

**MINUTES**  
**SENATE FINANCE COMMITTEE**  
**March 14, 2002**  
**9:41 AM**

**TAPES**

SFC-02 # 31, Side A  
SFC 02 # 31, Side B  
SFC 02 # 32, Side A

**CALL TO ORDER**

Co-Chair Dave Donley convened the meeting at approximately 9:41 AM.

**PRESENT**

Senator Dave Donley, Co-Chair  
Senator Jerry Ward, Vice Chair  
Senator Loren Leman  
Senator Gary Wilken  
Senator Alan Austerman  
Senator Lyman Hoffman  
Senator Donald Olson

**Also Attending:** ROXANNE STEWART, Legislative Liaison, Department of Administration; DEB DAVIDSON, staff to Co-Chair Donley; BUTCH TANGNEY, Instructor, Techniques Of Alcohol Management, and Employee, Odem Corporation; LARRY PERSILY, Deputy Commissioner, Department of Revenue; ELMER LINDSTROM, Deputy Commissioner, Department of Health and Social Services; HOWARD SCAMAN [spelling unverified], Council on Alcohol Abuse and Public Safety; MATT FELIX, National Council on Alcoholism; PAM WATTS, Executive Director, Advisory Board on Alcoholism and Drug Abuse; PAM LABOLLE, President, Alaska State Chamber of Commerce; CINDY CASHEN, Volunteer, Mothers Against Drunk Driving, and victim of drunk driving; JULIE CRAFT, Director of Member Services, Alaska Municipal League

**Attending via Teleconference:** From Fairbanks: PAUL LYLE, State Employee 18 years; PAM HARTNELL, State Employee; JOHN ATHENS, State Employee; JONI ATHENS, State Employee; JONI ELLSWORTH, Ivory Jack's Restaurant; LARRY HACKENMILLER; DICK ELLSWORTH, Cabaret, Hotel and Restaurant Retail Association; THOMAS BARTELS, Facility Manager, Odem Corporation; From Anchorage: MARLA GREENSTEIN, Executive Director, Alaska Commission on Judicial Conduct; JEFF JESSEE, Executive Director, Mental Health Trust Authority, Department of

Revenue; DELISA CULPEPPER, President, Alaska Public Health Association, and Chair, Dime a Drink Coalition; PAT SENNER, President, Alaska Nurses Association; SHAWN DIXON, representing, Hilton Anchorage, and, Alaska Hotel and Lodging; JOAN DIAMOND, Member, Dime a Drink Coalition, and parent of two teenagers; CHRIS ANDERSON, Operating Partner, Glacier Brew House and Restaurant Orso; KATHY BOGGS-GRAY, managing a grant for AKEELA on economic interventions, and, Member, Dime a Drink Coalition; LOWELL SHINN, President, Brown Jug, and President, Anchorage, Cabaret, Hotel and Restaurant Retail Association; BOB BAILEY, Operations Manager, Alaska Distributors; JOEL KADARACH, Employee, Odem Company; KAREN ROGINA, Chair, Alaska Hospitality Alliance; DON GRASSEE, General Manager, K&L Distributors; CAROL JACKSON, Credit Manager, K&L Distributors; TODD RICHARDSON, Employee, K&L Distributors; BILL ADINT, Wine Manager, K&L Distributors; JEFF CARTER, Fairbanks Branch Manager, K&L Distributors; BRIEN CAU, Employee, K&L Distributors; DAVID SCOTT, Employee, K&L Distributors; JOHN PATTEE, Owner, Gas Light, and The Avenue; From Mat-Su: MIKE LOHMAN, representing, Hot Shots and Cinnamon's Wasilla Bar; From Homer: LEONARD WELLS, Bar Owner; From Kenai: GARY SUPERMAN, Hunger Hut; CHRYSTAL SCHOENROCK, 4Lands Bar and Liquor; GEORGE TIPTON, President, Alaska State Cabaret, Hotel and Restaurant Retail Association (CHARR), and 40-year Alaska Resident; From Off-net: KAC'E MCDOWELL, Executive Director, Alaska Cabaret, Hotel and Restaurant Retail Association

### **SUMMARY INFORMATION**

#### SB 180-STATE EMPLOYEE PAY DIFFERENTIALS

The Committee heard from the Department of Administration and state employees. A committee substitute was adopted and the bill moved from Committee.

