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Alaska News

Alaskans drank more despite higher alcohol tax, drink prices

Kyle Hopkins | September 15, 2013

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When the Alaska Legislature approved the biggest alcohol tax increase in state history, many hoped the added cost would convince Alaskans to drink less.

That was 11 years ago. Sure enough, bars and liquor stores across the state raised prices to pay the new tax -- often boosting them at least twice as much as necessary on popular brands, university researchers later discovered.

Then a funny thing happened, according to state tax records. Instead of cutting back because of the extra cost, Alaskans kept right on drinking. The tax on hard liquor doubled, yet sales of whiskey, vodka and other spirits have grown 41 percent since the increase. (Alaska's population, rose just 13 percent during the period.)

The tax on wine tripled, yet wine sales have gone up 56 percent. Only beer receipts dipped slightly in the face of the 2002 "dime a drink" tax championed in Juneau by U.S. Sen. Lisa Murkowski, who was then a state House member from Anchorage.

Before the increase, the state collected the equivalent of 3 to 4 cents for every bottle of beer, glass of wine or shot of liquor sold in Alaska. The new rate raised the tax to 10 cents per drink.

Today, a review of the unprecedented increase reveals it failed to fully deliver on the hopes of supporters in important ways.

In a state that continues to wrestle with alcohol-fueled crime, abuse and neglect and fetal alcohol syndrome rates are the highest in America, treatment providers report a chronic lack of facilities to help people get sober. That was also the case in 2002, when Murkowski told her fellow lawmakers that on any given day there were 300 Alaskans waiting to get into treatment and recovery programs statewide.

When they passed the 2002 tax, legislators planned to spend at least half of the alcohol money on substance abuse rehabilitation and prevention. Instead, state spending on alcohol and drug programs plummeted the year after the increased rates took hold.

Over the next six years, the state made more money on alcohol taxes than the Division of Behavioral Health spent from state coffers on drug and alcohol programs.

Treatment funding began to rebound by 2009, but the governor and health commissioner have resisted efforts to spend significantly more of the alcohol tax on treatment without evidence that existing programs are working.

"They're skeptical," Health Commissioner William Streur said of state legislators, who cut \$2.6 million from his Division of Behavioral Health spending plan for 2014 and diverted another \$6 million away from alcohol treatment. "We can't go around just saying, 'We're doing good, trust us.'"

'100-PROOF RESISTANCE'

A chain of tragedies in 2000 added urgency to the push for the biggest-ever increase in Alaska's alcohol tax.

A driver with a blood-alcohol level twice the legal limit ran down three state workers that spring on the Seward Highway, killing two. He later admitted to driving drunk dozens of times before the deadly accident.

That summer, a driver with seven prior DUI convictions killed a 20-year-old woman as she rode her bicycle on an Anchorage sidewalk. Two boys, ages 11 and 15, died on their way to a family fishing trip Whittier, killed by another drunken driver.

"There was just this huge outrage from the community," said former state Rep. Andrew Halcro, an Anchorage Republican who now heads the Anchorage Chamber of Commerce.



Mothers Against Drunk Driving and the state Health Department approached Murkowski about proposing the tax, recalled Halcro, who became a co-sponsor.

At the same time, the state was broke. Low oil prices were draining savings and there was talk of a sales or income tax. A billion dollar deficit loomed. "The (Health Department) budget, with regard to what alcohol was costing communities, was rising dramatically," Halcro said.

A change in the alcohol tax, at the time among the lowest in the nation, was overdue. The rates had remained flat since 1983, with any increase facing what Murkowski called "100-proof" resistance from the liquor industry. Pitching the

tax increase to her colleagues, she said Alaska had the highest rate of alcohol-related deaths in the U.S. and the extra revenue could be used to dent the hundreds of millions of dollars a year that alcohol woes cost the state.

Armies lined up on both sides of the debate. Wearing "dime-a-drink" buttons, nurses, rehab providers and teacher parent-teacher associations supported the increase, saying it would pay for treatment and stop some kids from drinking. Hotel owners, bartenders and liquor store owners said it would kill sales and encourage people to steal.

Both sides talked about how people would drink less.

