

HOUSE FINANCE COMMITTEE

October 25, 2001

1:19 PM

Anchorage LIO

TAPE HFC 01 - 119, Side A

TAPE HFC 01 - 119, Side B

TAPE HFC 01 - 120, Side A

CALL TO ORDER

Co-Chair Williams called the House Finance Committee meeting to order at 1:19 PM.

MEMBERS PRESENT

Representative Bill Williams, Co-Chair

Representative Eldon Mulder, Co-Chair

Representative Con Bunde, Vice-Chair

Representative John Davies

Representative Carl Moses

Representative Richard Foster

Representative John Harris

Representative Bill Hudson

Representative Ken Lancaster

Representative Jim Whitaker

MEMBERS ABSENT

Representative Eric Croft

ALSO PRESENT

Senator Kim Elton; Representative Lisa Murkowski;

Representative Gary Stevens; Representative Andrew Halcro.

PRESENT VIA TELECONFERENCE

Anchorage: James, A. Crary; Mike Savage, Brown Jug; Don Grasse, Alaska Wine and Spirits Wholesale Association; Karen Rogina, Alaska Hospitality Alliance; Kacch McDowell, Executive Director, Alaska Cabaret Hotel and Restaurant Retail Association (CHARR); Elmer Lindstrom, Special Assistant, Department of Health and Social Services; Laura Sarcone, Alaska Nurses Association; Larry Persily,

Deputy Commissioner, Department of Revenue; Obed Nelson, President, Council on Alcohol Abuse and Public Safety; Lee Chipman, General Manager, Hilton; Jeff Jesse, Executive Director, Alaska Mental Health Trust Authority; Tim Schrage; Bob Bailey; Susan, Fischetti, Alaskans for Tax Reform.

Fairbanks: Mr. Jeff Carter, K&L Distributors; Mr. Larry Hackenmiller, Club Manchu.

Homer: Sandy Barker, Salty Dog Saloon; Melvyn Strydom, Finance Manager, Patel Enterprises Incorporated.

Juneau: Judy McDonald, Bar Owner; Butch Tangney, Techniques of Alcohol Management; Cindy Cashen, Mothers Against Drunk Driving.

Ketchikan: John Nixon, Social Club Manager, Eagles FOE #162; Bill White, Pastor, Ketchikan; Stan Berntson, Clergy, Ketchikan; Marge Hobart, Sourdough Bar; Wes Loe, Newtown Liquor; Lynda Adams, Alaskans for Drug Free Youths.

Kodiak: Bobbie Hutcherson.

Nikiski: Chrystal Schoenrock Chrystal Schoenrock, 4-Lands Bar.

SUMMARY

HB 225 "An Act relating to municipal taxation of alcoholic beverages and increasing the alcoholic beverage tax rates."

HB 225 was heard and HELD in Committee for further consideration.

#hb225

HOUSE BILL NO. 225

"An Act relating to municipal taxation of alcoholic beverages and increasing the alcoholic beverage tax rates."

REPRESENTATIVE LISA MURKOWSKI expressed her appreciation to the Chair for hearing the legislation.

Vice-Chair Bunde expressed concern regarding the expenditure of the tax. He questioned if there was a way to direct the money generated from an alcohol tax to alcohol abuse prevention and treatment.

Representative Murkowski observed that revenue cannot be dedicated short of a constitutional amendment. She noted that the decision to direct the funds toward treatment and prevention could be made through intent language and the appropriation process. She acknowledged the importance of prevention and treatment.

Vice-Chair Bunde suggested that if the purpose is to raise money it should be presented honestly. He had hoped that there would be a way to tie the revenues to treatment if that is the intent.

Representative John Davies maintained that a fund could be created to support the programs mentioned by Vice-Chair Bunde. He stressed that it is a statutory designation of funds not a constitutional dedication. He observed that legislatures seldom violate statutory dedications, even if they can be appropriated for any purpose under the Constitution. He recommended the creation of a sub fund in the general fund for treatment programs and the dedication of revenues from any similar legislation. He acknowledged that there would be no guarantees that funding from such a fund would be used as indicated, but emphasized that a moral fence would be built.

LEE CHIPMAN, GENERAL MANAGER, HILTON GENERAL MANAGER, ANCHORAGE testified in support of the legislation. He read from a letter signed by representatives of major Anchorage hotels: Captain Cook, Hilton, Millennium, Downtown Marriott, and Sheraton.