#### SB 291-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK

The Committee adopted a committee substitute and held the bill in Committee.

#### SB 347-ALCOHOLIC BEVERAGE TAX

The Committee heard from the sponsor, the Department of Revenue and the Department of Health and Social Services and public testimony was taken. The bill was held in Committee.

#SB180

SENATE BILL NO. 180

"An Act implementing pay differentials based on geographic

areas for certain state employees and for members of the Alaska State Defense Force; and providing for an effective date."

This was the second hearing for this bill in the Senate Finance Committee. This bill was reported from Committee at the previous hearing.

Co-Chair Donley noted this bill was referred back to the Senate Finance Committee after further consideration. He referenced a proposed committee substitute that accommodates employees not currently covered by the new geographic pay differential standards. He explained the committee substitute "grandfathers" these employees into the proposed program.

Senator Ward moved to adopt CS SB 180, 22-LS0324\0, as a working draft.

There was no objection and the committee substitute was ADOPTED.

PAUL LYLE, State Employee 18 years, testified via teleconference from Fairbanks in support of the committee substitute as it supports those who have made a commitment to the state.

PAM HARTNELL, State Employee, testified via teleconference from Fairbanks in support of the grandfather clause contained in the committee substitute, saying it benefits long-term professionals who work for the state.

JOHN ATHENS, State Employee, testified via teleconference from Fairbanks to reiterate the previous testifiers and support the committee substitute.

JONI ATHENS, State Employee, testified via teleconference from Fairbanks in support of the committee substitute.

Senator Austerman noted the geographic pay differential system was first established according to election districts and asked how the current redistricting efforts correlate to this legislation and whether there is a provision in the committee substitute addressing this.

Co-Chair Donley explained the geographic pay differential system was first established shortly after statehood, using the original election districts in place in 1961. He noted that as the pay system has been updated, the 1961 election district boundaries have been retained for this purpose. He said the committee substitute

also applies to the original boundaries, as did the original version of the bill introduced by the Governor.

ROXANNE STEWART, Legislative Liaison, Department of Administration, affirmed.

Senator Wilken spoke on behalf of Co-Chair Kelly and Senator Therriault that this committee substitute is a fairer system that does not detriment the 71 families that would have been adversely impacted by the original version of this bill. However, he noted the committee substitute does make structural changes necessary to provide a fairer pay system across the state.

Senator Wilken offered a motion to report CS SB 180 (FIN) from Committee.

The bill MOVED from Committee without objection.

At EASE 9:49 AM /9:50 AM

Senator Wilken moved to rescind the Committee's action in reporting the bill from Committee.

Without objection the action was RESCINDED. The bill was before the Committee.

Senator Wilken offered a motion to report CS SB 180 (FIN) from Committee with forthcoming fiscal notes from the Alaska Court System and all agencies.

There was no objection and the bill MOVED from Committee.

#SB291

SENATE BILL NO. 291

"An Act making supplemental and other appropriations; amending appropriations; and providing for an effective date."

DEB DAVIDSON, staff to Co-Chair Donley, outlined the Budget Request Units (BRU) items that were contained in the original bill but are not included in a proposed committee substitute. She listed those items according to the bill section in the original bill as follows.

Section 2(b)

Department of Environmental Conservation

International Trade & Business Development

International Trade and Business Endowment - replace  
unrealized FY 02 Investment Earnings - Fund Source Change

\$230,400 general funds

Section 4(b)

Department of Health and Social Services

Subsidized Adoptions & Guardianship

Formula program caseload growth

\$2,529,600 general funds

Ms. Davidson relayed this BRU also relates to a Foster Care Services BRU, which is included in the Governor's regular supplemental budget. Therefore, she said, it was determined the two items should be considered together and this BRU was removed from the proposed fast track budget supplemental committee substitute.

Section 6

Department of Military and Veterans Affairs

Disaster Planning & Control

Costs to maintain 24-hour State Emergency Coordination Center (SECC), the agency that coordinates all federal, state and local jurisdictional responses associated with any disaster or event.

Ms. Davidson informed this BRU was omitted from the proposed committee substitute after consultation with the Department of Military and Veterans Affairs budget subcommittee, whereby the subcommittee had been assured the amount originally appropriated would be sufficient.

