



House Speaker Bryce Edgmon's *Legislative Update*



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House Finance Evaluates Advantages of Full Fiscal Plan



The House Finance Committee devoted the entire week to a combination of in-depth analysis of sensible fiscal policy and wide-ranging stakeholder input. I sat in on every meeting.

Extensive stakeholder testimony came from the Alaska Children's Trust, the realty industry, regional tribal non-profits, the banking industry, and more. Budgeting and economics experts included Legislative Finance Director David Teal, Northern Economics Vice President Jonathan King, and Office of Management and Budget Director Pat Pitney.



Here is the week's full slate of witnesses:

Monday

- David Teal, Director, Legislative Finance Div.
- Carl Davis, Institute of Taxation & Economic Policy (ITEP)

Tuesday

- Trevor Storrs, Exec. Dir., Children's Trust
- Jonathan King, Northern Economics
- Laurie Wolf, CFRE, MNPL, President & CEO, the Foraker Group
- Natasha Singh, Tanana Chiefs Conference
- Grace Singh, Central Council Tlingit & Haida

Wednesday

- Joey Crum, President, AK Truckers Assoc., President & CEO, Northern Industrial Training

Dillingham neighbor and one-time running partner Ted Kreig, right, visited me at the Capitol on Wednesday. He was accompanied by Division of Subsistence Director Hazel Nelson, center. Ted is retiring from the Subsistence Division following 15 years of dedicated service.

- Joe Schierhorn, President & Chief Operation Officer, Northrim Bank
- Vince Beltrami, President, AK AFL-CIO
- Mike Navarre, Kenai Peninsula Borough Mayor
- Angie Newby, Homer Realty

Thursday

- Commissioner Randall Hoffbeck, Dept. of Revenue
- Pat Pitney, Director, OMB, Office of the Governor

Friday

—Jonathan King, Vice President, Northern Economics

—Caroline Schultz, Economic Policy Analyst, Office of the Governor

Testimony on the part of the various social and economic sectors on the agenda demonstrated widespread support for a fiscal plan that is genuinely comprehensive and diversified.

The importance of such features in any plan was vividly illustrated by Department of Revenue Commissioner Randy Hoffbeck yesterday. In a section of his presentation titled “Impacts of Not Having a Broad Revenue Base,” he noted the risks associated with any plan that goes only partway toward a solution.

For instance, a plan that relies only on SB26—the Permanent Fund restructuring—would depend too much on revenue forecasts that grapple with volatile oil prices and investment markets. History has shown that even the best economists in the world cannot foresee sometimes radical swings in commodities, real estate, and stock markets. Even the most carefully structured and modeled formula still carries risk.

The key to mitigating that risk is by further diversifying revenues by adding a broad based tax, such as HB115, the Education Funding Act passed by the House.



SB26 alone also leaves a structural deficit of well over half a billion dollars annually. Ongoing deficits perpetuate the draining of the state’s savings and continued uncertainty in an economy that is already in recession. Alaska’s credit rating could be at risk of further downgrades, making bonding for the state and municipalities more expensive.

A structural deficit also obviously perpetuates downward pressure on a budget that already has been cut to the bone. While there always must be impetus to trim

Legislative Finance Director David Teal, right, assisted in his Monday presentation by Fiscal Analysts Rob Carpenter, center, and Alexie Painter, left.

our budgeting, the level of cuts that an SB26-only plan would require—hundreds of millions of dollars each year—would devastate the value and effectiveness of the programs and services Alaskans depend on.

As Commissioner Hoffbeck noted in his presentation:

“Just because the State stops funding a program or service doesn’t mean that the needs for that service go away. However, the Federal funding match often does go away causing severe collateral damage to the programs, services and the economy.

“Cuts flow downhill. If the State stops funding a program or service the burden often falls to the local governments and then to non-profits, the private sector, or finally to the individual.

“State expenditure cuts that don’t recognize ongoing needs are a ‘pass through’ solution. The expense doesn’t go away, it just shifts to an ever smaller pool of resources.

“A statewide solution, such as a broad based sales or income tax, broadens the funding for the delivery of programs and services by capturing revenues from out-of-state workers and visitors.”

In the end, a plan that is not diversified with additional broad based revenues and does not fully eliminate the deficit fundamentally destabilizes the state budget.

This situation leaves no funding source for unavoidable costs going forward, such as escalating health care costs, cuts in federal funding that appear more and more likely, and the state’s nearly \$2 billion in deferred maintenance.