As General Managers of major Hotels in Anchorage, we would like to go on record opposing any increase in the alcohol tax.

The world is different since September 11th and the hospitality world is different in a major negative way since September 11th. Airline travel is down, Hotel bookings are down, several conventions scheduled for Anchorage in September were cancelled, most notably the Council of State Governments which all of you

would have attended, tourism bookings for next season are down considerably, people are eating out less in restaurants. We could go on and on with specific examples, but the point is it is hard to find a positive indicator in the hospitality industry at this point in time.

The last thing the hospitality industry needs at this point in time is a tax that will not add any value to the industry! It will be one more negative factor piled onto a slew of other negative factors that we do not need at this time.

As public policy makers we need your positive help to rebuild the hospitality industry in Alaska. We don't need and we strongly oppose the addition of one more negative factor for our industry at this time. Thank you for your consideration.

LARRY PERSILY, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE explained how the tax is collected. Taxes are collected at the wholesale level. Goods are taxed when they are sold or leave the warehouse. If the warehouse is non-bonded goods are taxed when they are imported or sold into Alaska. The tax rate is \$5.60 dollars for a gallon of hard liquor, which would equate to .044 cents a drink per once. The national average for hard liquor in state taxes is \$3.30 dollars per gallon. The federal tax is \$13.50 dollars a gallon. The state tax on wine is approximately .85 cents a gallon. A six once glass of wine would be taxed at .04 cents. The national average in state taxes for wine is .60 cents a gallon. The federal tax on wine is \$1.07. The state tax on beer is .35 cents a gallon or .035 cents per can or bottle. The national average is .19 cents a gallon. Federal tax is .58 cents a gallon. The state portion of the tax would be between .035 and .045 cents a drink. Alaska first imposed a beer and wine tax in 1933; hard liquor tax was imposed in 1937. The last increase was in 1983; before that the tax on beer had not been increased since 1957. Wine and hard liquor had been unchanged since 1961.

Mr. Persily noted that the high tourism states of Hawaii and Florida have among the highest alcohol rates in the nation. There are not many taxpayers in Alaska at the wholesale rate. There have been an average of less than 30 tax returns per month. Alcohol tax collections have fluctuated between \$12 and \$12.3 million dollars in Alaska.

Mr. Persily observed that there is one halftime position for enforcement and collection of alcohol taxes. No returns were audited in the last year and enforcement is minimal. If the alcohol tax were increased they would expect some stockpiling, which would drop revenues immediately after the passage. The increase could result in greater revenues of \$30 - \$34 million dollars if consumption is not reduced. The Department of Revenue is asking for one full-time enforcement position if the alcohol tax is increased. He suggested that the legislation should look at increasing mail orders of alcohol for personal use, which are not subject to tax in Alaska. He recommended changing the law so that the tax is payable on any alcoholic beverage brought into the state. Such a change would require an additional enforcement position, which would likely generate more than its cost in additional revenue.

Representative Harris asked if the problems associated with alcohol would be addressed through a tax. Mr. Persily stressed that the Department of Revenue cannot address the social impact but would be happy to collect the tax.

Vice-Chair Bunde observed that combined state and federal tax on alcohol is approximately .15 cents a drink.

Mr. Persily did not know of any other states with a similar percentage increase that could be used as a model.

JOHN NIXON, SOCIAL CLUB MANAGER, EAGLES FOE #162, KETCHIKAN testified via teleconference. He is the president of a social club. The club is supported through its membership. He noted that the club contributes to charities. He observed that their organization contributes more than \$20,000 dollars a year to local charities.

JUDY MCDONALD, BAR OWNER, JUNEAU testified via teleconference in opposition to the legislation. She maintained that the tax would be devastating to her business. She stated that she would have to lay off employees. She stressed the impact of the 9/11/01 tragedy on her business. She acknowledged the need to balance a budget but maintained that all sources of revenue need to be reviewed.

Vice-Chair Bunde questioned if a 5 percent statewide sales tax in place of an alcohol tax would impact her business.

Ms. McDonald responded that a statewide sales tax would not have as great an impact as the proposed increase in the alcohol tax.

SANDY BARKER, SALTY DOG SALOON, HOMER testified via teleconference in opposition to the legislation. She acknowledged the need to increase revenues but felt that the hospitality industry is being unfairly singled out. She expressed concern that the hospitality industry will suffer even more as a result of the economic downturn, which would be worsened by HB 225.