Section 7

Department of Natural Resources

CIP

Scope change for SLA 97, ch. 50, Sec. 15(k), page 9, line 13 - from: prepare and administer the Kalgin Island II, Caribou Hills, S. Ninilchik-Dome View, South Ninilchik Block timber sales in Kenai Peninsula, to: Kenai Peninsula to reduce risks from wildfire.

Ms. Davidson stated it has been learned that non-general funds could be used for Kenai Peninsula wildfire efforts. She stated it was decided to therefore omit this item from the fast track supplemental to allow additional time to research other fund sources.

Senator Ward asked what the non-general fund sources could be.

Senator Leman shared that two fund sources could be used for a portion of this budget item. He listed "Section 319" and "Section 106" funds derived from the federal Clean Water Act. He gave reseeding and replanting as portions of the project that could be undertaken using federal funds.

Senator Ward asked the percentage of the general funds available for reallocation if the federal funds are utilized.

Senator Lemman estimated up to \$200,000 of the over \$300,000 amount in question.

Section 8

Governor

Elections

Costs for printing and mailing a Primary Election Voter Education Guide in time to explain the new law (shifted from FY 03 budget which will be amended)

\$25,000

Section 9(a)

Department of Community and Economic Development

Power Cost Equalization & Rural Electrification Fund

Technical correction to add the inadvertently omitted FY 02 appropriation from the Power Cost Equalization Endowment fund to the Power Cost Equalization and Rural Electrification Fund

\$7,062,200 PCE EF

Section 9(b)

Department of Community and Economic Development

Power Cost Equalization & Rural Electrification Fund

Fully fund the statutory formula in the PCE statute. Cost increase is due to higher fuel costs.

\$1,100,000 general fund

Section 9(c)

Department of Community and Economic Development

Power Cost Equalization

Fully fund PCE statute. Increase Department of Education and Early Development to higher fuel costs.

\$1,100,000 PCE funds

Section 9(d)(1)

Department of Community and Economic Development

Power Cost Equalization

Delete sufficient authorization from FY 02 to pay FY 01 late bills.

-\$56,800 PCE funds

Section 9(d)(2)

Department of Community and Economic Development

Power Cost Equalization

Add authorization to pay power cost equalization program FY 01 late bills.

\$56,800 PCE funds

Ms. Davidson commented that subsections (d)(1) and (2) were more

appropriately a ratification as the funds were expended in FY 01 using FY 02 funds.

Section 10 (b)  
Department of Transportation and Public Facilities  
Northern Region CIP  
Chandalare Maintenance Station Replacement Design Costs (SDPR from NTSC)  
\$456,800 Statutory Designated Program Receipts.

Ms. Davidson explained this amount would be from the bond issuance of the Northern Tobacco Securitization Corporation. She stated that in reviewing the request it has been anticipated that approximately \$3.9 million general funds, plus \$840,000 federal funds would be required to complete the project. She noted the proposed FY 03 capital budget contains a request for approximately \$1 million for snow equipment removal. In addition, she pointed out, SB 262 allocates further funding for this project. She stated that with the absence of a specific budget request for actual construction of this facility, funding for the design costs is not a fast track item.

Senator Hoffman asked the affects of the omission of Section 9 from the Administration.

Co-Chair Donley noted this bill would not be moved from Committee at this time and that the Power Cost Equalization funding would be discussed with members of the House Finance Committee.

Senator Lemman moved to adopt CS SB 291, 22-GS2102\F as a working draft.

Senator Hoffman objected, as funding for the Power Cost Equalization program was not included.

A roll call was taken on the motion.

IN FAVOR: Senator Wilken, Senator Austerman, Senator Lemman, Senator Ward and Co-Chair Donley

OPPOSED: Senator Hoffman and Senator Olson

ABSENT: Senator Green and Co-Chair Kelly

The motion PASSED (5-2-2)

The committee substitute was ADOPTED as a working draft.

MARLA GREENSTEIN, Executive Director, Alaska Commission on Judicial Conduct, testified via teleconference from Anchorage that she is available to answer questions.

Co-Chair Donley ordered the bill HELD in Committee.

#SB347

SENATE BILL NO. 347  
"An Act relating to taxation."

