

# ALASKA STATE LEGISLATURE

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### SPONSOR STATEMENT CS for SENATE BILL NO. 117

Alaska, along with at least 23 other states, prohibits wholesale cigarette distributors and retailers from selling cigarettes below a state regulated minimum price. This reflects a public policy which seeks to prevent the use of cigarettes as a “loss leader” or a bargain item. Furthermore, studies have shown that pricing cigarettes below cost has been linked to youth smoking.

However, current law contains a loophole which allows large, high-volume cigarette sellers to price their cigarettes at less than the minimum price set by law if they can prove their actual cost of doing business is lower than the mandated minimum price.

In order to qualify for the lower price, application for each cigarette brand must be made. The Department of Revenue must then review the financial data provided to see if the submission is available for an exception. This process of verifying the cost versus price calculations by brand is both expensive and time consuming for the agency. If the exception is granted, it changes the state minimum prices for all wholesalers and retailers. Consequently, cigarettes in effect become somewhat of a “loss leader” because the granted exemption price is at or below cost for some retailers, thus defeating the original purpose of setting a minimum price.

If CS SB 117 is passed, it requires the Department of Revenue to set the same minimum cigarette price for all vendors – regardless of size, volume, or accounting practices. Thereby promoting fairness by putting all cigarette sellers on the same playing field with regard to the state mandated minimum cigarette price. Furthermore, CS SB 117 would ensure that it will no longer be permissible for anyone to set a price any lower than that which the State establishes.

The percentages in CS SB 117 are based on a compromise between interested parties. As a result, major cigarette brands will experience an increase in price.

In the end, if passed, CS SB 117 will increase the price of cigarettes overall; will eliminate the labor and expense for the Department of Revenue in calculating exceptions to the minimum price; and it will promote fair and reasonable competition in the marketplace.