The Finance Committee’s thorough vetting of these issues leaves me more convinced than ever that the four-pillar fiscal plan passed by the House is rock-solid. By genuinely diversifying revenues and fully eliminating the deficit, the House plan is considerably lower-risk and more responsible than a Permanent Fund-only plan. It better protects the PFD and the Permanent Fund itself; it safeguards the quality of essential services like education and public safety; and positions Alaska for thriving future economic advancement.

Real Controversy over REAL ID

Early this session House and Senate “companion” bills—HB74 and SB34—were introduced on behalf of the governor in an effort to bring Alaska into compliance with the federal REAL ID Act. Passed in 2005 following recommendations in the 9/11 Commission Report, these federal standards for driver’s licenses and other forms of state ID are designed to safeguard against identity theft and guarantee that the holder of an ID is whom they say they are.

If only it were as simple as that.

REAL ID has been a magnet for controversy in Alaska and across the U.S., so much that even with a dozen years having passed since the law was created, only a handful of states are considered in full compliance. This is largely because of concerns people have over their privacy and the security of the information they are required to turn over in order to be issued a license or ID that’s compliant with the federal law. As a rural legislator, I am also uneasy about the practical impacts this program may hold for Alaskans in bush communities.

Despite the persistence of such worries, the Department of Homeland Security, which administers the act, is cracking down. An “Enforcement Timeline” has been set, with the goal of having every state in the Union toeing the line by October 1st of 2020.

Between now and then, enforcement will be incremental, with a series of short-term waivers available to states to allow them additional time to comply with the act. As long as the feds are convinced that a state is making a good-faith effort toward compliance (through, for example, passing legislation like HB74 and SB34), these waivers will extend the time allowed to meet some of the enforcement timeline milestones.

An important such milestone is drawing near. Unless the state is granted another compliance extension, Alaskans will not be allowed to enter a military base using their existing state drivers' licenses after June 6th. This would pose problems for the thousands of civilian Alaskans employed at places like Joint Base Elmendorf-Richardson, near Anchorage, or Eielson Air Force Base, near Fairbanks.

A deadline with even broader consequences looms on January 22nd, 2018. After that date, TSA will no longer let someone board a commercial aircraft if they present a non-compliant license or ID from a state that hasn't been granted an extension. (Note that most Alaska regional airlines, such as PenAir, whose flights do not require TSA screening, will not be affected.)

Following October 1st, 2020, no more extensions will be given, period.

Membership has its Privileges

So why hasn't HB74 or SB34 zoomed through the Legislature this session? Some people fear that the REAL ID Act creates a national ID card and helps set up a "surveillance state," with Big Brother tracking our every move. The Department of Homeland Security (DHS) says this is not so. Issuance of licenses and IDs is still controlled by each state; no new federal database is created; and the federal law itself states that no federal agencies can access the data that states exchange for ID verification purposes.

Opponents of the program also worry about the risk of a breach in the multi-state driver's license database used to verify that an applicant doesn't hold a license in another

state and is not a "problem driver" listed on U.S. Transportation's National Driver Registry. DHS says that the state-to-state data service was established decades ago and has long been used by all the states without a breach. Participating states set the requirements for the system and control access to the data. As mentioned above, federal agencies cannot access it. And the system uses end-to-end encryption and is not connected to the Internet.

Nonetheless, after about five SB34 hearings in the Senate and ten HB74 hearings in the House, it appears that stakeholders have not been easily won over. This troubles officials from the Department of Homeland Security, who have stated that the legislation needs to

pass this session for Alaska to demonstrate the level of commitment to compliance necessary to be granted a waiver extension ahead of the next enforcement phase.

OTHER ID

Whether or not the state becomes compliant, Alaskans would not be forced to obtain a REAL ID. But opting out on either a statewide or an individual basis seems to come with



Speaker Edgmon and Senate President Pete Kelly leading a new-legislator orientation session back in January

hassles. For one thing, your driver's license would read, "Not for official purposes." You would still be able to access commercial air travel using a variety of alternative forms of ID, but most of them are not exactly commonplace or convenient to obtain. A U.S. passport, for example, might not be all that hard to come by, but the cost is close to five times that of a driver's license. Other OTHER IDs include such rarities as Airline-issued IDs, Merchant Mariner's credentials, HSPD-12 PIV cards—whatever on Earth they are—and Canadian provincial driver's license. Hmm. Not too handy.

TRIBAL ID

In meetings with DHS officials, I have been told that a photo ID issued by a federally recognized tribe will be accepted by TSA for commercial flights. This may be a silver lining for rural residents who belong to a tribe that provides one. I have requested of DHS that they confirm this policy in writing for my office.

