

ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE

February 13, 2016

10:02 a.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito
Representative Mike Chenault (alternate)

MEMBERS ABSENT

Representative Jim Colver
Representative Gabrielle LeDoux

OTHER LEGISLATORS PRESENT

Representative Dan Ortiz

COMMITTEE CALENDAR

HOUSE BILL NO. 248

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the excise tax on alcoholic beverages; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 252

"An Act requiring electronic submission of a tax return or report with the Department of Revenue; repealing the tax reduction for local levies for the commercial vessel passenger excise tax; amending the definition of 'voyage'; and providing for an effective date."

- HEARD & HELD

HOUSE BILL NO. 159

"An Act exempting certain health care agreements from regulation as insurance."

- BILL HEARING CANCELED

HOUSE BILL NO. 194

"An Act repealing and reenacting the Alaska Securities Act, including provisions relating to exempt securities and transactions; relating to registration of securities, firms, and agents that offer or sell securities and investment advice; relating to administrative, civil, and criminal enforcement provisions, including restitution and civil penalties for violations; allowing certain civil penalties to be used for an investor training fund; establishing increased civil penalties for harming older Alaskans; retaining provisions concerning corporations organized under the Alaska Native Claims Settlement Act; amending Rules 4, 5, 54, 65, and 90, Alaska Rules of Civil Procedure; and providing for an effective date."

- BILL HEARING CANCELED

PREVIOUS COMMITTEE ACTION

BILL: HB 248

SHORT TITLE: ELECTRONIC TAX RETURNS & ALCOHOL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	L&C, FIN
02/10/16	(H)	L&C AT 3:15 PM BARNES 124
02/10/16	(H)	Heard & Held
02/10/16	(H)	MINUTE(L&C)
02/12/16	(H)	L&C AT 3:15 PM BARNES 124
02/12/16	(H)	Heard & Held
02/12/16	(H)	MINUTE(L&C)
02/13/16	(H)	L&C AT 10:00 AM BARNES 124

BILL: HB 252

SHORT TITLE: ELCTRNC TAX RETURNS; VESSEL PASSENGER TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(H)	READ THE FIRST TIME - REFERRALS
01/19/16	(H)	L&C, FIN
02/10/16	(H)	L&C AT 3:15 PM BARNES 124
02/10/16	(H)	Heard & Held
02/10/16	(H)	MINUTE(L&C)
02/12/16	(H)	L&C AT 3:15 PM BARNES 124
02/12/16	(H)	Heard & Held
02/12/16	(H)	MINUTE(L&C)
02/13/16	(H)	L&C AT 10:00 AM BARNES 124

WITNESS REGISTER

SUSSAN MOSSANEN, Founder
Denali Brewing Company
Talkeetna, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

BILL FRY
Bear Creek Winery
Homer, Alaska

POSITION STATEMENT: Proposed an amendment to HB 248.

STEPHEN GERTEISEN, Founder
Arkose Brewery
Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

JEANNE KITAYANA, Co-Owner
Haines Brewing Company
Haines, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

GARY SUPERMAN, Board Member
Alaska Cabaret, Hotel, Restaurant and Retailers Association
Owner, Hunger Hut Bar, Liquor Store and Motel
Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

BILL HOWELL
Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

CHRYSTAL SCHOENROCK, Secretary
Kenai Cabaret, Hotel, Restaurant and Retailers Association
Owner, Forelands Bar and Liquor Store
Nikiski, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

CARMEN LUNDE, Director
Kodiak Cabaret, Hotel, Restaurant and Retailers Association
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

CLAY MURPHY
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

TIFFANY HALL, Executive Director
Recover Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified in support of HB 248.

MICHAEL JEFFERY
Barrow, Alaska

POSITION STATEMENT: Testified in support of HB 248.

