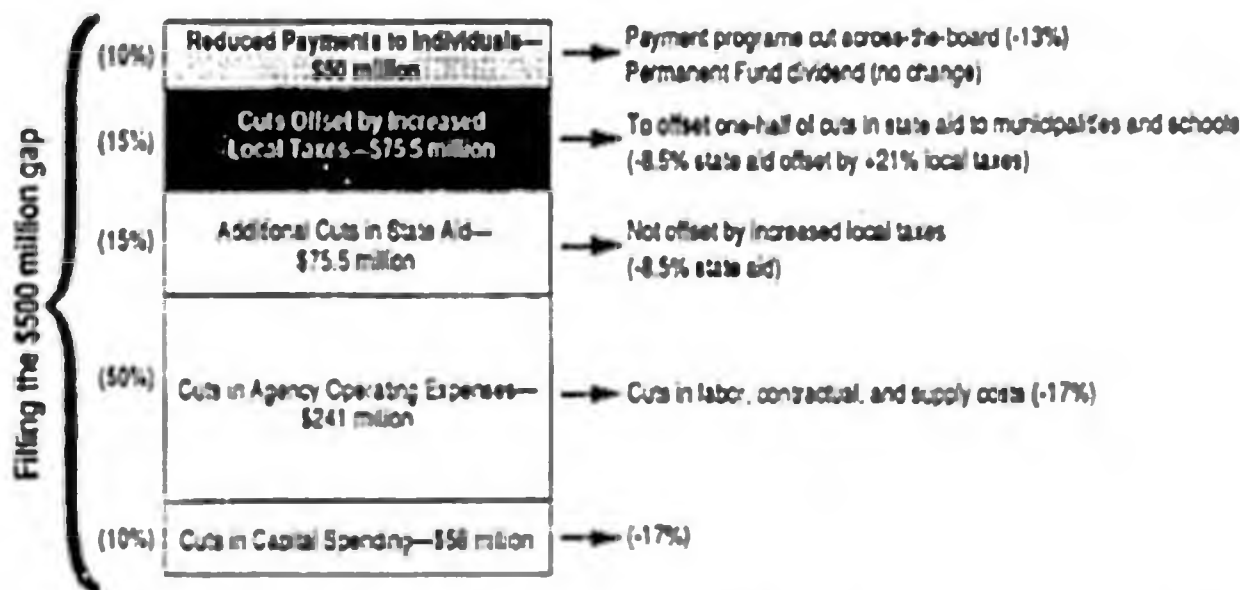
Eliminate Dividend
(Percentage of Annual Income)



Fiscal Package 1. Cut Budget Across-the-Board • Fiscal Package 1. Cut

- ASSUMPTIONS:**
- State general fund spending of \$2.5 billion (in 1990 dollars)
 - Fiscal gap (the difference between current spending and expected revenues from existing sources) of \$500 million (in 1990 dollars)
 - No new state taxes; cut most spending across-the-board; leave Permanent Fund dividend program intact
 - Local governments make up half the cuts in state aid through increased local taxes

DESCRIPTION: This package illustrates the approach of balancing the budget by cutting all kinds of spending equally. It would close a \$500 million gap entirely through deep budget cuts across all operating and capital programs, with a few exceptions. The figure below shows how a \$500 million gap would be filled under this approach. The percentages at the left show how much of the gap would be filled by each category of cuts. The percentages at the right show how much each type of spending would be cut, or how much state and local taxes would be increased.



BROAD ECONOMIC AND SERVICE EFFECTS: Cuts of this magnitude would cost the economy tens of thousands of jobs and millions of dollars of income, as described in *Fiscal Policy Paper No. 5*. State and local services would be reduced. The cuts would be reflected in things like fewer new schools and other public facilities; poorer maintenance of existing roads, schools, and other public buildings; higher local taxes; larger class sizes; less police and fire protection; fewer regional offices for state agencies; and slower responses from state and local agencies.

BROAD HOUSEHOLD EFFECTS: The household disposable income losses we discuss in these fiscal packages are just the result of increased taxes (either local tax increases in response to cuts in state aid or new state taxes) and reduced state transfer payments. The effects of loss of government services are not reflected. Income losses among households that lost jobs would be much higher.

Deep across-the-board cuts would take the most from households that rely more on transfer payments or subsidies—poor working parents, older people, and many rural residents, for instance. Households with higher incomes would lose less, because they don't rely as much on state payments—and the only new taxes they'd have to pay would be any increases in local taxes that municipalities and boroughs imposed to make up for reduced state aid.

Note: Certain categories of operations spending are protected from cuts by law. The state must pay debt service on its general obligation bonds. Welfare and medical assistance programs are federally mandated and only certain optional expenses can be cut.

Budget Across-the-Board • Fiscal Package 1. Cut Budget Across-the-

MEASURING HOUSEHOLD INCOME LOSSES: Below we assess comparative effects of Fiscal Package 1 on our sample households and on Alaska households on average. The figure (immediately below) shows percentages of disposable income households would lose through reduced transfer payments and increased local taxes. (There are no state tax increases under this package.) The figure at the bottom of the page shows how Fiscal Package 1 would change transfer payments households receive and state and local taxes they pay; these can be compared with the existing balance of payments and taxes shown on page 2.

RELATIVE HOUSEHOLD INCOME LOSSES:

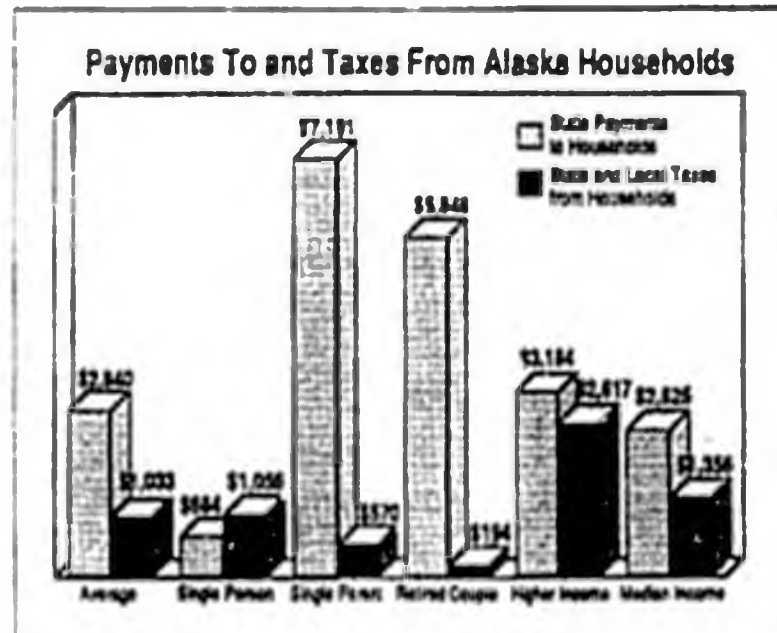
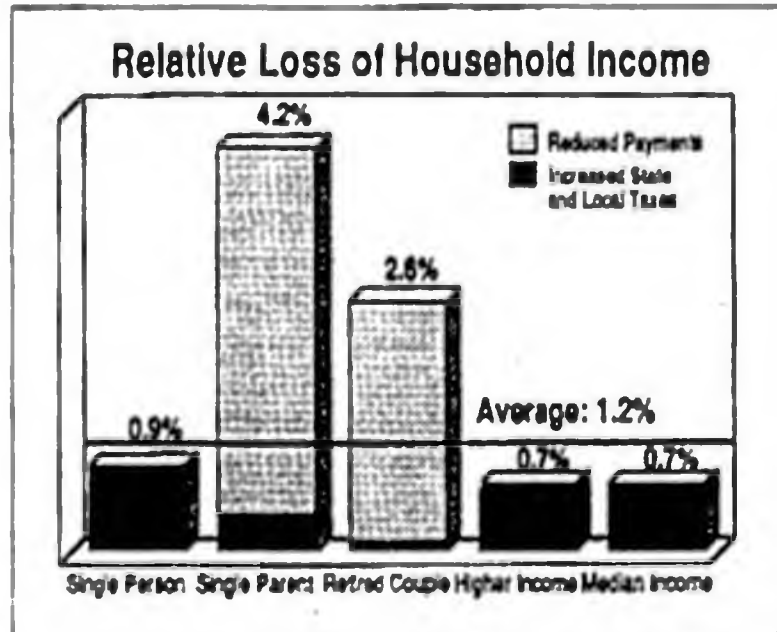
Alaska households on average would lose about one percent of their incomes as a result of reduced transfer payments and increased taxes. The retired couple and the single parent would lose much more, because Longevity Bonus payments and day care subsidies would be cut sharply. The other households would lose less than average—because they receive only Permanent Fund dividends (which wouldn't be cut under this package), and they would pay just local tax increases.

PAYMENTS AND TAXES: All households except the single person would still receive considerably more in state payments than they pay in state and local taxes. However, the retired couple and the single parent would each lose close to 12 percent of their transfer payments. The single person would end up paying more than he receives because he gets only one dividend.

RELATIVE HOUSEHOLD LOSSES BY REGION:

(Not shown) Households in rural regions are frequently larger and poorer than urban households. So they typically receive more in transfer payments—and therefore stand to lose more under deep cuts in transfer payments. Rural communities also generally receive higher per capita state payments for education and general government. So if rural governments chose to make up at least a portion of cuts in state aid by raising local taxes, households in rural regions

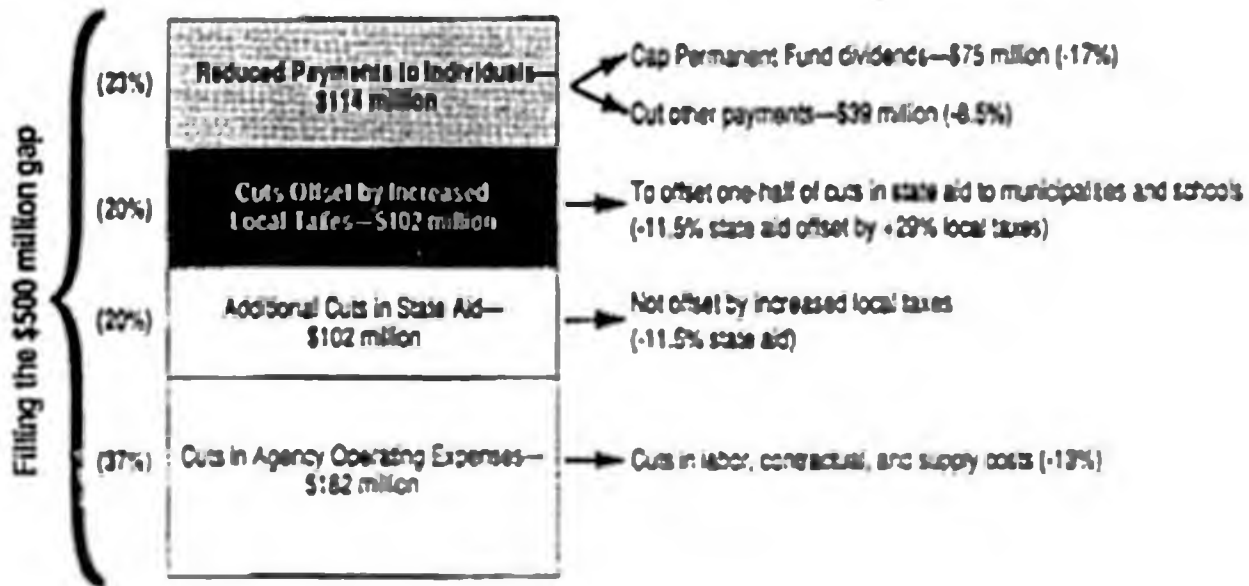
would have to make up proportionately more than urban households. Exceptions would be households in communities with virtually no tax bases, which don't have the capacity to pay much tax, and communities with extremely large commercial tax bases (like the North Slope Borough) which take much of the tax burden off households.