CHRYSTAL SCHOENROCK, 4-LANDS BAR, KIKISKI testified via teleconference against HB 225. She did not think that the increase in taxes would help anything and would adversely affect her business. She maintained that there would be a 300 percent increase in taxes, which would be too great.

BOBBIE HUTCHINSON, BARTENDER, KODIAK testified via teleconference against the legislation. She maintained that the tax would cause her to work longer hours for the same amount of money. She agreed that a 300 percent increase is too much. She felt that education, not taxation, is the answer to the state's problems.

JEFF CARTER, K & L DISTRIBUTORS, FAIRBANKS testified via teleconference against the legislation. He questioned why the state needs a tax that is 6 times the national average in order to educate people on alcohol awareness.

JAMES A. CRARY, ANCHORAGE testified in support of the legislation. He noted that he is a former municipal prosecutor. He noted that 80 percent of his cases as a prosecutor were related to alcohol abuse. He pointed out that the occurrence in New York on September 11, 2001 had nothing to do with the issue of alcohol tax. He maintained that an increase in tax would decrease consumption. He observed the uniqueness of Hawaii and Alaska in terms of their isolation from other states. He observed that the tax would be a .10-cent a drink increase. He expressed support for an increase of .15 cents a drink. He questioned if a moderate drinker would decrease consumption due to a .20-cent increase. He maintained that heavy drinkers would be the most affected.

Representative Hudson asked where the additional revenues raised by the tax would be best spent in order to eliminate

the problems of society. Mr. Crary spoke in support of additional law enforcement on the streets and in the rural areas.

Representative Harris pointed out that the state of Alaska has more people incarcerated per capita than any other state in the nation. He questioned how the populace can be educated. He observed that there are drug problems in rural Alaska where alcohol is not available. Mr. Crary reiterated that the additional revenue could go toward law enforcement and education. He stressed that 80 percent of those in jail are there for alcohol related crime. Alcohol is the worst abused drug in the state.

BILL WHITE, PASTER, KETCHIKAN testified via teleconference in support of the legislation. He noted that the clergy supports a substantial increase in the alcohol tax rate.

Vice-Chair Bunde questioned if the support was directed toward prohibition and treatment or toward raising funds. Mr. White expressed support for both aims. The cost of alcohol abuse to the state of Alaska exceeds the current revenues [raised from alcohol taxes]. The clergy works with those whose lives have been broken by alcohol.

STAN BERNTSON, CLERGY, KETCHIKAN stated that they are aware of the affect on consumption.

Vice-Chair Bunde maintained that there would be less funding available for treatment if consumption were reduced.

CINDY CASHEN, MOTHERS AGAINST DRUNK DRIVING, JUNEAU testified via teleconference in support of the legislation. She spoke in support of a tax of at least .10 cents a drink.

MIKE SAVAGE, EMPLOYEE, BROWN JUG ANCHOARGE testified against the legislation. He felt that the alcohol industry was being singled out.

MARGE HOBART, SOURDOUGH BAR, KETCHIKAN testified via teleconference against the legislation. She felt that a tax of 300 percent would hurt her livelihood.

BUTCH TANGNEY, TECHNIQUES OF ALCOHOL MANAGEMENT, JUNEAU testified via teleconference against the legislation. He

noted that Alaska already spends more per capita on alcohol treatment than any other state.

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Mr. Tangney added that most of the people against the legislation are small business owners. He felt that the tax could cause closure or layoffs in many businesses. Since September 11, 2001 there have been other blows to the hospitality industry.

MELVYN STRYDOM, FINANCE MANAGER, PATEL ENTERPRISES INCORPORATED, HOMER testified via teleconference in opposition to the legislation. He maintained that taxing only the alcohol industry would place an undue burden on an industry that already pays a substantial tax. He suggested a state sales tax be introduced as a vehicle to raise additional revenue. Each state resident could receive a sales tax rebate on the first \$10,000 thousand dollars spent each year.

LARRY HACKLENMILLER, CLUB MANCHU, FAIRBANKS, testified via teleconference against the legislation. He maintained that federal grants would be reduced to rural areas due to [the cost of] the War Against Terrorism. He anticipated that treatment funding would be reduced. He pointed out that the majority of the revenues are assessed in urban areas but spent on problems in rural areas. He questioned if equal protection laws would apply. He maintained that the tax would not solve the state's fiscal problems.