LARRY HACKENMILLER, Secretary
Interior Cabaret, Hotel, Restaurant and Retailers Association
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

ROBERT MCCORMICK, Board Member
Alaska Cabaret, Hotel, Restaurant and Retailers Association
Treasurer, Brewers Guild of Alaska
Chugiak, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

KIRSTEN MYLES, Executive Director
Cook Inlet Cabaret, Hotel, Restaurant and Retailers Association
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

DARWIN BIWER, Owner
Darwin's Theory
Chairman, Statewide Cabaret, Hotel, Restaurant and Retailers
Association
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

DON GRASSE, President
K and L Distributors
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

MATT TOMTER, Owner
Eagle River Alehouse/Palmer City Alehouse
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

JOEL KADARAUCH, Spokesperson
Odom Corporation;
Spokesperson
Alaska Wine & Spirits Wholesale Association

Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

MIKE COONS

Palmer, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

MICHELE SHAPIRO, Director

Mat-Su Cabaret, Hotel, Restaurant and Retailers Association
Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

KATE BURKHART, Executive Director

Advisory Board on Alcoholism and Drug Abuse;
Executive Director, Alaska Mental Health Board
Division of Behavioral Health
Department of Commerce, Community & Economic Development
Juneau, Alaska

POSITION STATEMENT: Testified in support of HB 248.

BRANDON HOWARD

Amalga Distillery
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

JACK MANNING, Owner

Convenience and liquor store;
President, Lynn Canal Cabaret, Hotel, Restaurant and Retailers
Association
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

CAROL FRASER, General Manager

Lakefront Anchorage Hotel
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 252.

GIDEAN GARCIA, Chief Operating Officer

CIRI Alaska Tourism Corporation
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 252.

PATTI MACKEY, President and CEO

Ketchikan Visitors Bureau
Ketchikan, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

BOB SIVERTSEN

Ketchikan, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

RYAN BINKLEY, President

Riverboat Discovery

Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

STEVE HITES Co-owner

Skagway Street Car Company

Skagway, Alaska

POSITION STATEMENT: Testified in opposition to HB 248.

LAWRENCE GAFFNEY, CEO

Huna Totem Corporation

Juneau, Alaska

POSITION STATEMENT: Testified in opposition to HB 252.

ACTION NARRATIVE

[10:02:15 AM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at 10:02 [a.m.]. Representatives Olson, Tilton, Hughes, Kito, Josephson, and Chenault were present at the call to order. Representative Ortiz also was present.

HB 248-ELECTRONIC TAX RETURNS & ALCOHOL TAX

[10:02:53 AM](#)

CHAIR OLSON announced that the first order of business would be HOUSE BILL NO. 248, "An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the excise tax on alcoholic beverages; and providing for an effective date."

CHAIR OLSON opened public testimony on HB 248.

[10:03:20 AM](#)

SASSAN MOSSANEN, founder of the Denali Brewing Company, informed the committee that his brewery is located in the Matanuska-Susitna Borough, and began production in 2009. In seven years the brewery has undergone five expansions to a 35,000 square

foot building and to twenty-five year-around employees. The brewery's growth was supported by its employees, partners, and the willingness of the local lending institution. Mr. Mossanen explained that the price of beer is set by outside influences and by the high cost of producing beer in Alaska. Denali Brewing's growth has been good for employment and for local business, but the business is in a fragile position. He said a small increase in price could lead his customers to purchase beverages produced outside of Alaska, or to lower quality products. In that case, the ability of the business to create jobs and invest in the community would be diminished, and its ability to make beer threatened. The current \$0.35 excise tax is among the highest in the nation and an increase would directly affect his ability to stay in business.

[10:06:05 AM](#)

BILL FRY said he and his wife own and operate Bear Creek Winery in Homer. The winery opened 12 years ago and last year sold over 92,000 bottles. Mr. Fry employs between 8 and 15 employees and now has a new bottling plant, warehouse, event pavilion, and large freezer. The winery purchased over 37,000 pounds of Alaska fruit and berries grown in Cantwell to Southeast, and buys from villagers and Native corporations, spending \$55,000 on Alaska fruit. He pointed out that unlike Alaska breweries, wineries use more than just local water, but purchase local ingredients. He said he wants to pay a fair share to balance the budget, and agrees with the governor's plan; in fact, he is not opposed to the bill if it is amended to provide wineries, distilleries, and distributors the same exemption as is afforded to breweries. Currently, the bill directs wineries to pay \$5 per gallon and the breweries pay \$0.70 per gallon. Wineries cannot raise their prices to cover this increase, as making wine from Alaska ingredients is expensive; his business also uses American-made bottles, corks, and labels. Without the exemption, his options would be to buy berries from Canada and Oregon, cut back on employees, expansion, and capital projects, or buy Chinese bottles. Mr. Fry added that over 2 million gallons of wine was imported into Alaska last year, which contributed \$5 million in excise tax, and 18,000 gallons of wine from his winery contributed \$45,000 in excise taxes, mostly paid by his distributor. Distributors should also be given an exemption for Alaska-made products. Mr. Fry urged for the committee to extend the exemption or remove it.