Fiscal Package 2. Preserve Capital Budget • Fiscal Package 2.

- ASSUMPTIONS:**
- State general fund spending of \$2.5 billion (in 1990 dollars)
 - Fiscal gap (difference between current spending and expected revenues from existing sources) of \$500 million (in 1990 dollars)
 - No new state taxes; preserve capital budget; deep cuts in aid to local governments and schools and across-the-board cuts in other operating expenses; cap Permanent Fund dividends at 1990 expenditure per recipient
 - Local governments make up half the cuts in state aid through increased local taxes

DESCRIPTION: This package illustrates the approach of maintaining capital spending and putting more of the burden of government operating costs on local governments. It would leave capital spending intact and make across-the-board cuts in most operating expenses, but with deeper cuts in aid to municipalities and schools. It would also cap Permanent Fund dividends at the 1990 level and shift the savings to the General Fund. The figure below shows how this approach would fill a \$500 million fiscal gap. The percentages at the left of the figure show how much of the gap would be filled by each category of cut. The percentages at the right show how much each type of state spending would be cut or how much state and local taxes would be increased.



BROAD ECONOMIC AND SERVICE EFFECTS: Deep cuts in the operating budget could cost the economy tens of thousands of jobs and millions of dollars in income, as described in Fiscal Policy Paper No. 5. Government services would be broadly reduced, but local programs would be hit especially hard.

BROAD HOUSEHOLD EFFECTS: Household income losses discussed in these packages are just losses resulting from reduced transfer payments and increased taxes (either local tax increases in response to cuts in state aid or new state taxes). Not reflected are effects of reduced services. Losses among household that lost jobs would be much larger.

Households that rely most on transfer payments would lose the most under this package—poor households, households with older people, and many rural households. The cap on Permanent Fund dividends would cost all households some income, but bigger, poorer households would be hurt more. Households would have to pay higher local taxes to help offset sharp cuts in aid to schools and local governments.

See note, page 6.

Preserve Capital Budget • Fiscal Package 2. Preserve Capital Budget

MEASURING HOUSEHOLD INCOME LOSSES: Below we assess comparative effects of Fiscal Package 2 on our sample households and on Alaska households on average. The figure immediately below shows percentage losses in disposable household income; those numbers show proportional losses among different kinds of households. The figure at the bottom of the page shows how Fiscal Package 2 would change state payments households receive and state and local taxes they pay. These numbers can be compared with the existing payments and taxes shown on page 2.

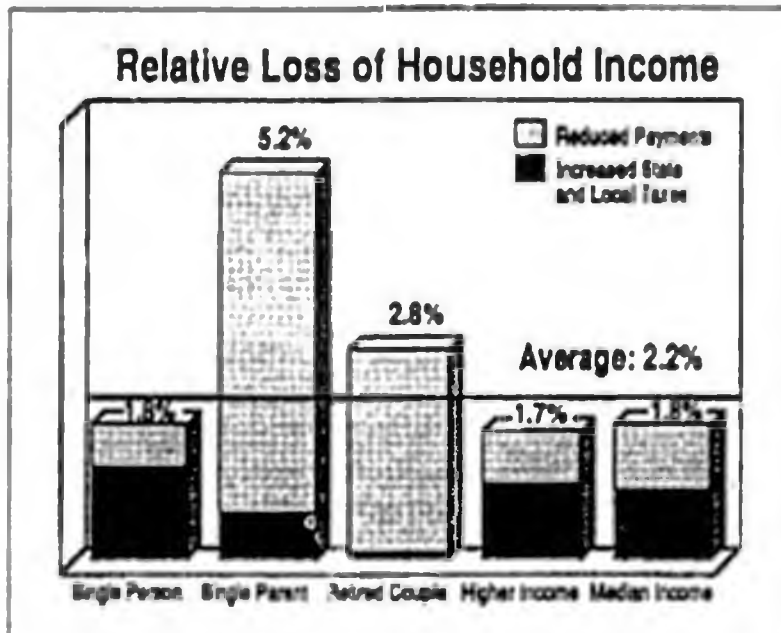
RELATIVE HOUSEHOLD INCOME LOSSES:

Alaska households on average would lose 2.2 percent of their incomes under this package, mostly in reduced transfer payments. The single mother and the retired couple would lose much more, because day care subsidies and Longevity Bonuses would be cut.

PAYMENTS AND TAXES: Three of the five households would still receive more than they paid, but the retired couple and the single mother would both lose close to 15 percent of their transfers because of cuts in day care subsidies and Longevity Bonuses and a cap on dividends. The single person would pay almost twice as much in state and local taxes as he would receive under the capped dividend program, and the higher income family would pay slightly more than they receive.

RELATIVE HOUSEHOLD LOSSES BY REGION:

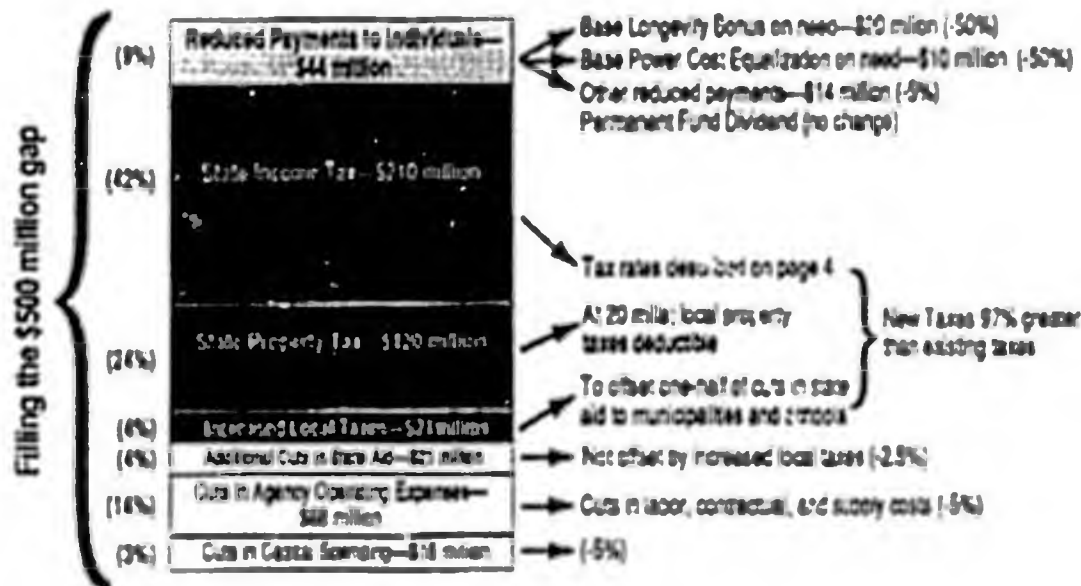
(Not shown.) Comparative regional household losses under this package would be similar to those described under Package 1, except that in all regions both cuts in transfer payments and increases in local taxes would be larger. That's because dividends would be capped under this package, and local government aid would be cut more. Areas that have very limited local tax capacity would lose the most services, since they couldn't raise local taxes to make up for cuts in state aid, especially education aid.



Fiscal Package 3. Impose Ability to Pay • Fiscal Package 3. Impose

ASSUMPTIONS: State general fund spending at \$2.5 billion (in 1990 dollars)
 Fiscal gap (difference between current spending and expected revenues from existing sources) of \$500 million (in 1990 dollars)
 Impose state income and property taxes; base some transfer programs on need, make up remaining deficit through across-the-board cuts in operating and capital spending
 Local governments make up half the cuts in state aid through increased local taxes

DESCRIPTION: This package illustrates an approach that would close the gap through a number of measures based on Alaskans' ability to pay: a new state income tax; a property tax that would equalize property tax rates statewide; and changes that would impose need criteria on the Longevity Bonus program and the Power Cost Equalization program. (We recognize that such changes would require statutory changes.) Permanent Fund dividends would be left intact. The figure below shows how this approach would fill a \$500 million fiscal gap. The percentages at the left show how much of the gap each category of cut would fill. The percentages at the right show how much each type of spending would be cut or how much state and local taxes would be increased.



BROAD ECONOMIC AND SERVICE EFFECTS: Economic losses would be smaller under this package than under packages 1 and 2, because state spending cuts would be smaller, but tax increases also cost the economy some jobs and income (see Fiscal Policy Paper No. 5). Loss of government services would be only about a third as large under this package.

BROAD HOUSEHOLD EFFECTS: Household income losses discussed in these packages are just the result of reduced transfer payments and increased taxes (either local tax increases in response to cuts in state aid or new state taxes). Not reflected are effects of reduced services. Income losses among those households that lose jobs would be much higher.

Older Alaskans with moderate or higher incomes stand to lose the most under a policy that ties Longevity Bonus payments to need. Some rural households would lose their subsidies for electric bills if the Power Cost Equalization Program were tied to need, how many would be affected would depend on what income level was designated as needy. Moderate and higher income households would pay more than average income users.

See note, page 6.

13

Ability to Pay • Fiscal Package 3. Impose Ability to Pay

MEASURING HOUSEHOLD INCOME LOSSES: Below we assess the effects of Fiscal Package 3 on our state and on Alaska households on average. The figure immediately below shows percentage losses in disposable income, illustrating proportional losses among households. The figure at the bottom of the page shows how Package 3 would change state payments households receive and state and local taxes they pay. The figures are compared with the existing payments and taxes shown on page 2.