LAURA SARCONI, ALASKA NURSES ASSOCIATION, ANCHORAGE, spoke in support of the legislation. She noted that health care workers see daily the problems resulting from alcohol abuse. She spoke in support of the dedication of funds for treatment and education.

LYNDA ADAMS, ALASKANS FOR DRUG FREE YOUTH, KETCHIKAN TESTIFIED VIA TELECONFERENCE, spoke in support of the legislation. She recounted her experience in alcohol related programs. She expressed support for at least a .10 cent per glass tax on alcohol.

Vice-Chair Bunde questioned if addicts are price sensitive and if the price of alcohol would affect consumption. Ms. Adams stressed that prevention, intervention and treatment work together and is the focus of the legislation.

JEFF JESSE, EXECUTIVE DIRECTOR, ALASKA MENTAL HEALTH TRUST AUTHORITY testified in support of the legislation. He acknowledged the concern regarding jobs. He pointed out that there are other ways of creating jobs and stressed the cost of alcohol abuse. He noted that treatment jobs are currently being reduced. He addressed the issue of spending revenues on treatment and prevention programs. He suggested that a group of stakeholders could recommend a package to be presented to the legislature by the Alaska Mental Health Trust Authority for treatment and prevention services. The legislature could be required to write a report indicating why they are not willing to spend the money on treatment and prevention services if the recommendations are not funded. He disagreed with statements that the tax would be 300 percent higher than the highest tax. He noted that Hawaii's tax on beer is 300 percent higher than Alaska's.

Mr. Jesse stated that he is also involved in the state PTA. He thought that the state PTA would come out in support of the alcohol tax at their next meeting.

Vice-Chair Bunde asked how if mental health clients are price sensitive. He stated that he is having a hard time assessing the prohibition affect of the legislation.

Mr. Jesse acknowledged the power of alcohol addition, but emphasized that even forced treatment works. He observed that any increase in the cost of alcohol will be universally applied. A fifth of Wild Turkey will go up the same amount as a fifth of Jack Daniels. He maintained that cheap alcohol consumed by juveniles wanting to get drunk would incrementally go up more than more expensive liquors [as a percentage of cost].

Representative Andrew Halcro questioned if support for the tax increase by the PTA is tied to the desire that money go to treatment. Mr. Jesse agreed. He clarified that the state PTA has not taken a position on the issue. The Anchorage PTA and other local PTA's have taken positions [in support]. The Anchorage Council's resolution states that a significant portion should go to treatment and education programs.

Representative Hudson questioned what percentage of the mental health client base is a result of abusive use of alcohol or the use of alcohol by their parents. Mr. Jesse

stated that the combined rate would be very substantial. Chronic use would be about 25 percent of the beneficiary base. He observed that 90 percent of the persons with mental illness admitted to Alaska Psychiatric Institute have a serious alcohol problem. He emphasized that alcohol abuse among the elderly has been overlooked.

Representative Harris spoke in support of increasing the support to treatment programs without putting an undue burden on the alcohol industry. He noted that 80 percent of the users who are not problem drinkers pay for the 20 percent of those that have problems related to alcohol.

Mr. Jesse spoke in support of allowing the Alaska Mental Health Trustees to design a package of services that would augment the health and social services budget in areas that already exist. It's difficult to provide treatment to all of those that suffer from alcohol related problems. He emphasized the extent of the problem. If funding is taken from other areas of the mental health budget to fund these programs other areas will suffer. He maintained that all Alaskans should share the burden of caring for alcohol related problems. He pointed out that the cost of treatment is greater than the amount raised through the alcohol tax. He noted that a program in Fairbanks designed to take chronic alcoholics off the street folded because the community withdrew its local match. He stated that he did not understand the argument that the tax would devastate the alcohol industry but not make any difference to consumption. He argued that there would not be a net loss in jobs because instead of paying people to serve alcohol the state would be paying people to help stop alcohol abuse through treatment.

Co-Chair Mulder questioned how much is spent on alcohol treatment programs. Mr. Jesse thought that basic alcohol grants were approximately \$20 million dollars in general funds. There is another approximately \$4 million dollars in mental health trust funds. Co-Chair Mulder pointed out that there are also substantial federal funds. He estimated that \$40 to \$50 million dollars in funds are being spent on alcohol related problems and questioned how this compares to other states.