[10:09:29 AM](#)

STEPHEN GERTEISEN said he is the founder of Arkose Brewery in Palmer. Arkose Brewery has been in business for five years and manufactures beer in Palmer. The brewery is set to expand in the spring and add full-time employees. Although in support of balancing the budget, and doing its fair share, successful manufacturing businesses in Alaska are rare, and breweries, wineries, and distilleries are already contributing by creating jobs and products. Furthermore, in the summer tourists come to visit the brewery. In order to continue to expand production, he said he is opposed to the bill because the increase is a burden.

[10:12:05 AM](#)

JEANNE KITAYANA, co-owner, Haines Brewing Company, said she is greatly concerned with HB 248's impact to small businesses. A successful manufacturing business in a small rural community already is economically burdened with availability and the shipping costs of shipping in raw materials, and shipping out final products. A small population will only support a small profit margin, and the proposed additional taxes will work against economic development in Alaska communities. Small craft breweries are based on community support and hometown loyalty. Recently, Haines Brewing Company moved to a new building on Main Street, which is a sign that Haines is progressing with its downtown revitalization movement. Community support has encouraged further business development, and she asked the committee to refrain from hindering small business in Alaska.

[10:14:11 AM](#)

GARY SUPERMAN, board member, Alaska Cabaret, Hotel, Restaurant and Retailers Association (CHARR), and owner of the Hunger Hut bar, motel, and liquor store, said he did not agree with the governor that the proposed increase is reasonable. In 2002 and 2003, the industry fought a previous tax increase that doubled the tax. Mr. Superman directed attention to a spreadsheet in the committee packet illustrating taxation levels across the nation. After thirteen years, Alaska taxes are already above those of other states. Although many states have raised their taxes, they are not nearly as high as Alaska's level. The enactment of this bill will have a stifling effect on his businesses; he has nine employees and built a new store. He tries to be competitive, which is difficult in his area. Mr. Superman opined the industry cannot absorb this increase and remain viable; his bar is losing profits and patronage for a variety of reasons, and some of the local pubs will close. In

addition, he will not continue to stock local wine because it will no longer be competitive. There is a negative impact "across the board," and he expressed his hope that the legislature will not support the bill.

[10:17:51 AM](#)

BILL HOWELL said he was representing the consumer of Alaska. He has been a resident of Sterling for twelve years and is retired, and teaches as adjunct faculty at Kenai Peninsula College. Proposed HB 248 would double the existing excise tax rates on alcoholic beverages in Alaska, which are already some of the highest in the U.S. Currently, the state collects almost \$40 million per year from taxes paid by the citizens of the state; producers, distributors, and retailers of beer, wine, and spirits will pass the cost of the tax along to end-consumers. He said the governor is directly targeting the tax at Alaskans, who are already paying their fair share. Mr. Howell questioned why the liquor industry and consumers are singled out, and suggested that all taxes should be doubled. He agreed that new sources of revenue need to be found, after cutting out another \$1 billion from the state budget, including cuts to education and health care. Mr. Howell said the source of new revenue should be a statewide sales tax, and restated his opposition to the bill.

[10:21:21 AM](#)

CHRYSTAL SCHOENROCK said she is a member of CHARR and the secretary of the Kenai Peninsula CHARR; she also owns the Forelands Bar and Liquor Store in Nikiski. She said Alaska is about the "second largest taxed state," and she has laid off employees and cut employees' hours due to layoffs in the industry on the North Slope. Ms. Schoenrock said she felt that if workers on the North Slope can take a cut in pay so should the governor. She said she could not afford the tax as she does not have many customers, and urged that the legislature "find another way."

[10:23:12 AM](#)

CARMEN LUNDE, Director, Kodiak CHARR, said the liquor industry has previously had its taxes raised by 300 percent and the last tax increase put Alaska by far as the highest-taxed state on alcohol. The industry already contributes heavily to the state's tax base - approximately \$40 million per year - and the hospitality industry should not pay more. The tax proposal is

for \$0.10 per drink, which would bring the tax on a gallon of spirits to \$25.60, on a gallon of wine to \$5, and on a gallon of beer to \$2.40. Ms. Lunde characterized the tax proposal as outrageous. She is aware of the \$3.5 billion deficit and urged that other avenues should be explored, such as cuts to government and spending, and revisiting tax cuts for oil. She said she is in favor of a state lottery, and opposed to "touching the permanent fund."

