

ALASKA STATE LEGISLATURE

House Majority News

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State Capitol
Juneau, AK 99801
Actuality line (800) 478-6540
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Dan Saddler
Press Secretary
(907) 465-3804

House Passes Long-Range Fiscal Plan **Measures Share Burden Fairly, Address Budget Gap This Year**

(JUNEAU) – The House of Representatives today passed a package of four bills that would address Alaska’s long-range fiscal gap while protecting the Permanent Fund dividend, sharing the effect of broad-based taxes fairly among Alaskans, stabilizing state municipal revenue sharing and making modest increases to alcohol taxes.

“I commend the House leadership and all members for their tireless efforts to craft a responsible solution to our state’s most pressing challenge,” said Speaker of the House Brian Porter (R-Anchorage). “Everyone can probably find something to love, and something to hate, somewhere inside these four bills, which probably means we hit things just about right.”

The four bills that passed the House in separate votes would, when fully implemented in fiscal year 2004, together provide approximately \$900 million toward filling the state’s projected \$963 million budget gap, while preserving the Constitutional Budget Reserve as a \$2 billion budget shock-absorber:

- [House Bill 303](#) would impose a tax on income in Alaska generating approximately \$255 million per year when fully implemented in fiscal year 2004, while requiring those at all income levels to pay something to support state government.
- [House Bill 304](#) would convert Alaska Permanent Fund payouts to an endowment model, in which no more than 5 percent of its five-year average market value could be spent each year. Half would go to pay for Permanent Fund dividends and half for public education, while retaining enough earnings for inflation-proofing.
- [House Bill 225](#) would raise Alaska’s excise tax on alcohol to a dime a drink, increasing that tax revenue from \$12.1 million to nearly \$30 million each year to help offset the estimated \$483 million annual state costs associated with alcohol abuse.
- [House Bill 20](#) would use about \$59.5 million in Permanent Fund earnings each year to provide communities with municipal dividends as a stable source of revenue that would fund revenue sharing, capital matching grants, community jails and community safety programs.

While acknowledging the work of all House members, Porter singled out a few legislators for their standout efforts in bringing the fiscal package to pass: Rep. Lisa Murkowski (R-Anchorage), Rep. Jim Whitaker (R-Fairbanks) and Rep. Bill Hudson (R-Juneau). He also acknowledged Gov. Tony Knowles’ late-session facilitation of discussions between legislators of both parties on the issues.

“What the House has accomplished today in passing these bills is a testament to the hard work and integrity of many people, and to the enduring value of a system that ensures all voices are heard, and all concerns addressed,” said Porter.

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House Bill 225

Murkowski made the alcohol tax a top priority this session, saying a dime a drink represented less a tax than a user fee to help the state recoup some of the expenses associated with alcohol abuse, such as law enforcement, courts and corrections, health care, and social services. Even with the increase, Alaska's cumulative rate of taxation on alcohol will be the lowest in the nation, she said.

“Those who drink should help bear the costs of their choices,” said Murkowski. “Alaska hasn't increased its alcohol excise tax since 1983, and it's long past the time that users started paying a fairer share. Even with this increase, the effective combined tax rate on alcohol in Alaska is still the lowest in the country.”

House Bill 20

The community dividend program laid out in House Bill 20 uses a small portion of excess Permanent Fund earnings, factors in the needs and assets of each community, and provides a per-capita dividend to local governments. It represents an increase of approximately \$9.5 million over the \$51 million currently spent each year on the municipal revenue sharing program, said Rep. Eldon Mulder (R-Anchorage), co-chair of the House Finance Committee.

“The idea for a community dividend originated with Gov. Wally Hickel, and I give credit to Rep. Carl Moses of Unalaska for carrying the torch on this plan for many years,” Mulder said. “Local governments have made it clear how important it is that they know what their revenue sharing will be each year, and House Bill 20 provides the funds they need with the regularity and stability they want.”

House Bill 304

While many Alaskans feel a strong attachment to the Permanent Fund and its dividend program, the fund was established specifically to invest resource wealth that would pay for state government when oil revenue could no longer meet the cost, said Hudson, a member of the House Finance Committee.

“We in Alaska have been doubly blessed, first by the richness of mineral wealth that has provided us with generous state government services at no personal cost for two decades, and second by the wisdom of statesmen who saw the need to invest a portion of that wealth so it could multiply into a resource we can use to pay for services many decades into the future,” said Hudson.

HB 304 makes a one-time \$300 million transfer from the earnings reserve to the General Fund, to reduce the gap between state income and expenses for the 2003 fiscal year. Each year thereafter, the bill divides the five year rolling average of the fund's market value – \$1.26 billion in fiscal 2004 – equally between the Permanent Fund dividend program and public education, including the University of Alaska.

Permanent Fund managers have long advocated the endowment model laid out in HB 304 as a way to protect the Fund against inflation, as the difference between the payout and the historic 8 percent annual earnings would provide automatic inflation-proofing at a nearly 3 percent rate, Hudson said.

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“The endowment model avoids the risk of overdependence on the Earnings Reserve, which could consume any funds available for dividends a few short years,” Hudson said. “This bill is not an attack on the dividend, but a vigorous defense of the dividend.”

HB 304 makes no change to the dividend calculations this year, so next year’s checks will be about \$1,400. While the amount of the dividend will dip to about \$1,100 the following year, it will then grow steadily thereafter, reaching about \$1,500 by 2010.

House Bill 303

Whitaker expressed mixed feelings about the income tax provisions of House Bill 303, which had originated as a 3 percent state sales tax, but which changed to an income tax calculated from the adjusted gross income on an individual’s federal income tax return.

“While I continue to believe the most appropriate broad-based tax is a sales tax, I am somewhat mollified that this measure, by mirroring the approximate amount of money each Alaskan would have paid under a sales tax, preserves my original bill’s most important provisions: It does not unfairly burden those who have succeeded financially, and it requires each Alaskan to contribute something,” Whitaker said.

Alaskans who itemize deductions on their federal income tax returns could deduct the state tax, in effect allowing the federal government to subsidize about 15 percent of the tax paid, and the tax would not interfere with the sales taxes many Alaska communities depend on as a local revenue base. The bill also includes provisions that would lower the tax rate if the balance of the Constitutional Budget Reserve increases, possibly with new revenues from North Slope oil fields or a natural gas pipeline.

Hudson, an outspoken and long-time advocate for fiscal planning, expressed gratification that his colleagues had taken action on such a broad-ranging package of revenue measures.

“These bills, whether together or individually, will do a great deal to help Alaska address a critical, systematic imbalance between income and expenditures,” he said. “By taking action now and not simply draining our reserve accounts to the last dollar, the House has taken a bold step on behalf of all Alaskans to improve Alaska’s fiscal situation. I hope that everyone in our state, and everyone in the Legislature, will line up with us to support these bills and see them passed into law.”

[HB 20](#), [HB 225](#), [HB 303](#) and [HB 304](#) move next to the Senate for consideration.

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BROADCASTERS NOTE: Comments are available on the Majority Actuality Line 1-800-478-6540, or on the Majority webpage at www.akrepublicans.org

ATTACHMENT: Spreadsheet with Legislative Finance data, formatted by Rep. Bill Hudson’s office, showing effect of House Bills 20, 225, 303 and 304.