Mr. Jesse did not know how the state's spending on alcohol treatment related to that of other states, but emphasized that Alaska has the highest ratio of alcohol problems per

capita. Co-Chair Mulder suggested that something is not working and questioned why "is more money going to make it better". Mr. Jesse responded that it is impossible to take any problem to zero. He emphasized that the issue is "what measure of adequacy do we want to set as a state for where we want to be and are we satisfied today that the level of the consequences of alcohol abuse [is] where we want it to be. If we are satisfied with the measure of pain that comes with alcohol today, then putting more money toward it isn't a very good investment. If you think we are paying too much in that respect [then] we do have programs that can drive those numbers down." He emphasized the need for better data.

Co-Chair Mulder stated that he wanted to cure the problem but questioned if it was the time to look into other alternatives before making more investments. Mr. Jesse agreed that a real initiative is needed to assess what is trying to be accomplished in concrete numbers, how programs would be evaluated and to develop a database to track the programs. He maintained that the request for proposal process should include the measured outcome before being funded.

Co-Chair Mulder stated that he was concerned with the emotional aspect of the issue versus a well thought out process such as: "Here is a well thought out defined policy that will be effective; that will produce the results we want; this is what it is going to cost; this is what we need to raise; [and] this is what we are going to do". He stated that he is concerned that there not be a knee jerk reaction.

Mr. Jesse acknowledged Co-Chair Mulder's concerns and emphasized that intelligent public policy has been designed through working with the legislature and stressed the need to continue to develop intelligent public policy and not just respond to people that want to throw money on the problem.

Representative Harris stated that [as the Chair of the House Finance Subcommittee for the Department of Health and Social Services] he is trying to defined and measure if programs are working, identify which programs are failures and why they are failures: are programs failing because they do not have sufficient funding or for a variety of other reasons? [The House Finance Subcommittee for the

Department of Health and Social Services'] focus will be to try to help those programs that are working and that are making a definable difference. Programs that are not working for reasons other than funding may not receive as much money. The intent is to use missions and measures to target and emphasize programs that truly work.

Mr. Jesse identified one problem with the mission and measures approach. He stated that this approach tends to be "big picture" on the department level, such as to reduce binge drinking or DWI's. He emphasized that the focus needs to penetrate down to the grant manager/grantee level because that is where individual programs are held accountable. He pointed out that if half the programs were reducing binge drinking by 50 percent and the other half contributed to the problem that there would be no reduction in the overall numbers for binge drinking. He stressed that grantees must step up to the plate and not avoid responsibility and accountability.

Vice-Chair Bunde pointed out that 100 percent of Alaskans do not pay for these problems. He expressed concern that taxes are being fragmented. Mr. Jesse responded that all Alaskans pay for the consequence of alcohol abuse.

WES LOE, NEWTOWN LIQUOR, PRESIDENT, KETCHIKAN CABARET HOTEL AND RESTAURANT RETAIL ASSOCIATION (CHARR), KETCHIKAN testified via teleconference against the legislation. He maintained that the tax would devastate the hospitality industry in Ketchikan. He pointed out that a \$10 bottle of whiskey would be \$21.49 dollars. He suggested that he would have to reduce his staff by 2.5 positions. The hospitality industry is the second largest industry in Ketchikan. He argued that an increase in cost would not reduce consumption.

Vice-Chair Bunde referred to statements that the increase on cheap liquor would be greater than the increase on more expensive alcohol. Mr. Loe did not think that the lower end would be affected.

TAPE CHANGE, HFC 01 - 120, Side A

Representative Hudson questioned if there are programs that work to reduce heavy consumption. Mr. Loe thought that the Wellness Court was having a good effect. He emphasized that different programs work for different people. He

acknowledge the benefit of treatment but stressed that if someone has a serious problem that it doesn't matter how expensive is the alcohol.