RELATIVE HOUSEHOLD INCOME LOSSES:

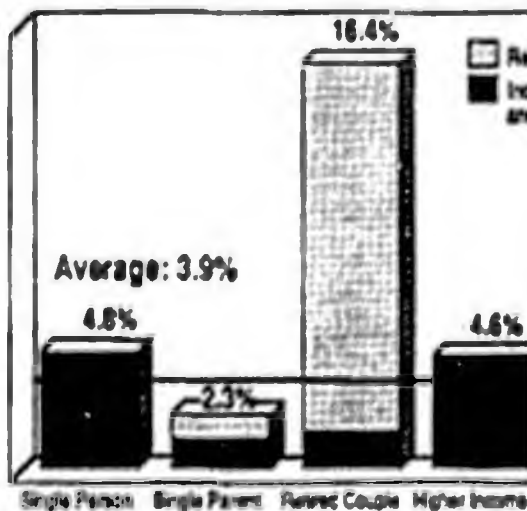
Alaska households would lose on average about 4 percent of their incomes under this package, mostly as a result of new state taxes. The retired couple would lose four times that much, because we assume their income level would make them ineligible for Longevity Bonus payments based on need. The single person would pay higher than average income taxes, because he has no dependents and because he would be unable to reduce the impact on his tax bill by deducting state taxes from his federal return.

PAYMENTS AND TAXES: Households that are able to pay—the single person, the median income family, and the higher income family—would pay more than they receive under this package. The single person would pay three times as much as he receives, because he collects only one Permanent Fund dividend (and he loses more of that dividend to federal taxes than any other household). But the higher income family would also pay substantially (50 percent) more than it collects. The retired couple would lose 75 percent of state payments in losing Longevity Bonus payments. The single person's transfers payments would remain mostly intact.

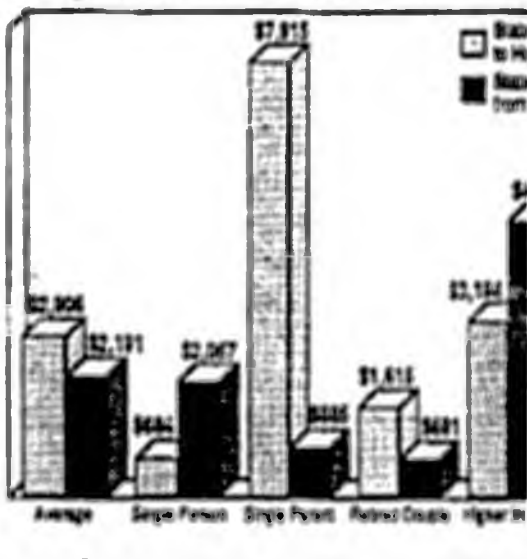
RELATIVE HOUSEHOLD LOSSES BY REGION:

(Not shown) Of course average household tax bills would be higher in all regions under this package, because it adds new taxes. But the relative new tax burden would fall more on urban regions, which generally have higher incomes. However, it is income of individual households that makes the big difference—rural households that have high incomes would also pay relatively high taxes. Both urban and rural—those currently have low mill rates because their commercial tax bases are larger—would see increases than areas where existing property taxes are higher.

Relative Loss of Household



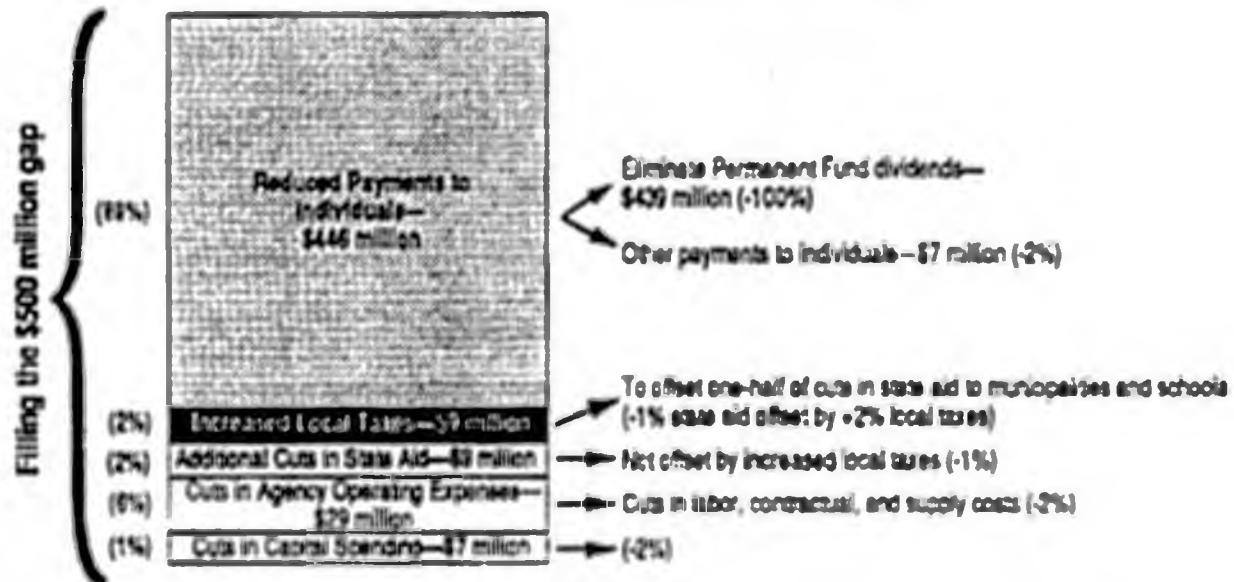
Payments To and Taxes From Alaska



Fiscal Package 4. Eliminate Permanent Fund Dividends • Fiscal

- ASSUMPTIONS:**
- State general fund spending at \$2.5 billion (in 1990 dollars)
 - Fiscal gap (difference between current spending and expected revenues from existing sources) of \$500 million (in 1990 dollars)
 - No new state taxes
 - Eliminate Permanent Fund dividend program; make up balance of gap through across-the-board cuts in operating and capital spending
 - Local governments make up half the cuts in state aid through increased local taxes.

DESCRIPTION: This package illustrates an approach that would require neither deep budget cuts nor new taxes because it would fill most of a \$500 million gap with Permanent Fund earnings. The Permanent Fund dividend program would be eliminated and the money shifted to the general fund. (This change would require statutory changes.) The figure below shows how this approach would fill a \$500 million gap, with the percentages on the left showing how much of the gap would be filled with Permanent Fund earnings and other sources, and the figures on the right showing how much each type of spending would be cut or how much state and local taxes would be increased.



BROAD ECONOMIC AND SERVICE EFFECTS: This package would take several hundred million dollars from private hands and shift it to government, causing loss of private jobs and income. But the broad economic losses under this package would be less than under deep budget cuts, because government spending tends to create more jobs than household spending. (See Fiscal Policy Paper No. 5.) Government services could be maintained as close to their current levels.

BROAD HOUSEHOLD EFFECTS: Household income losses discussed in these packages are just the result of reduced transfer payments and increased taxes (either local tax increases in response to cuts in state aid or new state taxes). Not reflected are effects of reduced services. Income losses among those households that lost jobs would be higher.

Effects of this package are straightforward: bigger households with smaller incomes would lose a bigger percentage of income if Permanent Fund dividends were eliminated, because each member of every household collects equal dividend payments.

Package 4. Eliminate Permanent Fund Dividends • Fiscal Package 4

MEASURING HOUSEHOLD INCOME LOSSES: Below we assess the distributive effects of Fiscal Package 4 on our sample households and on Alaska households on average. The figure immediately below shows percentage losses in disposable household income; those numbers show which kinds of households stand to lose the most under this package. The figure at the bottom of the page shows how this package would change state payments households receive and state and local taxes they pay. These numbers can be compared with the existing payments and tax levels shown on page 2.

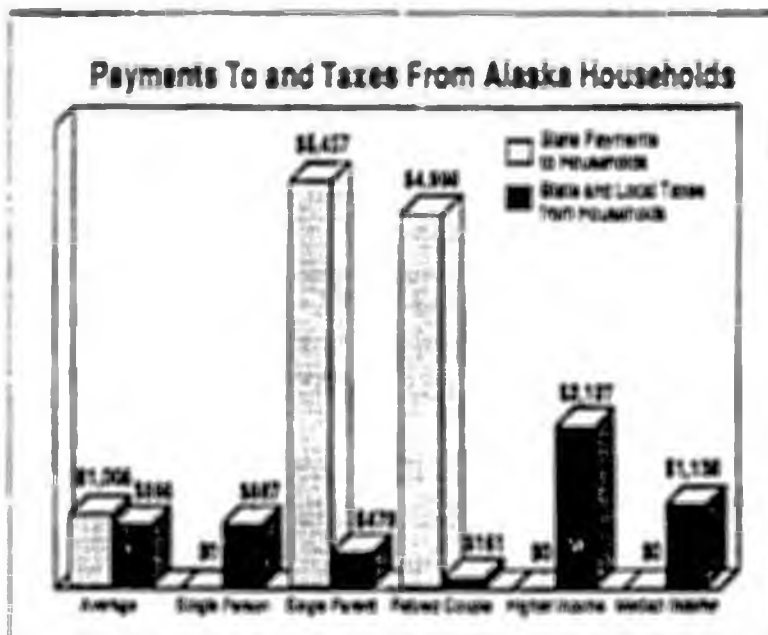
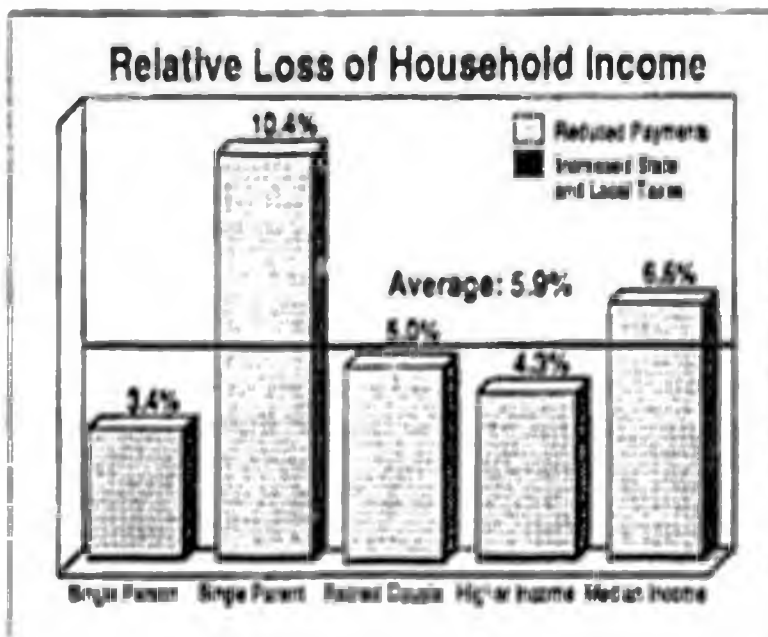
RELATIVE HOUSEHOLD INCOME LOSSES:

Alaska households on average would lose 6 percent of their incomes under this package, with most of that loss the result of losing Permanent Fund dividends. The single parent would lose the most, because her income is low and she would give up three dividend payments. The median income family would also lose somewhat more than average—because of the size of the dividend payments it loses in relation to its income.