Co-Chair Donley stated this legislation increases the tax on alcohol and removes the existing statutory prohibition on local governments from adopting a sales tax rate for alcohol that is different than for other items. He noted these are recommendations of the Governor's Alcohol Policy Committee task force as well as "many blue ribbon panels and groups on alcohol related issues for many years."

BUTCH TANGNEY, Instructor, Techniques Of Alcohol Management, and Employee, Odem Corporation, testified in Juneau in opposition to the tax. He stated the "ten cents a drink" slogan is a deception as the cost to the consumer would be higher. He explained the sales process between the imposition of the tax when the alcohol enters the state, and the product's final destination to a consumer. He stated the distributors and retail businesses operate from the profits produced in the mark-up of beverage alcohol they purchase themselves. He remarked this bill would actually double the cost of some alcohol products.

LARRY PERSILY, Deputy Commissioner, Department of Revenue, testified in Juneau, to request that if the Legislature were to increase the alcohol excise tax, that it impose a "floor" or inventory tax so the higher tax would be collected on inventory. He said this would prevent businesses from stockpiling alcohol at the old tax rate and selling the product with the higher rate calculated into the sale price.

Mr. Persily next noted that state statute currently does not address importation of alcoholic beverages into the state for personal consumption. He gave wine clubs as an example of groups purchasing larger quantities from an out-of-state distributor for the personal consumption of its members. He informed the state is unable to collect taxes for these importations, and that if this legislation passed it should apply the tax to these consumers as well. He pointed out tobacco consumers must pay tax on tobacco products imported into the state for personal use.

Co-Chair Donley requested the witness provide suggested statutory language for these provisions.

Senator Leman asked for information related to the alcohol tax rate and assessment method of other states compared to that of Alaska.

He commented the system in place in Alaska is "almost archaic" in that it has not been adjusted for 18 years.

Mr. Persily responded that all other states levy the tax based on volume. He noted that in addition, some states impose an additional tax based on value. He listed Alaska's tax is 35 cents per gallon for beer, compared to the highest rate of the State of Hawaii at 92 cents per gallon. He said the Alaska tax rate for wine is 85 cents, and the State of Florida, at \$2.25 per gallon, has the highest wine tax. He continued that the hard alcohol tax in Alaska is \$5.60 per gallon compared to \$6.50 in the State of Florida.

Senator Lemman clarified the Alaska tax is based on alcohol content, while not all other states calculate using this method.

Senator Wilken shared he used to be a member of a wine club and dropped out because of high freight costs. He asked if the bureaucracy required to enforce a tax on alcohol importation would be worth the effort, given the small number of people who import alcohol for personal consumption.

Mr. Persily responded enforcement would rely on self-reporting. He stated the policy call is on the issue of fairness to distributors who do business in Alaska.

Senator Wilken asked how a tax would be collected on these personal consumption importations.

Mr. Persily predicted a form would be available and publicized requesting consumers to voluntarily pay a tax. He admitted not all shipments would be reported.

Senator Olson asked about the expenses of monitoring and collecting the alcohol tax.

Mr. Persily referenced the Department of Revenue fiscal note, which requests one new position since the Department currently does not have a full-time employee assigned to alcohol tax enforcement. He surmised it would be cost effective to annually expend \$69,000 to ensure proper administration, given the approximately \$30 million the increased tax would generate annually.

Senator Olson commented it seemed somewhat optimistic from a business standpoint that only \$69,000 would be spent to administer the tax.

Mr. Persily stated the tax increase would only entail changing the percentage of the existing tax. The new position, he stated, would more than pay for itself.

Senator Olson asked how much additional revenue would be generated

from expanding this tax to include personal consumption importations.

Mr. Persily predicted the out of state purchases would increase, but noted the new position would oversee enforcement for all alcohol purchases.

ELMER LINDSTROM, Deputy Commissioner, Department of Health and Social Services testified in Juneau that unlike the Department of Revenue, which is in the tax collection business, the Department of Health and Social Services is in the human services business. As such, he stressed, there is no factor with greater impact to the Department of Health and Social Services than alcohol abuse. He stated it affects virtually every aspect of the programs the Department administers. He emphasized the cost of alcohol abuse to the state is "hundreds of millions of dollars".