ELMER LINDSTROM, SPECIAL ASSISTANT, DEPARTMENT OF HEALTH AND SOCIAL SERVICES provided information on the legislation. He pointed out that there is an enormous cost to the state of Alaska from the use and abuse of alcohol. Significant portions of those costs are born by the Department of Health and Social Services. Welfare reform was initiated in 1997 in Alaska. Since that time welfare rolls have decreased dramatically. Those that remained on assistance are beginning to reach their 60-month lifetime benefit limit. He questioned what is keeping these families from going to work and becoming self-sufficient. One of the most common reasons is alcohol abuse. Several years ago the legislature passed reform of the child welfare system. Alcohol abuse in the family is frequently sighted in child neglect and abuse cases and is an impediment in successful resolution of many cases under the new law. Many persons with mental illness also have a recurring alcohol problem. Alcohol is also a factor in many juvenile related crime and delinquency cases. All of these issues fall under the purview of the Division of Alcohol and Drug Abuse and the agency charged with providing alcohol treatment for low-income persons. The Division of Alcohol and Drug Abuse is unable to meet the demand for services. Waiting lists for alcohol treatment exists in many areas of the state. Persons referred for treatment by the Division of Family and Youth Services, Division of Public Assistance, Community Mental Health Programs, Corrections and the Courts may have to wait months before they receive treatment, if they receive it at all. In many areas of the state there are no treatment programs. The inability to get treatment at the time when clients are most amenable to treatment make them less likely to be successful in achieving sobriety. The ultimate result will be more cost to other systems, whether it is the revocation of probation, failure to identify a family in the child protection system, or the committing of a new alcohol related offense.

Mr. Lindstrom stated that the department feels that the increase of the alcohol tax is one concrete thing that can be done to defray costs to the state.

Mr. Lindstrom pointed out that the 20 percent of those that have chronic alcohol related problems come from the 80 percent that are occasional drinkers. He doubted that many people chose to become alcoholics. The nature of the disease is that it is a gradual progressive and chronic condition. Many of those that do not see themselves as alcoholic may be in the future.

Vice-Chair Bunde questioned how much the state of Alaska should invest to address the problem. Mr. Lindstrom responded that further data would be provided in January. He noted that the department is looking at those that are on the various waiting lists to identify how they can be reduced. He observed that in the past budget cycle the department requested an additional \$4 million dollars, which it felt would make a good faith effort to address the issue.

Representative Harris clarified that the Department of Health and Social Services receives approximately \$40 million dollars for alcohol related programs for a variety of services.

Representative Davies noted that there has been privatization in the Governor's budget.

DON GRASSE, ALASKA WINE AND SPIRITS WHOLESALE ASSOCIATION, ANCHORAGE testified against the legislation.

KACCH MCDOWELL, EXECUTIVE DIRECTOR, ALASKA CABARET HOTEL AND RESTAURANT RETAIL ASSOCIATION, ANCHORAGE testified against the legislation. She noted that there are approximately 26,000 persons in the Association.

KAREN ROGINA, ALASKA HOSPITALITY ALLIANCE, ANCHORAGE testified against the legislation. She noted that the Alliance includes the Alaska Hotel and Motel Association and the Alaska Hotel and Beverage Association.

Mr. Grosse Read the Hospitality Industry's position against HB 225:

Alaska has a serious and growing fiscal problem. The Department of Revenue projects that by fiscal year 2005, the state's budget gap will be more than \$1 billion and the Constitutional Budget Reserve Fund will be depleted. We in the hospitality industry appreciate the need to develop a fiscal plan to solve

this growing threat. Alaska's hospitality industry also believes it can play a part in the overall solution, but that arbitrarily singling out individual sectors of the economy for enormous tax increases without addressing the underlying issues necessary to balance the state's budget is unfair and unwarranted.

It is, therefore, the consensus of Alaska's hospitality industry that legislative efforts to increase excise taxes on alcohol products by more than three hundred percent (300%) are discriminatory, unreasonable and will do nothing to cure the state's alcohol problems.

Beverage alcohol is already the most heavily taxed consumer product in the United States and Alaskans currently pay some of the highest beverage alcohol taxes in the nation. The hospitality industry stands ready to discuss our role in supporting a fair and equitable tax policy for our industry, but only under condition that the discussions be part of a comprehensive legislative package designed to solve the state's fiscal problems. While the industry realizes that state revenues cannot be dedicated, the legislature should be prepared to identify which social programs would benefit from these additional revenues and how the effectiveness of the programs and the use of the funds would be evaluated.

We are very concerned that the tax increases in HB 225 will seriously jeopardize the future of many small businesses, which play a vital role in our state's economy. The hospitality industry is already reeling from the current economic slow down and the aftermath of the events of September 11, 2001 as fewer Americans travels, dine out or entertain outside the home. Adding significantly to the cost of doing business at this juncture could cause many of these establishments to fail thus worsening the current economic situation.

Accordingly, Alaska's hospitality industry opposes HB 225 until a comprehensive solution to the state's fiscal problems is adopted by the legislature.