PAYMENTS AND TAXES: Those households whose only state payment is the Permanent Fund dividend—the single person and the families with median and higher incomes—would have no payments left to weigh against taxes if dividends were eliminated. The retired couple would still collect Longevity Bonuses and the single parent would still collect day care and other subsidies. But losing the dividend would cost the single parent 33 percent of her transfer income and the retired couple 23 percent of their transfer income.

RELATIVE HOUSEHOLD LOSSES BY REGION:

(Not shown) This package would cost Alaska households on average \$ 2,400. The biggest households would lose the most, because they would give up the most payments. Rural households on average are significantly bigger than urban households, and also typically have lower incomes—and so depend more on dividends.



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Table 2. Who Will Pay to Fill a \$500 Million Fiscal Gap?

**Annual Income Losses of Sample Households
(Dollars and Percent of Disposable Income)**

Fiscal Package	GF* Spending (billions of 1989 \$)	Single Person	Single Parent	Retired Couple	Higher Income	Median Income
1. Cut Budget Across-the-Board	\$2.00	\$193 0.9%	\$1,041 4.2%	\$891 2.6%	\$478 0.7%	\$247 0.7%
2. Preserve Capital	\$2.08	\$370 1.8%	\$1,255 5.1%	\$954 2.8%	\$1,090 1.7%	\$670 1.8%
3. Impose Ability to Pay	\$2.33	\$989 4.8%	\$566 2.3%	\$5,630 16.4%	\$2,985 4.6%	\$1,496 4.0%
4. Eliminate PFD	\$2.44	\$708 3.4%	\$2,548 10.4%	\$1,718 5.0%	\$2,794 4.3%	\$2,451 6.6%

*As compared with a base of \$2.5 billion general fund spending.

Summary and Conclusions

No matter how the state government balances its budget in the coming years, all households will pay in one way or another—in higher taxes, in smaller transfer payments, in reduced government services, in lost jobs. It will be up to state officials to determine what combination of budget cuts and tax increases to use in filling the fiscal gap, and to decide whether and how to shift any of the earnings of the Permanent Fund into general government spending. In making those decisions lawmakers need to be aware of how different measures affect different kinds of households.

In our analysis we looked at four combinations of measures for filling a fiscal gap of \$500 million—the magnitude of gap that might open up within the next few years. As the figures on page 11 make clear, whenever the gap starts it will grow over time, requiring more and more to fill it. The fiscal packages in this paper are intended to show how different kinds of taxes and budget cuts and use of Permanent Fund earnings would affect households. If the gap were larger than the \$500 million we use, then deeper cuts or higher taxes would be required to fill it—but the relative effects on households would be similar to what we describe.

We're not advocating the combinations in our four fiscal packages, but are rather using them to show the kinds of choices lawmakers have—and to make it clear that what they choose can make a big difference to Alaska households.

The table above summarizes the decline in government spending and the relative loss of household income under the four fiscal packages we profiled. A number of points are clear from the table and from our analysis:

- The larger a budget Alaskans chose to maintain, the more they will have to pay. The unanswered questions are how much state spending Alaskans want, and how much they are willing to pay.

- The less state officials ask Alaskans to pay, the more government services will decline. Hundreds of millions of dollars in budget cuts would cost the average household relatively little in direct income losses—but they would cost everyone a great deal in lost education, police and fire protection, road maintenance, and other services we expect from state and local government.

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• Eliminating Permanent Fund dividends and shifting the money to general government spending would cost Alaska households the most income but would require the smallest cuts in government services—because the dividend money alone would nearly fill a \$500 million budget deficit.

• The more state officials balance the budget through across-the-board spending cuts, the less it will directly affect the incomes of most Alaska households—but the more it will cost poor and elderly households. That's because most households don't receive the transfer payments and subsidies poorer and older households rely on and which would be reduced under across-the-board budget cuts.

• Households on average would lose less income if the state balanced its budget by raising taxes rather than by eliminating Permanent Fund dividends. That's true because businesses would pay a part of new taxes, while households would bear the entire cost of losing dividend payments.

• Smaller, more affluent families and most single Alaskans would probably prefer to see Permanent Fund dividends eliminated rather than pay major new taxes—because they would likely lose less in dividends than they would pay in new taxes.

• Large, poor households could lose several times more than smaller, wealthier households if Permanent Fund dividends were eliminated. Among our sample households, for instance, the single parent with two children could lose 10 percent of her income, as compared with about 4 percent for the higher income family of four. Obviously the difference would be even bigger for larger low-income households. Many larger, poorer families live in rural areas.

• Cutting the Longevity Bonus program across-the-board would take some income from all Alaskans over 65, while basing the program on need would take the entire bonus away from some but protect the payments of those with lower incomes. Our sample retired couple, for instance, has an income near the Anchorage median for those over 65. Under cuts sufficient to save \$20 million, they would lose close to 6 percent of their income; obviously lower-income households would lose more. If the state saved the same \$20 million by making half the current recipients ineligible, our retired couple would lose 15 percent of their income—but older Alaskans with lower incomes would still receive the bonus intact.

• If property taxes were equalized statewide (through a state property tax), residents of areas with low local property taxes relative to their tax bases would pay the biggest increases. Areas that already have higher property taxes, and areas that have little or no tax base, would see more limited increases. (If property tax rates were equalized statewide, that would not equalize the entire tax burden, since sales taxes vary by community.)

• If local governments make up at least part of reduced state aid through increased local taxes, then rural cities would have to make up the most. That's because current per capita state payments for education and general government are higher in rural areas.

• Big budget cuts would hit incomes of rural Alaskans in general harder than incomes of urban residents, because they receive more transfer payments and subsidies.

Today Alaskans—whether poor, in the middle, or at the top—pay little or nothing for state and local services, because there are no major state taxes and Permanent Fund dividends exceed local taxes for most households. The dividend program makes annual cash payments to virtually all Alaskans, and the Longevity Bonus program makes monthly payments to Alaskans over 65, regardless of income. Those programs were designed to share with individual citizens the state's oil wealth that is now fading.

Many needy families and older people have come to depend on those transfer programs, although they were not intended as aid programs. In deciding how to balance the budget, lawmakers need to consider the dependence these programs have fostered.

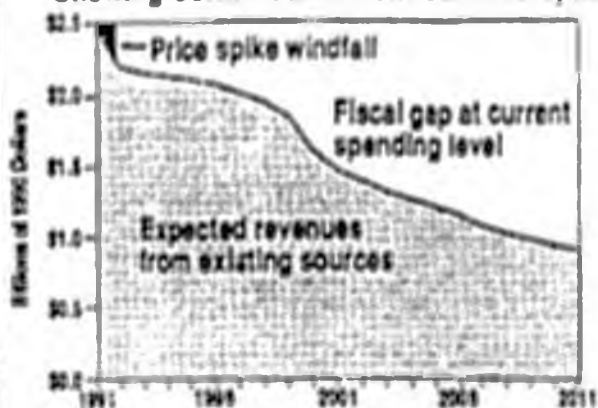
And there are many other issues of equity state officials will have to face as they deal with budget deficits. We've seen, for instance, that deep budget cuts would fall hardest on those poorer households and regions that depend most on state subsidies. Which subsidies should the state maintain in an era of declining revenues?

The equity of government policies didn't concern Alaskans much in the last decade, because oil wealth meant there was plenty for all and individual citizens didn't have to carry the burden of state government. But now lawmakers will have to make tough decisions about who will pay for Alaska's government in the 1990s.

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The Alaska Fiscal Gap

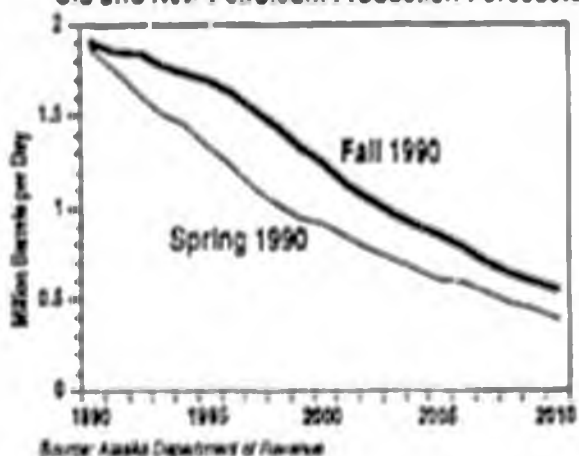
Projected Fiscal Gap at FY1991 Budget Level Showing Contribution From Oil Price Spike



We've heard a lot lately about the likely size of the state revenue windfall associated with the Middle East war. The best current information suggests the windfall will be much smaller than previously anticipated, and will be able to provide a cushion against declining revenues for no more than one year (graph at left above).

A more significant development influencing the perceived size of the fiscal gap is the Alaska Department of Revenue's recent upward revision of its petroleum production projections. The revision adds on average 300 thousand barrels per day to production through the year 2000 (graph at right above). Our latest fiscal gap graph

Old and New Petroleum Production Forecasts



reflects this revision, and shows that if the higher production is sustained, it will cushion the decline in revenues, particularly in this decade.

Although the shape of the latest fiscal gap graph is altered by this new assumption, its message is unchanged. Revenues from existing sources will decline and a significant and growing fiscal gap will open this decade. The shape of the gap will continue to change as information on petroleum prices and production, settlement windfalls, and the budget level change over time. But a gap will remain. Alaska needs to plan now to minimize the fiscal and economic problems it will bring. □

ISER Fiscal Policy Papers

Institute of Social and Economic Research
University of Alaska Anchorage
E. Lee Gonsuch, Director
3211 Providence Drive
Anchorage, Alaska 99508

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FAX TRANSMITTAL

DATE: 4-12-92 TIME: 12:55 PM

TO: ALL MEMBERS
HOUSE STATE AFFAIRS
COMMITTEE

FROM: JEANNE MACRI
ALASKA FREIGHT SERVICE
ANCHORAGE, ALASKA

FAX NO: 465-2287

FAX NO: (907) 561-7999

TOTAL PAGES TRANSMITTED INCLUDING COVER PAGE: 1

FOR TROUBLE IN TRANSMISSION CALL: (907) 563-0801

COMMENTS: Re: HB 525

I am adamantly against ANY new TAXES
ie: ANY PERSONAL INCOME TAX OR SALES
TAX until the Members of the ALASKA
Legislature cuts costs. With proper
cost cutting, new taxes would not be
necessary. I will campaign relentlessly
to defeat any member who votes
in favor of these taxes. The State is
into many Commercial Activities which
compete with private enterprise ie: ARAC,
Printing, Gift shops, Laboratories, Pharmacies,
daycare, etc. Get out of those areas, cut
back salaries & benefits as the private
sector had to do, don't generate more
revenue from the businesses & private citizens
who can ill afford to pay it.