[10:25:21 AM](#)

CLAY MURPHY said he a 35-year Alaska resident and has lived and worked all over the state. He said he is adamantly opposed to the alcohol tax because all businesses and restaurants will pass the cost of the tax along to consumers; in fact, Alaskans would be "double-taxed" by the actions of their governor and legislators. The bill will hurt small business and he urged for a focus on the budget during this crisis. Mr. Murphy said he was pleased with the focus on the budget by the Alaska House of Representatives. He said the tax has been introduced as an afterthought without previous notice to the public.

CHAIR OLSON advised that legislation is posted on the committee web site.

MR. MURPHY asked what the money will be used for and how much is expected to be generated for each purpose. He cautioned that increased taxes will become a steamroller and urged that legislators consider the harm to individuals and businesses. In addition, he urged for further cuts to agencies which can be done without harm to the residents of Alaska because of the way money is spent by state agencies. His experience is that when business revenues have decreased, cuts have to be made, and it is not right to hurt businesses without further cuts to agencies.

[10:29:19 AM](#)

TIFFANY HALL, executive director of Recover Alaska, said she was calling from Seattle, but lives in Anchorage. She informed the committee that Recover Alaska is a multi-sector action group working to reduce the harm caused by excessive alcohol consumption throughout the state. Increasing the existing alcohol excise tax will generate much needed revenue for the public services which rely on state general funds (GF). In this way, the tax functions as a revenue diversification strategy, and also supports long-standing public health and safety

objectives. Additionally, an increase in the alcohol tax has been shown to reduce alcohol consumption, which will also save money as the cost of alcohol abuse in Alaska causes a loss of productivity, health care costs, traffic crashes, criminal justice costs, and protective services costs, totaling over \$1.2 billion. An increase in the tax will also save lives, improve the health of babies, and reduce underage drinking. In 1983 and 2002, statewide alcohol tax increases were followed by 29 percent and 11 percent decreases in the number of alcohol-related deaths. There were also reductions in the amount of binge drinking during pregnancy, and in youth alcohol consumption. Increases to state excise taxes on alcohol have been recommended by the Surgeon General of the U.S., the Institute of Medicine, the American Medical Association, and the Community Prevention Services Task Force due to research which indicates that increased alcohol excise taxes lead to decreases in alcohol-related deaths, traffic crashes, violence, crime, and child abuse. Negative impacts of alcohol abuse cost the state over \$1 billion per year, and increasing the tax will help bridge the fiscal gap by reducing costs and generating revenue; an increase in the tax will decrease consumption and save lives in Alaska. She urged the committee to pass the bill. Ms. Hall offered to provide written comments that will include sources to verify her spoken testimony.

[10:32:54 AM](#)

The committee took an at ease from 10:32 a.m. to 10:33 a.m.

[10:33:07 AM](#)

MICHAEL JEFFERY said he was speaking on his own behalf. He provided a brief background, noting that he was the superior court judge in Barrow for 32 years and prior to that a legal services attorney. He is now retired, and is not speaking on behalf of the court system. Mr. Jeffery expressed his strong support for HB 248, and his agreement with the comments of Ms. Hall. He pointed out the cost of alcohol abuse in 2010 of \$1.2 billion was due to loss of productivity, health care costs, crashes, criminal justice, protective services, public assistance, and social services. Evidence-based research supports increases in state excise taxes on alcohol in order to raise revenue, and reduce heartache all over the state. He recalled that Barrow went dry for a period of time, and when residents were allowed to bring alcohol back in, the crime rate doubled, which is an example of the harm that alcohol can cause. He acknowledged the concern of business owners in the industry,

but alcohol-related crimes and suicides are beyond price. There should be support for a program that can raise money for services including domestic violence shelters, early childhood education, and treatment for substance abuse and mental health, while also allowing people to use alcohol. The cost over the lifetime of one child severely affected by fetal alcohol spectrum disorder can be \$1 million to \$2 million; binge drinking by moms is identified as a cause of this condition. Mr. Jeffery expressed his support for HB 248.

