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Special session results in little

IT'S OVER: Cigarette tax passes; plan to use fund earnings fails.

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JUNEAU -- The Legislature quit its special session late Thursday afternoon, having crushed the governor's plan to use Alaska Permanent Fund earnings to support state services.

Lawmakers did pass a watered-down version of a tobacco tax increase Gov. Frank Murkowski wanted. The governor had pushed for a \$1-a-pack state cigarette tax hike as well as higher taxes on other tobacco products.

The Legislature instead opted to phase in a cigarette tax increase and not raise the tax on other tobacco products, like cigars and chewing tobacco. Under the version that won approval, a 60-cent cigarette tax hike would go into effect in January. The tax would go up another 20 cents in summer 2006 and 20 more cents in 2007.

The main reason Murkowski ordered the Legislature back to Juneau for the special session was for his Permanent Fund plan, the cornerstone of his solution for the state's looming budget crisis. But the Senate had already rejected a version of the plan during the regular legislative session, and it turned out to be dead on arrival in the special session.

Lawmakers also killed several other bills the governor wanted, including a controversial rewrite of the workers' compensation law. Several legislators from both parties said they didn't understand why Murkowski thought calling a special session would change minds. The Legislature adjourned after three days.

It didn't help that lawmakers, in the midst of re-election campaigns, had no desire to come back to Juneau in summer. Temperatures in the stuffy Capitol soared above 80 degrees, and a lot of legislators toiled with ties askew and sweat running down their faces.

The overwhelming rejection of the Permanent Fund plan was a major defeat for Murkowski. The Republican governor had even appeared in privately funded television commercials during the special session, imploring Alaskans to tell their legislators to support his proposal. Murkowski also testified before a legislative committee, sent his aides to lobby in the Capitol halls and called lawmakers up to see him in his office.

After the Legislature adjourned, Murkowski sent out a press release that "expressed disappointment that the Legislature made no progress on his proposal for a solution to the state's long-term fiscal problems." Murkowski spokesman John Manly said the governor will answer questions at a press conference today in the Capitol.

"The Legislature didn't give Alaskans a chance to vote on my plan, and they failed to come up with one of their own," the press release said.

Murkowski also made the best of the situation in his press release, applauding the

Legislature for passing an increase in the state cigarette tax.

Several legislators said the cigarette tax hike was notable and suggested the extra time in Juneau led to talks that might help lead to a solution to the state's budget problems.

"It was not a complete failure," said Rep. Ethan Berkowitz, D-Anchorage, the House minority leader. "We made some progress."

But House Speaker Pete Kott, R-Eagle River, wasn't impressed with the three days spent in Juneau. The state's cost for the special session ran about \$25,000 a day plus the legislators' travel expenses.

"I thought it was very unproductive," Kott said.

Kott blamed the state Senate and the Democrats for the fact that Murkowski's Permanent Fund plan was a nonstarter. But House Democrats said they tried to broker a last-minute compromise that got rebuffed.

So what's next in the long hunt for a plan to solve the state's chronic budget shortfalls?

"The election is next," said Rep. Norm Rokeberg, R-Anchorage. "And how the public is going to react to us."

Legislators said they weren't feeling public pressure to support Murkowski's plan. The governor's proposal, known as percent of market value, would have amended the state constitution to manage the fund like an endowment. Murkowski wanted to take 5 percent from the total value of the fund each year and give half to dividends and the other half to government services. It requires a public vote, and Murkowski wanted the Legislature to put it on the November ballot.

The governor offered to guarantee that the size of the annual Permanent Fund dividend checks wouldn't drop below \$1,000 if his plan passed.

There is dispute over just what Murkowski's plan would mean for the Permanent Fund dividends. But fund officials projected, based on guesses about the stock market, that it might mean dividends between \$100 and \$700 less over the long term than if the fund were left alone.

Murkowski argued that big taxes and budget cuts are the eventual alternative. He had the support of business leaders in a group called the Fiscal Policy Council, which paid for the television commercials featuring the governor during the special session. The group's chairman, Anchorage banker Marc Langland, didn't return a phone call seeking comment Thursday after the Legislature rejected the proposal.

Fairbanks Republican Sen. Gary Wilken said the governor's plan is premature. The recent record high oil prices mean the state doesn't have much of a budget shortfall right now. And there is about \$2 billion left in the budget reserve that absorbs the state's annual deficits, which usually range in the hundreds of millions of dollars.

"One of these days we will have to do something," Wilken told reporters as the special session ended. "We don't have to do something today."

Wilken proposes taking care of future deficits with a combination of reserve funds

and spending of Permanent Fund earnings -- without a public vote.

Most of the drama Thursday was over the tobacco tax. It would put just a small dent in the state's budget problems and is meant more to discourage smoking, which costs the state in health expenses. The Senate had passed the governor's \$1-a-pack increase the day before. But House leaders were about to adjourn Wednesday morning without considering it.

House Democrats cried foul, saying there should at least be an up-or-down vote on the tobacco tax. A lot of Republicans agreed, and the push to adjourn halted. After huddling behind closed doors, House Republicans decided to pass the weaker version that phases in the tax over the next few years and applies just to cigarettes. House leaders called it a compromise. Anti-tobacco advocates seemed satisfied.

"It's not ideal," said Kattaryna Stiles, the tobacco policy coordinator of the Alaska Native Health Board. "But we consider it a victory."

However, Sen. Con Bunde, R-Anchorage, said tobacco lobbyists had gutted the bill. For example, he said, cigarette stockpiles already in place when the tax goes into effect won't get hit with the increase.

That means businesses will just load up on cigarettes and hoard them until the tax kicks in next January, he said. Also, Bunde argued, the 60-cent-a-pack increase won't have the same "sticker shock" to get teenagers not to smoke than an immediate \$1-a-pack hike would have.

But the House adjourned right after passing its weaker version of the tobacco tax, leaving the Senate to either agree or end up with nothing.

"I know it's not perfect. But it does help," said Kodiak Republican Sen. Gary Stevens.