NFIB Alaska TAX ALERT

National Federation of Independent Business

TO: NFIB/Alaska Members

March 26, 1992

FROM: Rosa Jerrol, *Rosa*
 State Director
 Phone: 789-4279
 Fax: 789-3433

RE: HB 523 Business License Tax
 HB 525 Personal Income Tax
 Sponsored by Rep. Nillo Koponen, D-Fairbanks

These two bills are scheduled for hearing next week and will directly affect your pocketbook.

On Tuesday, March 31st HB 523, will be heard for the first time in the House Labor and Commerce Committee. It will impose a 1% GROSS RECEIPTS TAX on all businesses with an income over \$100,000. This tax imposed on GROSS RECEIPTS will have to be paid regardless of the profitability of your business. The bill will also impose a 7% M.T. INCOME TAX on each bank and savings and loan association. Labor & Commerce Committee members are: Reps. Chairman David Finkelstein, D-Anchorage, Vice-Chairman Pat Parnell, D-Anchorage, Betty Bruckman, D-Anchorage, Dave Donley, D-Anchorage, Ivan Ivan, D-Akiak, Robin Taylor, R-Wrangell and Jim Zawacki, R-Birdwood. The Committee Fax number is: 465-3442.

On Monday, March 30th. HB 525, will be heard for the first time in the House State Affairs Committee. It will impose an income tax of 3.2% on individuals income up to \$30,000, on joint returns income up to \$50,000, on head of households income up to \$40,000 and, married filing separately income up to \$25,000. It also imposes a 5.7% tax on incomes in excess of those amounts. State Affairs Committee members are: Reps. Chairman Gene Kubina, D-Valdez, Vice-Chairman Tom Moyer, D-Fairbanks, Betty Bruckman, D-Anchorage, Dave Choquette, R-Anchorage, Larry Baker, R-Anchorage, Max Gruenberg, D-Anchorage, Mike Miller, R-North Pole. The Committee Fax number is 465-2287.

On the 1986 State Ballot you voted overwhelmingly - 94% - to reduce state government spending before increasing or imposing new taxes. Also, in 1990 you voted to reject - 80% - reinstating the state personal income tax. The state budget needs to be cut before imposing ANY new taxes. If they want to reduce the budget they need to get state and local government out of the commercial activities they operate in competition with many small businesses, such as: Printing, Gift Shops, Videotape Outlets, Service Stations, Day-Care Centers, Landscaping, Road Maintenance and Repair, Laboratories, Medical Care, Pharmacies, Architecture and Engineering, Office Furniture and Auto Body Repair. This will go a long way to bringing the size and cost of state and local government down to reasonable and affordable levels - without imposing new taxes.

YOUR REPRESENTATIVES NEED TO HEAR FROM YOU AND YOUR FRIENDS IN THEIR DISTRICT. THEY NEED TO BE TOLD THIS IS NO TIME TO BE IMPOSING NEW TAXES. CALL YOUR LOCAL LEGISLATIVE INFORMATION OFFICE AND SEND THEM A PUBLIC OPINION MESSAGE OR FAX THE COMMITTEES A MESSAGE - TODAY.

9159 Terminal Lane
 Juneau, AK 99801



The Small Business

.....

James Fisher

**HB 525 - the facts for more stable support for education & safety
WILL DO:**

- 1) Secure revenues ranging from \$250.0 - 400.0 million¹
- 2) Provide stable support by avoiding international event² impacts
- 3) Allow recoupment of estimated 30% of cost³ from U.S. credit
- 4) Require only people holding a job need to pay
- 5) Catch nonresident workers to contribute to services receive
- 6) Be economical to collect, 97%+ of revenues available⁴ for needs
- 7) Save estimated 4000 jobs lost from less oil money by year 2000⁵
- 8) Execute recognized need for state income tax ~~(see attachments)~~
- 9) Avoids burden on seasonally employed or unemployed
- 10) Allow us to assume direct responsibility for service costs
- 11) Not pass on as much tax burden to local communities⁶

WILL NOT:

- a) provide all needed revenues for the numerous state services
- b) burden unemployed or those committed to exclusive subsistence
- c) be so new, or unfamiliar, as to be untried⁷
- d) impact your withholding for an estimated 18 months⁸

(525facts.410)

¹Testimony Revenue Commissioner to House State Affairs Committee, on 3/30/92.

²Institut. of Social & Economic Research (ISER), No. ____, _____

³ISER, Alaska's Dependence On State Spending, No.5, October 1990, p.11.

⁴Testimony Revenue Commissioner, 3/30/92

⁵ISER, Report No.5, October, 1990

⁶ISER, The Alaska Fiscal Gap, No.1, August, 1989, p.4

⁷ISER, Alaska's Potential Tax Revenues, No.3, February 1990

⁸Revenue Commissioner testimony, 3/30/92

NFIB Alaska

National Federation of
Independent Business

POSITION PAPER

OF

**NATIONAL FEDERATION OF INDEPENDENT BUSINESS
(NFIB/ALASKA)**

TO

HOUSE STATE AFFAIRS COMMITTEE

MARCH 30, 1992

ON

HB 525 - PERSONAL INCOME TAX.

State Office
9159 Skywood Lane
Juneau, AK 99801
(907) 789-4278



The Guardian of
Small Business

NFIB POSITION PAPER

CHAIRMAN, MEMBERS OF THE COMMITTEE, MY NAME IS REBA JERREL,
AND I AM THE STATE DIRECTOR FOR THE NATIONAL FEDERATION OF
INDEPENDENT BUSINESS - NFIB/ALASKA.

NFIB/ALASKA IS COMPRISED OF 5,292 SMALL AND INDEPENDENT
BUSINESS OWNERS. THE LEGISLATIVE AGENDA OF NFIB/ALASKA IS
DETERMINED BY OUR BALLOT. THE BALLOT IS OUR ANNUAL POLL OF OUR
MEMBERS ON A SERIES OF ISSUES DEEMED CRITICAL TO SMALL BUSINESS. A
MAJORITY VOTE, OF THE MEMBERS IN RESPONSE TO THE POLL, SETS OUR
POLICY AND POSITION ON LEGISLATIVE ISSUES. WE THEN SHARE THE
RESULTS OF OUR POLL WITH THE LEGISLATURE AND ADMINISTRATION. THERE
IS NOT ENOUGH SPACE ON THE ANNUAL POLL TO PLACE EVERY POSSIBLE ISSUE
TO OUR MEMBERSHIP. THEREFORE, WE ALSO USE PREVIOUS YEARS BALLOT
RESULTS AS GUIDANCE ON ISSUES.

ON THE 1986 STATE BALLOT THE MEMBERS OVERWHELMINGLY VOTED,
(96%) TO REDUCE STATE GOVERNMENT BEFORE INCREASING PRESENT TAXES OR
IMPOSING NEW TAXES.

ALSO, IN 1990 THE MEMBERS VOTED CLEARLY TO REJECT, (80%) THE
REINSTATEMENT OF THE STATE PERSONAL INCOME TAX.

ADDITIONALLY, ATTACHED ARE THE RESULTS OF SEVERAL BALLOT
QUESTIONS REGARDING GOVERNMENT COMPETITION.

NFIB/ALASKA OPPOSES HB 525 BECAUSE THE STATE BUDGET NEEDS TO BE
CUT BEFORE IMPOSING NEW TAXES. IF YOU SINCERELY WANT TO CUT THE
BUDGET THEN PROHIBIT OR REDUCE THE COMMERCIAL ACTIVITIES OPERATED BY
STATE AND LOCAL AGENCIES. SMALL BUSINESSES IN ALASKA FACE
COMPETITION FROM STATE AND LOCAL GOVERNMENT AGENCIES IN A WIDE
VARIETY OF COMMERCIAL ACTIVITIES. THE MANY SMALL BUSINESSES FACING
GOVERNMENT COMPETITION ARE:

- PRINTING FIRMS
- GIFT SHOPS
- VIDEOTAPE OUTLETS
- DAY-CARE CENTERS
- SERVICE STATIONS
- LANDSCAPING
- ROAD REPAIR AND MAINTENANCE
- LABORATORIES
- MEDICAL CARE PROVIDERS
- PHARMACIES
- ARCHITECTURE AND ENGINEERING FIRMS
- OFFICE FURNITURE
- AUTO BODY REPAIR

GETTING GOVERNMENT OUT OF BUSINESS WOULD GO A LONG WAY TO BRINGING THE SIZE AND COST OF STATE AND LOCAL GOVERNMENT DOWN TO REASONABLE AND AFFORDABLE LEVELS - WITHOUT RAISING TAXES OR IMPOSING NEW TAXES.

NFIB/ALASKA THANKS YOU FOR THE OPPORTUNITY TO COMMENT ON THIS LEGISLATION. IF YOU HAVE ANY QUESTIONS I WOULD BE HAPPY TO TRY AND ANSWER THEM.

ATTACHMENT

The following is the result of the 1988 NFIB/Alaska ballot question regarding unfair competition:

Should legislation be enacted to restrict the commercial activities of government entities so they are not permitted to compete with existing private enterprises?

Yes 78%

No 12%

Undecided 10%

The following is the result of the 1990 NFIB/Alaska ballot question regarding government competition:

Should legislation be passed that would restrict government agencies from competing with private business in Alaska?

Yes 83%

No 6%

Undecided 11%

More recently, the following is the result of the 1991 NFIB/Alaska ballot question on this issue:

Should the legislature establish a Private Enterprise Preservation Task force in order to study and recommend legislation to limit competition with private business by state and local government?

Yes 67%

No 23.1%

Undecided 9.9%

TO: HOUSE STATE AFFAIRS COMMITTEE

RE: A solution for revenue stabilization - HB 525

Date: 3/30/92

From: James E. Fisher, 633 Harris St., Juneau, Alaska

After listening to the recent Saturday's (3/21) testimony budget cutting options, I was prompted to suggest using HB 525 revenue stabilization. I propose that HB 525 is essential for revenues that provide critical foundations for education, and treatment.