Mr. Lindstrom spoke of welfare reform and the relationship of substance abuse to those recipients who have been unable to leave the program. He also noted alcohol abuse is one of the main reasons children are removed from their families. A significant amount of costs incurred in juvenile justice efforts are due to substance abuse as well, he said.

Mr. Lindstrom distributed a handout: Waiting in line for Treatment [copy on file] showing that at any given time there is approximately "\$7.5 million in unmet treatment need in Alaska".

HOWARD SCAMAN [spelling unverified], Council on Alcohol Abuse and Public Safety, testified in Juneau his organization advises clergy groups. He stated it is invalid to compare alcohol taxes against other states. He argued that increasing the tax would not result in residents driving to Whitehorse, Yukon Territory, Canada to purchase alcohol. He disagreed an increase would double the cost of the product.

Senator Wilken clarified that if ten cents were added "at the warehouse" the increase would be imbedded in the retailer's investment in the product. He continued if the retailer's profit margin were then based on the cost, the actual increase would be 15 cents a drink.

Mr. Scaman agreed and elaborated the retailer would make more money and sell less product, which is the goal of his organization.

MATT FELIX, National Council on Alcoholism, testified in Juneau about the organization and his work with treatment of alcohol abuse. He spoke to the funding sources of the organization and the services they provide. He remarked that an increase in the tax would not adversely impact the beverage industry. He noted alcohol is less expensive than milk or soda.

Senator Olson asked what information the witness had to show that the alcohol industry is healthy.

Mr. Felix cited information that none have filed bankruptcy, sales taxes are paid, and liquor licenses are consistently renewed.

PAM WATTS, Executive Director, Advisory Board on Alcoholism and Drug Abuse, testified in Juneau and referred to the McDowell Report on the Economic Costs of Alcohol and Other Drugs in Alaska, Phase II [copy on file]. She pointed out the last excise tax on alcohol increase was implemented in 1983. She cited the estimated cost of the negative consequences of alcohol to all Alaskans on an annual basis is currently \$453 million in direct and indirect costs. She stressed that direct costs are in excess of \$140 million annually. She qualified that this information is based on national information but stressed that because Alaska has a higher rate of alcohol abuse, these figures are conservative.

Ms. Watts spoke to increased sanctions and accountability for individuals involved in alcohol related crimes and noted these increase the cost to the state as well.

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Ms. Watts continued that this legislation recognizes the impact of these costs would be born by the state and communities.

Senator Leman asked if the assessment of the direct and indirect cost of alcohol included a value placed on the loss of human life.

Ms. Watts affirmed as loss of life was considered a loss of productivity.

Senator Hoffman asked if the witness had information regarding reduced consumption as a result of increased cost. If not, he asked why the revenues are not used to offset the costs of consumption.

Ms. Watts replied the issue is complicated. She noted revenue dedication is prohibited, although she hoped that funds generated from this tax increase would be utilized to offset the costs of abuse.

Senator Hoffman commented that the tax could be increased and yet the health and related problems could remain.

JONI ELLSWORTH, Ivory Jack's Restaurant, testified via teleconference from Fairbanks that this bill is "going against one industry alone." She pointed out that raising the alcohol tax would

not change drinking habits.

MIKE LOHMAN, representing, Hot Shots and Cinnamon's Wasilla Bar, testified via teleconference from Mat-Su that this tax is unfair to those who responsibly consume alcohol and would do nothing to stop those who hurt society through overindulgence. He stated it would impact his business and the entire food and beverage industry. He stressed jobs would be lost. He suggested a "reasonable increase" if such an increase is determined necessary.

LEONARD WELLS, Bar Owner, testified via teleconference from Homer that he is "primarily opposed" to the bill on a personal basis, because he does not approve of the state dictating how local taxes could be levied.

GARY SUPERMAN, Hunger Hut, testified via teleconference from Kenai that he has spoken against similar legislation and was disappointed to see the issue reappear. He spoke of the inability to accurately document the correlation between consumption and abuse. He stressed the need to require individuals to be responsible for their behavior. He warned that "the little guy" would be impacted the most by this tax increase and predicted that small distributors would be out-placed by corporate

CHRYSTAL SCHOENROCK, 4Lands Bar and Liquor, testified via teleconference from Kenai in agreement that the small operators would be impacted the most. She suggested this increase would require small businesses to become "bootleggers". She talked about underage consumption and the unreasonable burden placed on operators.