"Almost all the research shows the higher the price, the less people drink," said Matt Felix, who recently retired as director for the National Council on Alcoholism and Drug Dependence in Juneau and pushed for the higher taxes. "Even people who are addicted drink a little bit less, but especially the fixed income groups: Elderly and underage, teen drinkers."

Halcro, thinking of his own social drinking habits, said he wasn't so sure.

"I don't ask for the price when I go to the bar," he said. "If you order a beer you order a beer. It's not a price driven commodity."

DIME A DRINK

The increase launched in October 2002 wasn't as steep as supporters had hoped and called for dedicating half of tax revenue to treatment and prevention programs rather than the full amount. But suddenly Alaska had the highest **excise** taxes on alcohol in the country.

The tax on beer rose from 35 cents a gallon to \$1.07. The wine tax increased from 85 cents a gallon to \$2.50. The tax on hard liquor -- the drink most associated with public drunkenness and bootlegging -- jumped from \$5.60 to \$12.80 a gallon.

Of the 32 states that do not directly control liquor sales through a monopoly of state-run stores, Alaska's taxes on distilled spirits remains the highest in the country today, according to the Federation of Tax Administrators. Murkowski argued in 2002 that those rates only tell part of the story, because drinkers in many other states also pay a mix of sales taxes and other special alcohol taxes absent in Alaska.



Excise taxes are collected at the wholesale level, before customers pay for the drink at the bar or register. Retailers generally pass the extra cost on to buyers.

In a joint study by Cornell University and the National Bureau of Economic Research, researchers called hundreds of Alaska bars and liquor stores just before the tax took effect and a year after to find out if retailers raised drink prices to account for the tax boost.

They did, the study found. And then some.

While the new tax amounted to 7 cents more per bottle of Budweiser, bars reported raising prices 15 cents, according to

results published in 2005 and paid for by the National Institute on Alcohol Abuse and Alcoholism.

Beer sales increased anyway in the two years after the tax took effect. By 2012, the last year for which figures are available, overall beer sales had inched upward about 6 percent over the decade. That's slightly below the state population growth, meaning beer consumption appeared to be flat or reduced.

Supporters of the tax took this as an encouraging sign.

"The belief is that the reduction in beer consumption probably indicated a reduction in under-age drinking," said Jeff Jesse, director of the Mental Health Trust Authority and a supporter of the tax increase. "Kids are more price sensitive."

Alaska's stagnant beer sales could also reflect a national trend. A Gallup survey released in August found that U.S. drinkers are generally buying less beer and more wine with liquor sales largely unchanged.

At the Howling Dog Saloon in Fox, a bluesy cauldron of bikers, businessmen and college kids, sales stayed steady despite the rising prices, said manager Larry Hackenmiller. For buyers, alcohol is like any other must-have commodity, he said. "You're not going to stop people from driving because gas is up to \$4 a gallon."

'LIKE THEY WERE PANCAKES'

Alaska wine and liquor sales have far outpaced population growth in the past decade. Last year enough alcohol was sold in Alaska to fill a small bathtub for every adult in the state. (It's unclear how much of those sales are imbibed by tourists.)

Some liquor stores found that people started buying cheaper brands, but didn't necessarily reduce the amount of alcohol they purchased, said Dale Fox, president of the Alaska Cabaret, Hotel, Restaurant & Retailers Association.

As the head of the state liquor lobby, he made a point of tracking alcohol sales after the tax increase took effect. "What I saw in those charts was that consumption was up."

Meanwhile, the lines of Alaskans waiting for treatment and rehabilitation are as long as ever, said Felix, the Juneau tax advocate. In addition to successfully proposing a 3 percent local alcohol tax in Juneau, Felix served as a former director for the now defunct state Division of Alcohol and Drug Abuse.

Asked why there appears to be no dramatic drop in alcohol consumption following the tax increase, he said state regulators fail to restrict the flow of alcohol by dishing out too many liquor licenses and permits. "Like they were pancakes," Felix said.

Despite a state law that limits the number of bars and liquor stores available in a given city or town, various alternative liquor licenses awarded to places like bowling alleys and hunting lodges and have increased the availability of booze, he said.

"You've got licenses all over the goddamn place," he said. "They just keep issuing more licenses to get around the intent of cutting those off."