However, I recommend adding a Section 1¹ finding to HB 525, so that enactment of a state income tax would provide stable revenue for such essential governmental actions. That finding could be a basis for full future appropriations, and not indicative of an attempt to dedicate funding.

While proposals for user fees have appeal, the cost of administration and an increase in bureaucracy would probably reduce both attractiveness of the option and net revenues.

Although other measures, such as realigning Federal spending to focus on military apparatus to a focus on infrastructure and social service needs, are possible, the subject matter of HB 525 is within the immediate scope of the responsibility of this House.

As a resident with decades of feeling responsible for the common good of Alaska, I urge enactment of HB 525, or its concept in legislation.

1

Proposed finding for HB 525

The Legislature finds that stability of revenue support for education, safety and treatment structures of Alaska requires attention to unutilized revenue sources available to preserve these vital public systems in accordance with constitutional mandates for protecting the welfare of all Alaskans. The reasonable revenue source for underpinning such vital structures of the state is the resource commonly referred to as the "state income tax." That the revenues from such income tax, as may be enacted, should be directed in their entirety to provide funding support for the educational, safety and treatment systems of the state.

(If a bill can't be enacted, could a referendum resolution put the question on the 1992 general election ballot to prompt debate and possible consensus?)



March 30, 1992

Position Paper

HB 525 - Relating to the taxation of income and to individual tax credits

The Alaska Municipal League supports the concept of HB 525 - Relating to the taxation of income and to individual tax credits. This bill would reinstitute the statewide personal income tax and provide for a broadening of the tax base to support essential governmental services in Alaska. Prior to the big "oil boom" of the mid-1970s, individual Alaskans and non-residents working in the state paid a personal income tax. Since the statutory authority for that tax was repealed in 1975, legislation is necessary to reestablish a personal income tax as one way of enhancing revenue to the state government. The Municipal League supports HB 525, which is intended to do this.

The League has supported reenactment of income tax legislation since 1990 in recognition of the need to begin to replace declining oil revenues and to require those who work within the state but do not live here to share in supporting government services, whether they be enhancing the fisheries, protecting public safety, educating Alaska's children, providing health care, or constructing docks, harbors, and roads. The 1992 *Alaska Municipal League Policy Statement* includes the following statement: "The League supports legislation to reinstate the state income tax to allow for maximum capture of revenue from non-resident employees working within Alaska" (Part I, I.1).

Under the provisions of HB 525, both residents and non-residents would be required to help support Alaska's state government by paying tax on income earned within Alaska. This would provide additional revenue resources for the state treasury at a time when revenues from the oil industry (which has supported 85 percent of the state budget in recent years) are declining.

The League supports the concept of HB 525.

C:\21est\H8525pos 330

TO: HOUSE STATE AFFAIRS COMMITTEE

RE: A resolution for revenue stabilization - HB 525

Date: 3/30/92

From: James E. Fisher, 633 Harris St., Juneau, Alaska

After listening to the recent Saturday's (3/21) testimony, on budget cutting options, I was prompted to suggest using HB 525 for revenue stabilization. I propose that HB 525 is essential for state revenues that provide critical foundations for education, safety and treatment.

However, I recommend adding a Section 1¹ finding to HB 525, stating that enactment of a state income tax would provide stable revenues for such essential governmental actions. That finding could be a basis for full future appropriations, and not indicative of an attempt to dedicate funding.

While proposals for user fees have appeal, the cost of administration and an increase in bureaucracy would probably reduce both attractiveness of the option and net revenues.

Although other measures, as realigning Federal spending from a focus on military apparatus to a focus on infrastructure and social service needs, are possible, the subject matter of HB 525 is within the immediate scope of the responsibility of this House.

As a resident with decades of feeling responsible for the community of Alaska, I urge enactment of HB 525, or its concept in other legislation.



1

Proposed finding for HB 525

The Legislature finds that stability of revenue support for the education, safety and treatment structures of Alaska compels attention to unutilized revenue sources available to preserve the these vital public systems in accordance with constitutional mandates for protecting the welfare of all Alaskans. That a reasonable revenue source for underpinning such vital structures of the state is the resource commonly referred to as the "state income tax." That the revenues from such income tax, as may be enacted, should be directed in their entirety to provide funding support for the educational, safety and treatment systems of the state.

(If a bill can't be enacted, could a referendum resolution put the question on the 1992 general election ballot to prompt debate and possible consensus?)

April 13, 1992

Labor and Commerce Committee

Members: Reps. Chairman David Finkelstein, Vice-Chairman Pat Parnoll, Betty Bruckman, Dave Donley, Ivan Ivan, Robin Taylor, and Jim Zawacki.

Dear Labor and Commerce Committee Members:

Please do not support House Bills 523 and 525 which increase taxes at a time when Alaska's economy is tenuous at best. A tax of these kinds will do nothing but crush the fragile recovery of current business owners and create additional dis-incentives for any new businesses considering Alaska as a place to do business.

Much more can be done to reduce State Government size, waste, and competition with the private sector before any new taxes are needed.

Again, please do not support House Bills 523 and 525.

Sincerely,


Eric F. Bjella
Constituent

STATE OF ALASKA

DEPARTMENT OF REVENUE

OFFICE OF THE COMMISSIONER

WALTER J. HICKEL, GOVERNOR

P.O. BOX 5
JUNEAU, ALASKA 99811-0400
PHONE: (907) 465-2300
TELEFAX: (907) 465-2389

March 18, 1992

The Honorable Niilo Koponen
Alaska State Legislature
State Capitol Building, Rm. 503
Juneau, AK 99801

Dear Representative Koponen:

I received your memorandum of March 12, 1992, expressing your concerns with the status of fiscal notes on legislation which you have introduced and which affect the Department of Revenue.

In regard to HB 522 which deals with a Real Estate Conveyance Tax, this bill has not been scheduled for a hearing. HB 523, Business License Tax, has been scheduled for a hearing in Labor & Commerce Committee and we have begun work on a fiscal note. HB 524, Limited Entry Permit Transfer Tax, is not scheduled for a hearing.

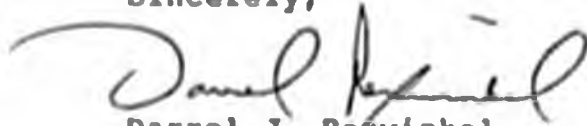
The Department of Revenue has reviewed your proposed legislation relating to the taxation of personal income, House Bill 525. As would be expected in legislation dealing with this complex area of law, the implications and meanings of the sections of this bill are complex and interrelated. The department has determined that preparation of a fiscal note taking into account all the provisions of the proposed legislation would require approximately 300 hours of effort to calculate revenues and cost. We are simply not in a position to devote staff effort of this magnitude in a short time period.

I have attached a fiscal note for legislation dealing with personal income tax which the legislature considered in 1987. When reviewing this material it should be remembered that the legislation as well as the current state demographics are significantly different as would be the resultant calculations. In 1987, when the last calculation was done, the cost estimate to operate the program by the Department of Revenue was \$1,345,000. Cost in today's dollars would be approximately \$1,715,000. Revenues to the state would total between \$250 and \$400 million. As your legislation moves through the process, the Department of Revenue will devote time to the effort of arriving at a fiscal note that reasonably accommodates all of the bill's provisions.

It is my understanding that the effort to develop a fiscal note in 1987 required approximately six months of Department of Revenue staff time to prepare the cost and revenue analysis. Based on our current staffing, the majority of this time would now result in reduced audit efforts and therefore reduced revenues. The effort in 1987 was reviewed by Legislative Finance Division and a copy of their April 21, 1987 analysis is attached.

I apologize for any misunderstanding of our efforts that may have occurred and encourage you to contact this office when concerns arise in the future.

Sincerely,



Darrel J. Rexwinkel
Commissioner

cc: Max Hodel, Chief-of-Staff, Office of the Governor
Paul Fuhs, Legislative Liaison, Office of the Governor
Larry E. Myers, Director Income & Excise Audit Division
Rod Mourant, Special Assistant to the Commissioner
Representative Davidson
Representative Finklestein
Representative Kubina
Representative Mackie
House Finance Committee
Senate Finance Committee

Enclosure

DJR:rrm
92-065

REP. KUBINA

Alaska State Capitol
Juneau, AK 99801-1182
XXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX
(907) 465-4992

Alaska State Legislature
Representative Niilo Koponen
House District 21

119 N. Cushman, Suite 207
Fairbanks, Alaska 99701
(907) 456-8172

M E M O R A N D U M

TO: Tamara Brandt Cook, Director
Division of Legal Services
Legislative Affairs Agency

FROM: Representative Niilo Koponen



DATE: March 18, 1992

RE: Fiscal Notes

Attached is a copy of the information sent to me by Commissioner Designate Rexwinkel in response to my request for fiscal notes on House Bills 522, 523, 524 and 525. As you could guess, this material does not come close to satisfying my wishes. Does this information meet either the letter or the intent of AS 24.08.035? What remedies are available to me in my quest for reliable fiscal information?

Alaska State Legislature
Representative Niilo Koponen

House District 21

Pouch V
Juneau, Alaska 99811
(907) 465-4992

A
119 N. Cushman, Suite 207
Fairbanks, Alaska 99701
(907) 456-8172

MEMORANDUM

TO: Representative Gene Kubina

FROM: Representative Niilo Koponen *NK*

DATE: April 1, 1992

The Alaska public is becoming aware of the reality of the fiscal problem we have been dealing with. While we still get Public Opinion Messages opposing any taxes, more and more people are becoming aware that our budget cutting has increased local taxes and the Outside fishing interests, construction companies and seasonal workers profit from Alaskan resources, but contribute little to pay for the services we provide for them. If put into law, HB 525 -- State Income Tax on Personal Income -- would gather the long overdue monies from Outsiders using our public provisions without paying taxes.

From 1984 to 1990, Alaska experienced a 51% increase in local government tax rates as a percentage of personal income -- from \$3.49 per \$100.00 of resident income to \$5.28 per \$100.00 -- due to reductions in state support resulting from budget cuts. Thus, Alaska jumped from 22nd in the nation in local government tax rates to 4th in state-by-state ranking. In 1990, property taxes constituted 86.1% of all local taxes, with sales taxes comprising 12.7% and others (fish, personal property, etc.) making up the remaining 1.2%. Clearly, property owners are being asked to shoulder an increasingly unfair portion of the statewide tax burden.