Senator Leman noted the witness supported a "reasonable tax increase" and asked what that would be.

Ms. Schoenrock answered 25 to 50 percent rather than the 300 percent this legislation would impose.

GEORGE TIPTON, President, Alaska State Cabaret, Hotel and Restaurant Retail Association (CHARR), and 40-year Alaska Resident, testified via teleconference from Ketchikan in opposition to the legislation. He said that this legislation allows local governments to impose the same tax and because two local governments oversee the Ketchikan area, this could result in triple tax in his community. He stressed the need to make budget cuts.

JEFF JESSEE, Executive Director, Mental Health Trust Authority, Department of Revenue, testified via teleconference from Anchorage that he has researched the issue of an alcohol tax. He disagreed this increase would result in a much higher cost to the consumer, as nothing prevents the industry from separating the tax from other product costs. He argued that business practices should not dictate

state policy. He gave examples of other industries successfully implementing surcharges, including airlines incorporating increased fuel costs and airport landing fees into ticket prices.

Mr. Jessee next countered the statements that this tax unfairly targets one industry. He expressed that every Alaskan pays for the consequences of alcohol abuse.

Mr. Jessee disagreed jobs would be lost. He remarked, "the industry has to decide which argument we're using; either people won't change their drinking patterns and there won't be a reduction in consumption, or there will." He continued that if jobs are an issue, then the jobs continually lost in the treatment industry because of insurance increases and grant reductions, must be considered. He asked if the intent is to protect jobs that contribute to the problem or those that help solve the problem.

DELISA CULPEPPER, President, Alaska Public Health Association, and Chair, Dime a Drink Coalition, testified via teleconference from Anchorage and referenced written information submitted [copy on file] She stressed that national and international research has shown that alcohol taxes are the single most effective public health method for decreasing the negative affects of alcohol. She also countered the statements that the tax would not affect consumption yet would adversely impact business.

PAT SENNER, President, Alaska Nurses Association, testified via teleconference from Anchorage that the Association voted to support an alcohol tax increase of at least a dime a drink. She talked about experiences of nurses with patients suffering from the effects of excessive alcohol consumption. She listed health and social consequences of alcohol abuse. She asserted that the people who drink the most should pay the most. She noted that although the revenues from this tax could not be dedicated for a specific purpose, the alcohol related costs to the state is significant and these funds would offset those expenses regardless of how they are appropriated. She questioned whether an increase in income tax should be implemented to pay the costs of alcohol abuse in the state.

SHAWN DIXON, representing, Hilton Anchorage, and, Alaska Hotel and Lodging, testified via teleconference from Anchorage in opposition to the bill because Alaskans already pay the highest alcohol tax in the country and this legislation would "remove the ceiling" preventing municipalities from taxing alcohol. He stated this legislation places undue pressure on one industry for taxes that would be deposited into the state's general fund.

JOAN DIAMOND, Member, Dime a Drink Coalition, and parent of two teenagers, testified via teleconference from Anchorage that although alcohol consumption is illegal for minors, it still occurs

partially because parents do not recognize the seriousness of the consequences. She surmised this tax would reduce such consumption because young people are "price sensitive". She listed the benefits of reduced consumption in minors.

CHRIS ANDERSON, Operating Partner, Glacier Brew House and Restaurant Orso, testified via teleconference from Anchorage, in opposition to the bill although he does not oppose taxing alcohol. He did not approve of addressing the state's budget by taxing only one industry. He predicted this tax would result in approximately \$60,000 tax increase for his businesses. However, he stressed the need for a comprehensive fiscal plan.

KATHY BOGGS-GRAY, managing a grant for AKEELA on economic interventions, and, Member, Dime a Drink Coalition, testified via teleconference from Anchorage, to remind there is clear and overwhelming evidence that an increased alcohol price, particularly for beer, has a significant impact on young people, who experience a disproportionate share of alcohol related problems. She stated that increased taxes have been shown to have a direct result in reducing certain alcohol-related incidences among young people such as automobile accidents and sexual assaults.