[10:37:38 AM](#)

LARRY HACKENMILLER, Secretary, Interior CHARR, stated his opposition to HB 248, which doubles the alcohol tax for the purpose of closing the budget gap. He said according to the Department of Revenue, the last major tax [increase] was in 2002, and also created the [Alcohol and Other Drug Treatment & Prevention Fund Authority], in which 50 percent of the alcohol taxes were to be deposited and used for mental health budget code 1180. He said \$20 million went to the alcohol and other drug treatment fund, and questioned how much money was directed to alcohol treatment and prevention, and how much to other drug abuse treatment and prevention. The bill would double the tax on alcohol consumers, so half of the money goes to prevention programs for drugs other than alcohol. Mr. Hackenmiller said if money is dedicated to the treatment of other drug abuse, the additional tax is punitive against an alcohol consumer, and is discriminatory. He directed attention to page 11 of the document entitled, "New Sustainable Alaska Plan, Alcoholic Beverage Tax HB248," and said he did not see any new revenue estimated from marijuana, and expressed his belief that the state was going to make money in taxes from marijuana and, if so, he suggested that marijuana users should pay the \$20 million to the mental health budget code 1180. This would lift the burden from alcohol consumers. Mr. Hackenmiller said the additional \$40 million in the new revenue component coming from the new alcohol tax is incorrect because the increase to the general fund is only \$20 million, as the other \$20 million is dedicated to expenditures; depositing \$20 million into the mental health budget code 1180 will increase government spending for office space, computers, copy machines, employees, and new programs. He advised that the state budget needs to be decreased first, and there are more spending reductions to be found, and more dedicated funds. The alcohol tax is a punitive tax and should not be considered in the budget gap proposal; unless the budget is decreased to a sustainable budget, the state will revisit taxes again in the near future.

[10:41:00 AM](#)

ROBERT MCCORMICK said he works at Glacier Brew House and Orso, serves on the board of Alaska CHARR, and is the treasurer of the Brewers Guild of Alaska. Mr. McCormick acknowledged the need to find new sources of income for the state, but the sources need to be broad-based, so everyone pays, and on services and products that are taxed less in Alaska than in other states. In Alaska, the taxes on spirits are the second-highest, the highest on wine, and the second-highest on beer in the nation. Mr. McCormick said he is also concerned that Alaskans will buy alcohol from other states online, and the tax will make that option more attractive. In addition, illegally importing alcohol will be more lucrative and tempting. Brewing is one of the few manufacturing industries that is growing in Alaska; the number of brewers has grown from less than a dozen to over 20 in 20 years. He pointed out that the state would not double taxes on the oil industry. Brewers do not receive incentives from the state, and do not receive tax credits. He restated his opposition to HB 248.

[10:43:35 AM](#)

KIRSTEN MYLES, executive director, Cook Inlet CHARR, said she represents the food and beverage retailers in Anchorage, who are opposed to HB 248. She stressed that the proposed alcohol tax would put Alaska's taxes at five to eight times the national average; although all industries are needed to bring in revenue, an increase of this size targeted at one industry is ridiculous.

[10:44:54 AM](#)

DARWIN BIWER said he owns Darwin's Theory, a small bar in downtown Anchorage, and is the chair of the board for statewide CHARR. He referred to the last tax in 1971-1972, which established a treatment program, and questioned what happened to the money and why it didn't solve all of the health problems. Also, he said he could not raise his prices by \$0.10 per drink, but would have to raise the price by \$0.25 at a time; the proposed tax is an increase at the retail level and an increase to the consumer. Mr. Biwer said when prices go up consumers will drink a cheaper beer and not Alaska products, which are more expensive, thus Alaska brewers, wineries, and distillers will be hurt by the tax.

[10:47:09 AM](#)

DON GRASSE said he is the president of K and L Distributors in Anchorage, which employs over 200 Alaskans and has been in business in the state since 1940. He expressed his company's, and the industry's, disappointment with the governor, his administration, and the proposed alcohol tax. Many in the industry contacted the governor and his staff prior to the release of the bill and pointed out how high the alcohol taxes are in Alaska, and how little revenue would be raised. When the proposal is compared to doubling the gas tax, which is 50th in the nation, the gas tax would be \$0.24, and the national average is \$0.30. The fishing tax is proposed to increase by 1 percent and the mining tax is proposed to increase 2 percent, and cigarette taxes would be 8th in the nation. Mr. Grasse said the alcohol taxes are out of step with all of the other proposals by the governor. The actual cost to consumers will be much greater than \$0.10 per drink and in many cases the costs of goods will increase by more than 20 percent to a consumer. Mr. Grasse said the hospitality industry has the potential to grow, but will be stifled by the proposed taxes. He expressed his hope that the legislature will see that the alcohol tax is not the solution for the state's problems.