Public support has surfaced even in Anchorage during the public budget hearings. The time has come to take a stand. I understand, however, that when members co-sponsor a bill one by one they become subject to unreasoning attack. For this reason I am not asking you to co-sponsor the bill by yourself. Let circulate a single co-sponsor petition for all interested members to sign. The list will not be given to the clerk until all possible signatures have been obtained. Those who sign in support will constitute the strategy group which will determine when the co-sponsor list goes in, what strategy will be pursued, etc. Please take a moment to review and sign the attached petition.

For your information, I have enclosed: sponsor statement, bill, back-up including "snow bird" article from U.S. News.

Wanted: A business of his own

By Jim Henderson
USA TODAY

1-30-84
p. 48

Mark Nelson is ready to begin Stage 2 of his life's dream of owning and running his own business.

Stage 1 was to make as much money as quickly as possible so he could buy a business. Stage 2 is finding and buying one.

At 28, Nelson has a net worth of nearly a quarter of a million dollars, and it's growing faster by the day.

After graduating in 1983 from the University of Idaho with a degree in accounting and finance, he landed in Alaska from his hometown of Lewiston, Idaho, to make big bucks in the oil boom. He spent a year in the office of an oil firm in Anchorage and then transferred in Prudhoe Bay, north of the Arctic Circle.

It's an extraordinary manager for Alaska Petroleum Center—his life. His work schedule: three weeks on — 11 hours a day, seven days a week — three weeks off. His salary: \$84,000 a year.

"The beauty of my job is that I'm not only paid a good salary, but for the six months a year I'm up there, all my living expenses are paid for." Back in Lewiston, he lives with his mother and stepfather and works as a plumber. His wife, their own plumbing business.

He has invested in three mutual investments in the Lewiston area: a startup, a consumer credit building that houses a real estate office and a high-making company, and a condominium that he owns in partnership with his mother, a teacher.

"Real estate values haven't gone through the roof in Lewiston like they have in California and the East Coast, but they're pretty stable and have gone up a little each year," he says.

The properties are worth about \$140,000. He paid a total of \$122,000 for them and owes \$23,000 on mortgages.

During the past two years, Mark has been spending more of his time off traveling. He also has fallen in love. He met Tru James, 31, of Copenhagen, Denmark, in 1981 when he spent a summer backpacking in Europe. They plan to get married next spring.

Tru will move to the USA. They plan to work together in Alaska while they research a business to buy, then work in it together.

Mark has been in the Soviet Union, China, Hong Kong, Japan, and Alaska. "But I try to do it as cheaply as possible," he says.

"Backpacks and youth hotels." His company paid plane tickets to Prudhoe Bay daily from his frequent-flyer mileage.

Besides real estate, most of his money is invested in a money market mutual fund and has two municipal bonds, bought through his father, a broker for D.A. Donohue & Co., a regional brokerage based in Great Falls, Mont.

Mark is "wide open" about what kind of business he wants. "I want to go about it the right way and use my time searching for the right business. I don't mind working hard, and I figure if I don't want out I'll not be strong enough for a contractor." His only criteria is this point: "Some nice weather than Alaska, and no people either 1984 L.A. or New York."



By AP/Wide World, Jan. 1984



CAPITAL HOLDINGS: Mark Nelson and Tru James sit on lawn last month in Anchorage, A.C.

Nelson's finances

Interest	\$1,550	Interest	\$1,550
Alaska state retirement (deduct)	800	Alaska state retirement (deduct)	800
Net rental income	(800)	Net rental income	(800)
Total	\$73,550	Total	\$73,550
Annual Expenses			
Food	1,200	Food	1,200
Utilities	500	Utilities	500
Transportation	1,000	Transportation	1,000
Charities	100	Charities	100
Auto expenses	800	Auto expenses	800
Car insurance	240	Car insurance	240
Entertainment	1,000	Entertainment	1,000
Stocks	2,400	Stocks	2,400
Contributions to church and charity	300	Contributions to church and charity	300
Moving expenses	900	Moving expenses	900
Gifts	240	Gifts	240
Misc. personal expenses	1,800	Misc. personal expenses	1,800
Federal income taxes	12,800	Federal income taxes	12,800
Social Security	2,800	Social Security	2,800
Available for savings	43,350	Available for savings	43,350
Total	\$73,550	Total	\$73,550
Assets			
Checking accounts	\$1,200	Checking accounts	\$1,200
Mutual funds	\$2,000	Mutual funds	\$2,000
Municipal bonds	8,000	Municipal bonds	8,000
Rental income	14,000	Rental income	14,000
401(k) retirement plan	21,000	401(k) retirement plan	21,000
Individual retirement accounts	19,000	Individual retirement accounts	19,000
Mortgage note	2,000	Mortgage note	2,000
Auto (loan balance, GAP, lease)	14,000	Auto (loan balance, GAP, lease)	14,000
Pushed cash into IR	7,000	Pushed cash into IR	7,000
Total	\$122,450	Total	\$122,450
Liabilities			
Real estate loans	\$79,000	Real estate loans	\$79,000
Net worth	\$142,450	Net worth	\$142,450
Annual Income			
Salary	\$84,000	Salary	\$84,000
Portfolio gains	2,000	Portfolio gains	2,000
Income after taxes		Income after taxes	

Source: USA TODAY



March 30, 1992

Position Paper

HB 525 - Relating to the taxation of income and to individual tax credits

The Alaska Municipal League supports the concept of HB 525 - Relating to the taxation of income and to individual tax credits. This bill would reinstitute the statewide personal income tax and provide for a broadening of the tax base to support essential governmental services in Alaska. Prior to the big "oil boom" of the mid-1970s, individual Alaskans and non-residents working in the state paid a personal income tax. Since the statutory authority for that tax was repealed in 1975, legislation is necessary to reestablish a personal income tax as one way of enhancing revenue to the state government. The Municipal League supports HB 525, which is intended to do this.

The League has supported reenactment of income tax legislation since 1990 in recognition of the need to begin to replace declining oil revenues and to require those who work within the state but do not live here to share in supporting government services, whether they be enhancing the fisheries, protecting public safety, educating Alaska's children, providing health care, or constructing docks, harbors, and roads. The 1992 Alaska Municipal League Policy Statement includes the following statement: "The League supports legislation to reinstate the state income tax to allow for maximum capture of revenue from non-resident employees working within Alaska" (Part I, 1.1).

Under the provisions of HB 525, both residents and non-residents would be required to help support Alaska's state government by paying tax on income earned within Alaska. This would provide additional revenue resources for the state treasury at a time when revenues from the oil industry (which has supported 85 percent of the state budget in recent years) are declining.

The League supports the concept of HB 525.

OTHER HB 525 Issues 330

Public: Tax okay for more efficient government

By DON ALEXANDER
Of The Star Staff

Tax us, please, was one of the prevailing messages given to District 15 legislators at the delegation's second public hearing of the session, held Saturday at the Chugiak Senior Center. But the plea was qualified with a message of downsizing the government.

"These guys want to live high on the hog but they don't want to pay for it," explained Ted Graham. "So I really want to suggest bring back the state income tax."

"I'll don't mind paying taxes," said Realtor Sharon Minich, "but give me a government I can afford."

Bill Westefeld also said he could support a state income tax, but not before the government is run more efficiently. He noted that 10 percent of the state's population works for the state government. In most states, 6-7

percent of the population are state employees, he said.

It's time for us to start paying some kind of tax again, said Bill Lowe. However, he said he prefers a state sales tax, as most states have them so tourists barely notice them and they tax all equally, he continued. If that were used, necessities such as food items should be exempt.

Lowe's suggestion brought the assent of Peter Miller.

Education issues also occupied a great deal of the meeting, beginning with Rick Brumfield's endorsement of the \$1.5 million legislative grant request to hook up Chugiak Elementary School to the Klutna Water Line. Brumfield was not alone in his concerns about the water quality at the school.

PTA member Debbie Ossander outlined the sequence of events leading to and since the school began using bottled water for drinking. Recent Department of Environmental Conservation

tests indicate the high nitrates in the school's water may be a result of a pressure gradient from the increased demand on the supply, she told legislators. Suggestions for correcting the problem, from both DEC and state hydrologist Jim Munier, include installation of a large water holding tank, hook up to other high yielding, uncontaminated wells such as that at the Senior Center, and upgrade of the school's on-site septic system. However, the PTA was not sure these were good long-term solutions to the drinking water problem, she said.

Consequently, the PTA made four resolutions at a recent meeting, Ossander said. They were that the water system at the school should not be used until it was determined it was safe; that more bottled water and cups be made available to insure access to all who wanted it; that the school should be hooked up

to a good public water system, preferably the Klutna Water Line; and that the existing septic system be located, dug up and upgraded.

Ossander also addressed other education issues, including asking the delegation's support of increased foundation formula funding. The district will be in real difficulty if the \$61,000 per classroom level is not funded, she said. While the legislature's agenda is to reduce spending, many people would be willing to pay more taxes to support education, she continued.

Linda Landers asked the legislators to continue to have education as their number one priority. Chugiak Elementary principal Mary Cattarach, as did Ossander, also spoke to the school's overcrowded conditions and drinking water problems.

About 50 people attended the meeting, and approximately half of them testified on various issues.



March 30, 1992

Position Paper

HB 525 - Relating to the taxation of income and to individual tax credits

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The League has supported reenactment of income tax legislation since 1990 in recognition of the need to begin to replace declining oil revenues and to require those who work within the state but do not live here to share in supporting government services, whether they be enhancing the fisheries, protecting public safety, educating Alaska's children, providing health care, or constructing docks, harbors, and roads. The 1992 *Alaska Municipal League Policy Statement* includes the following statement: "The League supports legislation to reinstate the state income tax to allow for maximum capture of revenue from non-resident employees working within Alaska" (Part I, I.1).

Under the provisions of HB 525, both residents and non-residents would be required to help support Alaska's state government by paying tax on income earned within Alaska. This would provide additional revenue resources for the state treasury at a time when revenues from the oil industry (which has supported 85 percent of the state budget in recent years) are declining.

The League supports the concept of HB 525.

C:\21est\HB525pos 300

Alaska State Legislature
Representative Niilo Koponen

Pouch V
Juneau, Alaska 99811
(907) 465-4992

House District 21

119 N. Cushman, Suite 207
Fairbanks, Alaska 99701
(907) 456-8172

SPONSOR STATEMENT

House Bill 525

"An Act relating to the taxation of income and to individual tax credits; and providing for an effective date."

From 1984 to 1990, Alaska experienced a 51% increase in local government tax rates as a percentage of personal income -- from \$3.49 per \$100.00 of resident income to \$5.28 per \$100.00 -- due to reductions in state support resulting from budget cuts. Thus, Alaska jumped from 22nd to 4th in the nation in local government tax rates. In 1990, property taxes constituted 86.1% of all local taxes, with sales taxes comprising 12.7% and others (fish, personal property, etc.) making up the remaining 1.2%. Clearly, property owners are shouldering an increasingly unfair portion of the statewide tax burden.