LOWELL SHINN, President, Brown Jug, and President, Anchorage, Cabaret, Hotel and Restaurant Retail Association, testified via teleconference from Anchorage that this tax would be unfair in relationship to liquor taxes in the remainder of the United States. He calculated Alaska would tax beer at 591 percent of the national average, wine at 460 percent, and liquor at 508 percent. He spoke to competition with out of state retailers, as this tax would provide incentive for residents to, "look for other sources of supply." He stated this tax increase would reduce consumption and the state would not realize the predicted \$30 million annual revenue.

BOB BAILEY, Operations Manager, Alaska Distributors, testified via teleconference from Anchorage that he strongly opposes a targeted tax on a single industry because it is not part of a comprehensive fiscal plan. He also opposed the amount of the tax increase, he disagreed that Alaska currently has a low alcohol tax. He referred to written testimony [copy on file] showing that Alaska has the fifth highest liquor tax in the United States. He calculated this tax would increase the cost of a bottle of spirits by over \$2.53 and the cost of a case of beer by over \$2.40 and place Alaska's alcohol tax at over 500 percent of the national average. He pointed out these figures do not include markups or margins.

Mr. Bailey warned this legislation also opens the door for municipalities to tax alcohol at any level. This, he warned, could detriment small businesses. He remarked that the industry has stated it would support working together to find a comprehensive

solution to the state's fiscal problems so long as the plan is broad-based and is limited to "reasonable levels of increases to all involved."

Mr. Bailey informed he would submit additional written testimony challenging the results of the aforementioned McDowell study.

JOEL KADARACH, Employee, Odem Company, testified via teleconference from Anchorage that although he appreciated the complexity of the state's fiscal situation, a 300 percent excise tax and a provision to allow unlimited municipal sales taxes on alcoholic beverages is not a reasonable component of any solution. He added it would not address the alcohol abuse situation and would not impact the amount of consumption.

KAREN ROGINA, Chair, Alaska Hospitality Alliance, testified via teleconference from Anchorage in opposition of the tax increase. She said that although Alaska does have a high percentage of alcohol abuse, this tax would not reduce consumption. She noted the increase in tobacco taxes has not reduced the tobacco related health problems. She perceived the legislation as punitive against the hospitality and visitor industries, which is the second-most important private sector in Alaska's economy. She spoke to other proposed legislation increasing the minimum wage and disallowing tip credits, proposed legislation imposing a statewide head tax on cruise ship passengers. She also stated the impacts of the September 11, 2001 terrorism attacks have significantly increased insurance rates and decreased visitor bookings. She requested the Committee consider the industry at-large when making a decision on SB 347.

DON GRASSE, General Manager, K&L Distributors, testified via teleconference from Anchorage to challenge earlier comments that beer is cheaper than soda. He cited advertised prices for Budweiser beer at \$14.49 per case compared to Pepsi or Coke-Cola at \$6.49. He opposed the bill. He spoke to the collection of the alcohol tax for personal consumption importation, asserting this discussion indicates this practice would increase.

CAROL JACKSON, Credit Manager, K&L Distributors, testified via teleconference from Anchorage that she was opposed to any dramatic increase in the beverage alcohol tax. She informed that many of this business' customers receive goods Cash On Delivery (C.O.D.) and this increase would raise the cost of the average order by \$200. She surmised this legislation would be the "breaking point" for many of the smaller "accounts", or businesses. She suggested utilizing the funds generated from the existing tax for more effective treatment programs.

TODD RICHARDSON, Employee, K&L Distributors, testified via teleconference from Anchorage that this bill is an unfair burden on

the alcohol industry. He stated that smoking and drinking has been declining while obesity has been increasing and the costs of treating obesity related chronic health problems are higher.

BILL ADINT, Wine Manager, K&L Distributors, testified via teleconference from Anchorage that he opposed the bill for the same reasons previously stated and because it would triple the current alcohol tax. He surmised the Legislature would not want Alaska to have the highest alcohol tax in the country.

JEFF CARTER, Fairbanks Branch Manager, K&L Distributors, testified via teleconference from Anchorage to list the proposed tax increases for beer, from 79 cents to \$3.20 per case; wine from 17 cents to 68 cents per bottle; and liquor, from \$1.11 to \$3.64 per bottle. He stressed that alcohol taxes have little impact on problem drinkers and these are the drinkers that cause the majority of the state's alcohol related problems.