Representative Davies asked that the hospitality industry express their support when a comprehensive fiscal policy is proposed.

Ms. McDowell thought that the profit margin not consumption would be reduced. She explained that the loss in business would be the result of the reduced profit margin.

Mr. Grosse acknowledged that 20 percent of the drinkers drink 80 percent of the alcohol. He clarified that only 1 - 2 percent of the drinkers in the United States are abusers and chronic problems. Just because someone consumes more than the average doesn't mean that they are creating problems.

Ms. McDowell pointed out that the hospitality industry is facing a variety of legislation that could adversely affect it, such as increases in the minimum wage and unemployment tax. She noted that things that affect the state's tourism marketing dollars also affect the hospitality industry. She asked the Committee to consider the impacts of the big picture on their industry when making decisions.

SUSAN FISCHETTI, ALASKANS FOR TAX REFORM, ANCHORAGE testified in opposition to the legislation.

Proposals to raise alcohol taxes constitute a political statement of social policy, not a serious solution to budget problems. Legislators who suggest that higher alcohol taxes will solve the current spending shortfall are using political rhetoric to hide the fact that they want to discourage alcohol consumption by raising taxes. Raising taxes in this manner *will not* solve either drinking or budget problems.

Solving spending shortfall problems requires fiscal discipline. Legislators should cut spending in response to shortfall projections rather than commit to surplus-era spending promises that cannot be enacted without raising taxes.

Especially during an economic downturn, raising taxes on brewers, distillers, bottlers, retailers, wholesalers, and manufacturers will further depress the ability of these businesses to conduct profitable and productive commercial transactions. Raising alcohol taxes hurts businesses that employ and service Alaskans.

Ms. Fischetti noted that she has alcoholics in her family that do not want treatment. Persons that cannot afford to feed themselves or families will still drink.

Representative Davies pointed out that it would take \$1 billion dollars in cuts over the next 5 years to balance the budget.

TIM SCHRAGE, ANCHORAGE testified in opposition to the legislation. He pointed out that the alcohol industry supported the 1983 increase in the alcohol beverage excise tax with the caveat that it would fund treatment and education programs. The programs were funded but they have not been evaluated. He maintained that the cart is being put before the horse. He pointed out that industry is being taxed instead of the average Alaskan through a sales tax. He maintained that the proposed tax is even more regressive than a sales tax. He spoke in support of accountability and a long-term fiscal plan.

BOB BAILEY, ANCHORAGE spoke against the legislation. He spoke in support of a broad based comprehensive fiscal plan. He stressed that there should be no new taxes or increases in existing taxes until there is a broad based comprehensive fiscal plan. Targeted taxes treat individual industries unfairly and their additional revenues go into the "black hole" of the general fund with no accountability and no meaningful contribution to an Alaskan solution. He stated that he would consider a reasonable increase in the alcohol tax when a comprehensive fiscal plan is on the table for discussion. A comprehensive fiscal plan must include further cuts in spending, and broad based individual taxes, citizens of the state must become assets instead of liabilities. A broad based comprehensive fiscal plan must also include some portion of the earnings of the Permanent Fund. Permanent Fund earnings are the largest single source of income.

Representative Hudson pointed out that each law introduced must be a single subject. He noted that he has introduced an income tax. He emphasized that the state is \$500 million dollars in deficient. Just because there is only one subject before the Committee does not mean that it is the only part of the solution.

Mr. Bailey stated that the comfort factor in the industry would be greater if there were a collection of bills being considered at the same time.

OBED NELSON, PRESIDENT, COUNCIL ON ALCOHOL ABUSE AND PUBLIC SAFETY, ANCHORAGE testified in support of the legislation. The reduction in consumption is the only factor contributing to their support. He stressed that youths are most affected by price in sales. The greatest strategy in prevention is the reduction of the per capita consumption of alcohol, particularly in youth. He expressed support for the legislation as a measure to reduce consumption in youth.

Vice-Chair Bunde questioned if he would support legislation that would prohibit sale of any item that is less than \$10 dollars in order to reduce the sale of cheap liquors. Mr. Nelson stated that he would support anything that reduced consumption. He pointed out that death by cirrhosis of the liver was the lowest in the United States during prohibition.

Co-Chair Mulder asked for statistics on the reduction of consumption based on price.

HB 225 was heard and HELD in Committee for further consideration.

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ADJOURNMENT

The meeting was adjourned at 3:35 p.m.