

off the record

a legislative
update from
Senator Kim Elton

a weekly way to stay in touch

Room 115, State Capitol, Juneau, AK 99801 * 465-4947 * 465-2108 FAX * March 22, 2002

Capitol Undercurrents

Now I feel better—The Senate Labor and Commerce Committee heard SB 320 (prohibiting the use of credit scores when underwriting or setting rates for auto and home insurance) on Tuesday. During the hearing, some legislators expressed concern that credit reports often have erroneous information. One insurance company spokesperson said don't worry, the Arthur Anderson accounting firm found 'only' a 2 percent error rate. I'm not sure it reassured many in the hearing room, given that the double 'A' accounting firm certainly doesn't have a triple 'A' reputation following its failures in the Enron debacle.

IT VIP—Lt. Gov. Fran Ulmer, Alaska's tech guru, was named one of the nation's top 25 "doers, dreamers and drivers of information technology in government." She made the list along with Utah GOP Gov. Mike Leavitt, another elected official on the frontier of technology innovation. The award by the Center for Digital Government was announced in the March issue of *Government Technology*. Last year Alaska earned a perfect score from the group when they rated states' uses of technology.

Post 9/11 post—

Everyone who handles mail is more careful now.

Some of my legislative mail arrives with big red



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State sales tax draws a bead on Juneau

Pogo, the long-gone but not forgotten cartoon character, once mused that he "was faced with an insurmountable opportunity."

That pretty much describes the situation facing the moderates in both political parties in Alaska's House of Representatives. They have a slim majority for a conceptual tax package that begins to close the \$1 billion fiscal gap but they do not have a majority for any specific general tax. While there's oomph behind the idea for a general tax, there's not enough oomph for either a general tax on income or a general tax on sales.

The "concept/yes" but "specific/no" quandary is the perfect definition of an insurmountable opportunity. There are enough votes for taxes, but not enough for specific taxes. And, as expected Wednesday when the full House was presented with its insurmountable opportunity, the House wasn't able to surmount. Even though a majority wants a tax, there is no majority for a specific tax.

The House speaker and House minority leader dispatched delegates to the recesses of the Capitol to see if they can emerge with a tax plan that will garner a majority in the House. If they are successful, the House may send that new plan to the floor next week.

While I am pleased the House members have the courage to discuss statewide taxes in committees and on the floor, unlike the majority in the Senate, I'm very disappointed with the focus on the sales tax. Frankly, I'm very surprised the sales tax survived a committee hearing process in which most of the testimony by Alaskans from all walks of life demonstrated a clear preference for an income tax over a sales tax.

I also was surprised the House leadership brought a general sales tax, rather than an income tax, to the floor and ignored the income tax recommendation forwarded by the bipartisan fiscal policy caucus. That caucus worked for nearly a year on revenue issues and most favored the income tax over the sales tax.

The fiscal caucus opted for the income tax for a variety of reasons. Some:

1. recognized that a sales tax is more regressive than an income tax;

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state sales tax...

2. liked the state income tax because it can be deducted from the federal income tax;
3. preferred an income tax based on a percentage of the federal income tax because its administration is easier and cheaper than administering a state sales tax;
4. liked an income tax because it garnered more from nonresidents; and
5. opted for the income tax because they believed the sales tax should be reserved for municipalities.

I favored the income tax for all five reasons. The first four reasons are self-explanatory and were supported by the preponderance of testimony from the general public and almost universally favored by financial experts at hearings around the state and in the House Finance Committee.

But the last reason, preserving the sales tax for communities, was less compelling to some legislators—especially legislators from cities that don't levy a sales tax. They didn't understand that a one-size-fits-all state sales tax threatens local "bricks and mortar" businesses while also eradicating the ability of local government to craft community tax regimes that work best for them.

Let's look at what happens in Juneau if we layer a state 3 percent sales tax on top of our 5 percent local sales tax (and layer on top is what we'd have to do because we've less than an iota of room under the Juneau property tax cap limit of 12 mills—there'll be no shifting from sales to property tax in Juneau). In Juneau, we exempt some purchases, we exempt Juneau's seniors from paying a sales tax, and on big ticket items we impose the sales tax on the first \$7,500 of a purchase. With the proposed state sales tax, these local sales tax precepts are swept aside.

Under the proposed state sales tax, Juneau's seniors pay the state sales tax and the state law precludes the local exemption seniors now have, so they'd also have to pay the city sales tax. Under the proposed state sales tax, our local exemptions would have to match the exemptions in state law—no fiddling with other exemptions that don't match the state recipe. And, under the state proposal, the local sales tax gets more regressive because we could only collect the local tax on the first \$2,000 of a purchase instead of the first \$7,500 (a consumer who buys a used car for \$2,000 will pay the same sales tax as a consumer who buys a new \$35,000 SUV).

But even more importantly, if we add a 3 percent state sales tax on top of our local 5 percent sales tax, we push purchases out of Juneau. While price points may vary for each individual, those who apply the logic of economics and everyday commonsense are able to

deduce that more will be spent out of the community if the local purchase penalty is 8 percent rather than 5 percent. Quite simply, more books, more music and more goods will be purchased from on-line and catalog purveyors who don't collect an 8 percent tax.

When we push sales out of town and out of state, we reduce the amount of sales tax collected on behalf of local and state government. More importantly, we threaten local bricks and mortar businesses. There is a real possibility that some local merchants can't compete on price with distant merchants (who don't collect a sales tax) and will not survive if the price disparity jumps from 5 percent to 8 percent. And if we lose the local merchants, we lose the jobs they provide and the property taxes they pay.

There are no perfect state revenue/tax solutions. Each new tax has different upsides and different downsides. But some solutions are less perfect than others. For Juneau and most other communities in Southeast and around the state, the statewide sales is least perfect because it is far less friendly to Alaskans and Alaska retailers.

Undercurrents cont...

letters on the envelope saying: "This mail was suspicious therefore it was opened for content verification. . ." Last week I received an opened letter with the scary, bright red message. It was stamped on an envelope containing an invitation to a postal service soiree for a new Alaska stamp. The suspicious envelope had, of course, been addressed and sent by the USPS.

What do you really mean?—*The Alaska Legislative Digest*, a weekly compilation of legislative news items by longtime observers of the Alaska's legislature, had a brief piece in the March 22 edition entitled "Liar, liar, pants on fire!". The entire text of the brief was: "So, 15 members of a closed caucus can stop any bill? Well, so much for the House Leadership's claim that substantive decisions are not made in their secret caucus sessions!" The item was prompted by the unusually honest discussion in House Finance on a fiscal plan where the co-chair said majority caucus Republicans who favored an income tax failed to get 15 caucus votes for an income tax.

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