ABC Board Director Shirley Cote disputes that the number of liquor licenses and special permits awarded has increased over the past decade, saying the figure remained steady over that time.

Her agency is unable to show how many liquor licenses were active each year over the past decade because of a deficiency in the record-keeping process, Cote said. Still, she said, the available data shows there were about 1,800 total liquor licenses in 2001, and about the same number today.

In response to questions about the records, Cote said the ABC Board will now start making a snapshot of the total number of active licenses and permits twice a year, for record-keeping.

The Daily News asked a spokesman for Sen. Lisa Murkowski if the increased alcohol tax delivered on her original intentions. He said he was researching the issue but as of Sunday had not provided an answer.

RELUCTANT TO SPEND

While the Alaska Constitution forbids any law that dedicates any tax revenue to be spent in a specific way, state law encourages the Legislature to use 50 percent of alcohol tax revenue to pay for alcohol and drug abuse programs by placing the money in a special fund.

State budget writers could still spend that money how they pleased, but the intent was clear: Alcohol taxes ought to help defray the \$250 million to nearly \$500 million that alcohol abuse was estimated to be costing the state annually, Murkowski said at the time.

In the first full year after the state started collecting the new tax -- which amounted to more than \$10 million in revenue -- state spending on drug and alcohol programs plummeted. Frank Murkowski, Lisa's father, had become governor and was slashing programs to ward off the looming budget crisis.

Among the controversial cuts, such as ending a cash payment to Alaska seniors and fewer jobs for rural cops, the deepest reductions were to the Department of Health and Social Services, which funds treatment and prevention.

"For a number of years they decreased the budget for those exact things that (Lisa Murkowski) said were going to get an increase," said Fox, the liquor association president.

More recently, Division of Behavioral Health funding for alcohol and drug programs increased. By 2010 spending topped \$40 million a year, outpacing the total amount received in alcohol taxes. Millions more are spent by the Department of Corrections.

"We've come closer to achieving the intent (of the tax)," said Kate Burkhart, director for the state Advisory Board for Alcoholism and Drug Abuse.

"It's a source of revenue that we couldn't live without," she said.

For now, Gov. Sean Parnell and many lawmakers are reluctant to spend more.

At current levels, the Division of Behavioral Health spends about \$60 per Alaskan on alcohol and drug programs. If all of the state alcohol tax revenue were injected into treatment, it would amount to about \$19 million more per year to help people recover from alcohol and drug addiction.

When the Legislature sought to add another \$19 million from the alcohol tax into the spending plan that covers part of 2012 and 2013, Parnell vetoed \$10 million. "In adding money to this area, the Legislature did not provide detailed backup on the how appropriation was to be spent," he wrote.

The following year, lawmakers carved another \$6 million from the alcohol treatment funding and cut the overall Division of Behavioral Health budget by \$2.6 million, Streur said.

Health commissioner for the past three years, Streur said his Behavioral Health Division failed to make tracking the success or failure of rehab treatment a priority. He's now asking treatment agencies to provide that information, he said.

"Are people still clean and sober after six months? One year? Pick our time frame," Streur said. "We have not gotten our arms around that.

"Like so many things that we're doing with health care, do we put more money into it or do we try to fix the system?" he said.

Sen. Johnny Ellis, D-Anchorage, says he wants both, provided the state is prepared to spend the money efficiently. Ellis has called for all of the alcohol tax revenue to be spent on treatment and prevention. The liquor lobby, eager to avoid another rate increase, supports the plan.

"They're taxing the industry," said Fox, the liquor association president. "Let's solve these problems."

Fox said the industry had raised more than \$40,000 as of last week to battle a proposed 5 percent local liquor tax for the Matanuska-Susitna Borough. The Mat-Su Health Foundation plans to spend about \$50,000 in support of the increase, which goes before voters Oct. 1.

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Alaska's statewide alcohol tax

In 2002 the state Legislature increased the state excise tax on alcohol for the first time in 18 years. Here's how much Alaskans are paying today, compared to the old rate.

Beer: \$1.07 a gallon, increased from 35 cents a gallon.

Wine: \$2.50 a gallon, increased from 85 cents.

Liquor: \$12.80 a gallon, increased from \$5.60.

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