BRIEN CAU, Employee, K&L Distributors, testified via teleconference from Anchorage in opposition to the bill because Alaska already pays one of the highest taxes in the country and this increase would triple the amount. He suggested Alaska adopt a comprehensive fiscal plan to reduce waste and control spending.

DAVID SCOTT, Employee, K&L Distributors, testified via teleconference from Anchorage that this tax unfairly targets the liquor industry. He noted the revenues would be deposited into the state's general fund rather than "earmarked to any of the specific problems" including alcohol abuse. He stated he was not opposed to taxation, but remarked it must be more reasonable than a 300 percent increase. He agreed a comprehensible fiscal plan to control state spending is necessary before new taxes are levied.

Senator Lemman asked what tax increase would be reasonable.

Mr. Scott replied that a 25 to 50 percent increase would be reasonable.

LARRY HACKENMILLER, Interior, Cabaret, Hotel and Restaurant Retail Association, testified via teleconference from Fairbanks, in opposition to the bill.

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Mr. Hackenmiller disagreed this tax increase would reduce minor consumption and he spoke of young people considered old enough to enlist in the military but not allowed to consume alcohol. He predicted more young people would be killed fighting terrorism than from alcohol abuse.

DICK ELLSWORTH testified via teleconference from Fairbanks that anyone in support of this legislation should be ashamed, as it is not a comprehensive fiscal plan. He stated the Legislation has done nothing to address the deficit for three years. He challenged finding a more generous industry than "bars".

PAM LABOLLE, President, Alaska State Chamber of Commerce, testified in Juneau in opposition saying it singles out one industry without addressing the overall fiscal situation. She stated that because the revenues are deposited into the general fund, there is no guarantee it would be used to address the impact of alcohol abuse in the same manner revenues from the tobacco tax are not utilized to address tobacco use.

JOHN PATTEE, Owner, Gas Light, and The Avenue, testified via teleconference from Anchorage that the proposed tax is too high. He disputed that ten cents a drink would increase his costs by more than that amount. He spoke about the impact on jobs of this tax increase, combined with the proposed minimum wage increase with no tip credit, and the proposed cruise ship tax. He warned that many small businesses would go out of business.

KAC'E MCDOWELL, Executive Director, Alaska Cabaret, Hotel and Restaurant Retail Association, testified from an off-net site, that the alcohol industry is not necessarily thriving. She stated that several businesses have had to discontinue some or all operations during the winter months. She stated the 300 percent proposed increase is "outrageous" and that some smaller operators would be unable to increase the sales price to account for the additional cost, while larger operators would have adequate inventory to do so. She asserted that server-training programs administered by the Cabaret, Hotel and Restaurant Retail Association (CHARR) do more to deter underage drinking and drunken driving than any other program in Alaska. She noted the Association also contributes to other successful programs and that many businesses would no longer contribute if the tax increase were imposed.

THOMAS BARTELS, Facility Manager, Odem Corporation, testified via teleconference from Fairbanks that this is a targeted tax for an industry that is getting "a very bad rap". He predicted this increase would mostly affect light to moderate drinkers and this group would reduce consumption, which would reduce tax revenues.

CINDY CASHEN, Volunteer, Mothers Against Drunk Driving, and victim of drunk driving, testified in Juneau, about the impacts on society of alcohol abuse and the high cost and necessity of treatment. She stated the state currently pays approximately \$12 million for treatment. She asserted that education and intervention is necessary through schools, churches and community groups. She pointed out that 80 percent of first-time convicted drunken driving

offenders do not re-offend because of strict sanctions. She remarked that the estimated \$30 million this increase would generate is a small amount compared to the cost to victims of alcohol abuse.

JULIE KRAFFT, Director of Member Services, Alaska Municipal League, testified in Juneau, that the Alaska Municipal League and the Alaska Conference of Mayors support an increase in alcohol tax as part of the long-range fiscal plan. She pointed out that as pressure increases on local sales and property taxes, municipalities need additional tools to pay for public services. She stressed that municipalities could not increase the local tax without voter approval.

Senator Hoffman asked if the League would support an alcohol tax alone if it were not part of a long-range fiscal plan.

Ms. Krafft answered yes.

Co-Chair Donley ordered the bill HELD in committee to await written recommendations from the Department of Revenue.

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**ADJOURNMENT**

Co-Chair Dave Donley adjourned the meeting at 11:38 AM