Compliance Logistics for Rural Alaska

If HB74 or SB34 passes and over the next few years nearly every adult in the state might want to obtain a REAL ID, what does that mean for Alaskans in communities hundreds of air miles from the nearest DMV? State officials have told me that DMV will make it as convenient as possible—even going village to village, if necessary. Beyond that assurance, details are sparse.

So how should we proceed? That's exactly what lawmakers are trying to determine as they continue to consider the two bills before them. HB74 rests in the House Finance Committee, and SB34 is in Senate Finance. HB74 is scheduled for a hearing next Wednesday. With the first federal deadline just weeks away, it is still impossible to predict whether there is support in the Legislature to make it law.



Cameras crowd an Alaska House Majority Coalition press conference earlier during the legislative session.

On Deck Next Week...

(H)FINANCE Standing Committee
May 08 **Monday** 1:30 PM
Presentation: Deferred Maintenance by Adam Bryan, Capital Coordinator, OMB

(S)FINANCE Standing Committee
May 08 **Monday** 1:30 PM
SB 23 APPROP: CAPITAL BUDGET

(H)LABOR & COMMERCE
May 08 **Monday** 3:15 PM
HB 180 MONEY SERVICES
BUSINESS: LICENSING

(S)FINANCE Standing Committee
May 09 **Tuesday** 9:00 AM
HB 111 OIL & GAS PRODUCTION
TAX;PAYMENTS;CREDITS

(H)FINANCE Standing Committee
May 09 **Tuesday** 1:30 PM
HB 159 OPIOIDS; PRESCRIPTIONS;DATABASE;LICENSES
HB 150 PAY, ALLOWANCES, BENEFITS FOR MILITIA
HB 124 BENEFIT CORPORATIONS
HB 142 UNEMPLOYMENT COMPENSATION BENEFITS
HB 74 DRIVER'S LICENSE & ID CARDS & REAL ID ACT

(H)STATE AFFAIRS Standing Committee
May 09 **Tuesday** 3:00 PM
HB 152 ORGANIZED MILITIA; AK ST. DEFENSE FORCE

(S)HEALTH & SOCIAL SERVICES
May 09 **Tuesday** 3:30 PM
HB 186 FOOD DONATIONS
SB 79 OPIOIDS; PRESCRIPTIONS;DATABASE;LICENSES

(S)FINANCE Standing Committee
May 10 **Wednesday** 9:00 AM
HB 111 OIL & GAS PRODUCTION
TAX;PAYMENTS;CREDITS
HB 103 OPTOMETRY & OPTOMETRISTS
HB 222 LICENSURE OF MANICURISTS/NAIL TECHS

(H)RESOURCES Standing Committee
May 10 **Wednesday** 1:00 PM
Presentation: Pebble Prospect by Commissioner Andrew Mack, Dept. of Natural Resources

(H)FINANCE Standing Committee
May 10 **Wednesday** 1:30 PM
Overview: The Economy & Fiscal Policy

(S)FINANCE Standing Committee
May 11 **Thursday** 9:00 AM
HB 111 OIL & GAS PRODUCTION
TAX;PAYMENTS;CREDITS

(H)ARCTIC POLICY, ECONOMIC DEV., & TOURISM Special Committee
May 11 **Thursday** 11:30 AM
HJR 22 SUPPORT OUTER CONTINENTAL SHELF DEVELOPMENT

(H)FINANCE Standing Committee
May 11 **Thursday** 1:30 PM
HB 74 DRIVER'S LICENSE & ID CARDS & REAL ID ACT
SB 97 PENSION OBLIGATION BONDS
HB 6 JONESVILLE PUBLIC USE AREA
Pending Referral: Proposing amendments to the Constitution of the State of Alaska relating to the Alaska Permanent Fund

(H)STATE AFFAIRS Standing Committee
May 11 **Thursday** 3:00 PM
Presentation: The Price (and Cost) of Healthcare in Alaska

(S)FINANCE Standing Committee
May 12 **Friday** 9:00 AM
HB 111 OIL & GAS PRODUCTION
TAX;PAYMENTS;CREDITS

(H)FINANCE Standing Committee
May 12 **Friday** 1:30 PM
SB 6 INDUSTRIAL HEMP PRODUCTION
SB 28 MUNICIPAL LAND SELECTIONS: PETERSBURG
SB 107 ALASKA CAPITAL INCOME FUND

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