[10:50:04 AM](#)

MATT TOMTER said he owns the Eagle River Alehouse and the Palmer City Alehouse, two restaurants that employ between 90 and 120 people per year. He informed the committee that the industry has faced the following challenges in the past 12 months: an increase in the minimum wage of \$2 per hour which increases his cost by \$100,000 per year; Affordable Care Act of 2010 (ACA) requirements, the cost of which are unclear, except it will cost \$90,000 to \$160,000 per year to provide insurance to everybody; and an increase in alcohol taxes. He said he sells about 3,800 kegs of beer per year, and the increase in cost that will be passed along to consumers is significant. Taking in all of these factors, in 2016 and 2017 his operational costs will be raised by over \$250,000 per year. Mr. Tomter said, "... at some point there's a breaking point on how much we can charge for a burger." He warned that when people can't afford the prices they will stop supporting the food and beverage industry, which is a primary employer on the road system. He wants to stay in business and said he is opposed to the increase in alcohol tax.

[10:52:39 AM](#)

JOEL KADARAUCH said he represents the Odom Corporation and the Alaska Wine and Spirits Wholesale Association. Odom Corporation has been in business locally for eighty years and employs over four hundred Alaskans, 98 percent of which hold full-time jobs with benefits. He said if selective tax increases are to be part of the solution to the state's deficit, the current tax burden should be recognized: Alaska's alcohol excise taxes were tripled in 2002, and became the highest-taxed state in the nation in wine, beer, and spirits, and remains the highest in two categories. He directed attention to three graphs provided in the committee packet which represent this tax burden, and depict where Alaska would rank should HB 248 become law: seven times the national average for beer, six times the national average for wine, and five-and-a-half times for spirits [documents not provided]. While the total per-capita tax burden is the lowest in the nation, there is no other industry in Alaska that carries a disproportionately high tax burden. A broad-based approach is onerous and inequitable. Secondly, the contribution of HB 248 to state revenues would be \$20 million to unrestricted general funds, which is a minimal deficit reduction. Mr. Kadarauch summarized that he and those he represents are strongly opposed to the bill.

[10:55:24 AM](#)

MIKE COONS stated his opposition to HB 248. He said he was a retired paramedic and has seen abuse and addiction. Mr. Coons said he opposes all sin taxes and the consequences thereof, and that he has provided further details in written testimony. Section 3 of HB 248 shows a 100 percent increase in sin tax on all alcohol products, except for homebrew. He cautioned that if the bill is enacted, bootlegging in dry villages will increase. The socialist-liberalist's stated goal is to make a product so expensive that users will stop buying a product; however, in his experience, those with an alcohol addiction will buy homebrew, and "beg on the street corner" Mr. Coons advised that the result of sin taxes is that state and local governments get money for the general fund, and some money may go for rehabilitation efforts, but most of the taxes are used for bloated local and state government. He opined that sin taxes on alcohol, cigarettes, and gasoline are really a means to attack users of a product, and fund the progressive goals of big government. Mr. Coon said the tax will be paid for "by the responsible users in the neighborhood of 90 to 95 percent, and to the addicts, maybe 5 percent, maybe 10 percent." He concluded that the tax will not help alcoholism, homelessness, or reduce driving under the influence (DUI) violations.

Referring to earlier testimony, he said he was totally against lotteries. The bill punishes responsible adults but does not contribute to a sustainable budget.

[10:59:50 AM](#)

MICHELE SHAPIRO, Director, Mat-Su CHARR, said she was speaking on behalf of restaurants, bars, and package stores in the Matanuska-Susitna Borough. Hospitality members in the Mat-Su Borough are strongly opposed to HB 248, and she reiterated previous testimony that Alaskans pay the highest alcohol tax in the nation already, which is a heavy burden for one industry to bear.