At the same time, Outside fishing interests, oilfield service firms, construction companies and seasonal workers continue to profit from extraction of Alaskan resources. They share in Alaska's bounty and benefit from Alaskan infrastructure, but contribute little or nothing toward the services we provide for them. Some even collect Permanent Fund Dividends.

Whether or not the Alaska Legislature reduces the state operating budget for the coming fiscal year, Alaskans face the continuing dilemma resulting from declining oil revenues coupled with stable or increasing demands for government services. We must consider new measures to accrue revenue to the state, including taxes. Taxes should be simple, fair, stable from year to year and inexpensive to administer. It is desirable to implement an array of broad-based taxes set at low rates rather than to unduly burden any particular class of taxpayers.

HB 525 reimplements a statewide personal income tax, eliminated earlier in what is now widely recognized as a serious error. It does not solve all our revenue woes, but it does soften the fall and will surely bring average Alaskans more actively into annual budget discussions. This bill also includes the so-called "snowbird" or "Tax Tex" relief measure, which allows dollar-for-dollar credit for local and municipal taxes paid within the state. Finally, non-residents will begin to pay for the privilege of making money in Alaska and taking it all away.



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: April 13, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:

HB 525 - Relating to State Income Tax on Personal Income

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
<i>R V Berryhill</i>	<i>AARP</i>	<i>157 Bohrens JAV</i>				Y	N	<i>HB-525</i>
<i>Jamie Wassone</i>	<i>self</i>	<i>2841 Riverside Dr. chv</i>				Y	N	<i>HB 525</i>
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	



House State Affairs Committee

Representative Gene Kubina, Chair

SUBJECT OF MEETING:

DATE:

PLACE:

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
✓ Joe Poon	Self					Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: March 30, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:
 *HB 525 - Relating to State Income Tax on Personal Income
 *HB 562 - Relating to Establishing Comm. College Sys.
 SB 337 - Relating to Retirement Incentive Program
 HB 528 - Relating to Public Works Contr/Wage Incr.

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(M) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WICH BILL?
✓ James E. Fisher	Self	633 Harris, Juneau	99801	6-9401	6-9401	(Y)	N	HB 525
✓ Ralph Mc Grath	UgA PRESIDENT ACCFT	2533 Providence Ave Anch, AK.	99508			(Y)	N	HB 562
James Fisher						Y	N	
✓ Bob Williams	UgA.					(Y)	N	HB 562
✓ Vernon Marshall	NEA AK	105 Muni Way Suite 302 Juneau				(Y)	N	HB 525 HB 562
✓ Bruce Ludwig	APEA/APT	340 N. FRANKLIN ST. JUNO	99801		6-2334	(Y)	N	HB 562
✓ Marshall Lind	UAS	1120 Claire Hwy	99801			(Y)	N	HB 562
✓ Jerry Mackie						Y	N	
✓ Ross Jurel	NEIB	9154 Stewart	99801	259-4278		(Y)	N	HB 525
✓ DARRYL REYWINERL, REVENUE					2300	(Y)	N	HB 525
✓ ROD MURANT, REVENUE.					2300	(Y)	N	HB 525

Ron Clark Special Asst



House State Affairs Committee

Representative Gene Kubina, Chair

DATE: April 10, 1992

PLACE: Capitol Room 102

SUBJECT OF MEETING:

HB 525 - Relating to State Income Tax on Personal Income

HB 526 - Relating to Contractors and Local Public Works

NAME	REPRESENTING	BUSINESS/PERSONAL MAILING ADDRESS	ZIP	(H) PHONE	(W) PHONE	DO YOU WANT TO TESTIFY?		WHAT SUBJECT/ WHICH BILL?
Robert V. Bernhill	AARP	JNU				Y	N	4B-525
James E. Fisher	Self	633 Hamilton, Junction	99801	6-9601	6-9601	Y	N	HB-525
						Y	N	
SWEET'S GOLF	Alaska Women's Lobby	P.O. Box 22156 Juneau, AK 9	99802		463-6744	Y	N	HB 525
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	
						Y	N	

CITY OF FAIRBANKS
Office of City Mayor
410 CUSHMAN STREET
FAIRBANKS, ALASKA 99701-4683
907-459-6772

April 10, 1992

APR

38

A

The Honorable Eugene Kubina
House of Representative
State of Alaska
P. O. Box V
Juneau, AK 99811

Dear Representative Kubina:

I am in receipt of your letter of April 2, 1992 and apologize for my delay in responding and any inconvenience this delay may have caused. The reason for my delay is both personal and professional. I have had life-threatening illnesses in my family which have prevented an earlier response as well as critical city business which has required my immediate attention.

You have asked my opinion and input on HB 525 - relating to State Income Tax on Personal Income. I have mixed feelings regarding this issue because: 1) I have observed over a period of five years that the State has increasingly raised fees and workforce while the City has steadily decreased our workforce and services, jeopardizing the health, wealth, and welfare of our citizens; and 2) I feel that a state income tax on income would be beneficial if, and only if, the state were to allocate a certain percentage of those revenues to the municipalities and/or boroughs who are in such desperate need.

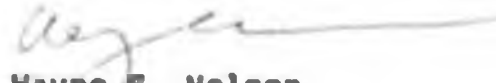
I do not advocate nor support an overwhelming tax burden placed on any individual with too many bureaucratic hands reaching into the pocket of the average income citizen, taking without any return to that individual. While I could and would support an income tax which is reasonable and would be shared locally, I could not and will not support an income tax that puts an undue financial burden on the individual; placing more monies in the State coffers, while local services decline, because of lack of funding, threatening the safety, health and welfare of every man, woman and child.

I do believe the HB 525 has merit but only with the municipality sharing that income on a per capita basis. It is time that the State recognizes that in this time of economic crisis, we need to share the financial burden and do what is expedient and in the best interests of the public as a whole.

Again, I regret my inability at this time to testify to this matter and would request that if this subject comes up at another time or if I can provide further information, please feel free to contact me.

With kindest regards, I am

Sincerely,
CITY OF FAIRBANKS



Wayne S. Nelson
Mayor

xc: Fairbanks City Council

OPINION

Without income tax, Alaskans must face the Year of the Big Knife

An endowed bureaucracy is a bad idea. That's a theory on which Gov. Walter Habel and Alaska legislators agree. It means, too, they won't use the earnings of the Permanent Fund to pay for the operation of state government. An individual income tax will come, but not this year. This is the year of the Big Knife.

That doesn't mean the unappropriated earnings of the Permanent Fund won't be used at some point. It means that when they are used, it will be for capital projects that provide an economic boost or which also will serve many future generations.

The weakness in former Gov. Steve Cooper's education endowment was that it diverted money from Permanent Fund earnings to a special fund, which each year would pay the operating cost of education. The education bureaucracy would be assured a high level of funding without answering each year to the people of Alaska through their elected officials.

So, we are back to the individual income tax, which was abolished a dozen years ago when the state had more money than it needed.

Some argue that this is still the case. There is no big push by Alaskans to reinstate the income tax. Rep. Naku Koponen, D-Fairbanks, has attracted no co-sponsors to his HB 525, which would reinstate an income tax.

Some letters indicate a willingness to give up a portion of their Permanent



Lew M. Williams Jr.

Fund dividend to fund a program. Under HB 525 that is automatic. Koponen's bill would assess a flat tax of \$960 on all wages above \$30,000 a year (the dividend was \$931 last year), plus 5.7 percent on additional wages above \$30,000 (below \$30,000 the tax rate is 3.2 percent of income.)

But legislative and administrative aides tell us there is no flood of requests to fund programs with new taxes or the Permanent Fund, despite urging by this columnist.

That indicates Alaskans want more cuts in the cost of government. Or, Alaskans believe government leaders, starting with Gov. Bill Sheffield's administration, have been crying wolf about the critical status of state finances.

Here is why it is an issue: The gover-

nor has proposed a maintenance-level operating budget for fiscal '93 (which begins July 1, 1992) of \$2.48 billion and a capital construction budget of \$300 million. It is projected that the amount of revenue will be \$650 million less than needed to fund those budgets.

Are we going broke? Not exactly, with \$13 billion in the Permanent Fund, with up to \$3 billion in reserves and back taxes receivable and with the state's resource riches.

To pay for fiscal '93, including covering the \$645 million deficit, the lawmakers (it's they who appropriate the money, not the governor) can use the \$115 million left in the Railbelt Energy Fund, the \$110 million in the Science and Technology Fund, the \$100 million in the Alaska Housing Finance Corporation and the \$460 million in the budget reserve account.

Those are all one-time monies. What happens in '94 and beyond? The situation is serious because:

- The unappropriated reserve in the Permanent Fund earnings account (surplus after paying dividends and inflation-proofing) is only \$700 million after accumulating for five years. That's equal to the deficit for one year in the current budget, which is based on simply maintaining service levels.

- Reinstating the individual income tax would bring in only \$230 million—\$400 million a year, the Department of



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Revenue has told Rep. Koponen. That would cover no more than half the anticipated deficit.

In combining the opinions of 60 legislators, the governor and their staffs, this is the obvious long-range plan for the state:

- (1) Cut the state operating budget;
- (2) Control the capital budget;
- (3) Generate more revenue by encouraging more resource development and reinstating the income tax at a future date.

The state operating budget will be cut by at least \$300 million this year (for fiscal '93) another \$300 million next year and more the year following until the government costs reach a point that the income tax and projected revenues cover operating cost.

A plan will be devised to steer Permanent Fund earnings, after dividends, to cover a portion of the capital budget.

(Dividends will be taken through the income tax).

The capital budget will no longer be a free grab bag. Support is building for the governor's idea to require local governments to share in the cost of capital projects requested by communities. And the communities will be required to pay for operation and maintenance.

In the meantime, the administration will aggressively seek to collect the outstanding balance in disputed oil royalty taxes. When collected, much of the money automatically goes into the budget reserve account where it takes a three-fourths vote to remove it. Some goes into the general fund but, in any event, it is one-time money.

We understand that the governor will propose legislation yet this session which will encourage development of smaller oil reserves in the state to help offset the shrinking production from Prudhoe Bay.

The administration and the Legislature will continue to push to open the Arctic National Wildlife Refuge to oil exploration.

It will be a few years before gas and more oil production are on line, so Alaskans can be assured that more budget cuts are coming. So is the income tax, but not this year.

Lew M. Williams Jr., a former publisher of the Ketchikan Daily News, has a column every Wednesday.