[11:00:56 AM](#)

KATE BURKHART said she is the Executive Director of the Advisory Board on Alcoholism and Drug Abuse, and of the Alaska Mental Health Board, which are the state planning councils for behavioral health, and her comments are on behalf of the boards. Ms. Burkhart said she has also provided written comments to the committee in support of HB 248. She encouraged the committee to consider the bill as part of the larger attempt to solve the state's budget problems, along with reduced spending, reforms to contain costs, and efforts to generate revenue. Ms. Burkhart referred to criminal justice reform that will succeed only if the state has a robust community health and social services sector. This is a multi-dimensional problem that requires a multi-dimensional solution; it is important to consider the bill in the context of similar legislation. She urged the committee to refer to her written comments for further details on issues related to HB 248.

REPRESENTATIVE JOSEPHSON expressed his understanding that HB 248 would double the amount that goes into the Alcohol and Other Drug Treatment & Prevention Authority fund.

MS. BURKHART said the governor's intention is to follow the current practice of putting one-half of the excise tax into the Alcohol and Other Drug Treatment & Prevention Authority fund, and one-half into GF.

REPRESENTATIVE JOSEPHSON asked:

Do you know whether or not, that the \$20 million, if it passed, that would go into this fund, would be omitted from some other behavioral health account or

mental health trust account? In other words, is it a net gain of \$20 million to treat, or is it going to be status quo?

MS. BURKHART answered that the legislature must make the appropriation, thus the legislature decides how much goes to what program. Currently, there are GF mental health funds as well as revenue from the Alcohol and Other Drug Prevention & Treatment Authority fund going to behavioral health prevention and treatment; in fact, more than \$20 million goes specifically to substance use disorder treatment services such as residential treatment and detoxification services. Every year, all of the money is before the legislature for appropriation, thus if there were supplanting, the legislature would do so.

[11:04:48 AM](#)

BRANDON HOWARD said he was starting Amalga Distillery, a new distillery in Juneau. This is a new business in the community, and he acknowledged that the industry is associated with social issues. He said the spirit excise taxes will double his taxes to about \$8 per bottle, which will impact his margins. Businesses in Alaska must pay a premium for materials, and for shipping products out of the state, and another tax will make it harder to start a distillery and it may be a less viable business. Mr. Howard suggested another way to double the tax revenue would be to double the number of distilleries and grow the industry in the state. In addition to capital, challenges to opening a new business are permitting and processing. The tax burden will be passed to the customer, and the price for his product will be much greater than that of his competitors. His initial distribution will be within the state, and the tax will burden Alaskans. Mr. Howard stated his opposition to HB 248.

CHAIR OLSON recalled previous legislation that allowed micro distilleries to have tasting rooms, which would be helpful.

MR. HOWARD agreed that is a big help. He added that his distillery, and others in Alaska, are promoting premium products for distribution out-of-state. In further response to Chair Olson, he said Amalga Distillery will manufacture Juneauper Gin and a single malt whiskey, using Alaska barley, wheat, and rye.

[11:09:52 AM](#)

JACK MANNING stated he owns a convenience and liquor store in Juneau, is president of the local CHARR, and serves on the

statewide CHARR board. He said he applauds the legislature and the governor for dealing with the state's fiscal issues. However, this is a tax on consumers, and is it unfair to place the burden on one segment of Alaskans, the alcohol consumer. This is a radical tax rate; a similar change in taxes in Washington almost destroyed a new distillery industry. The liquor stores in Oregon along the Washington state border increased sales by 35 percent, benefitting from the tax increase in Washington. Alaska does not have bordering states, but liquor is available from the Internet for free freight, as is advertised by Alaska Airlines. He said he agreed with previous testimony in opposition to HB 248.

[11:12:09 AM](#)

CHAIR OLSON announced that public testimony would remain open.

[HB 248 was held over.]

[11:12:23 AM](#)

The committee took an at ease from 11:12 a.m. to 11:27 a.m.

HB 252-ELCTRNC TAX RETURNS; VESSEL PASSENGER TAX

[11:27:39 AM](#)

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 252, "An Act requiring electronic submission of a tax return or report with the Department of Revenue; repealing the tax reduction for local levies for the commercial vessel passenger excise tax; amending the definition of 'voyage'; and providing for an effective date."

[11:27:40 AM](#)

CHAIR OLSON opened public testimony on HB 252.

[11:27:49 AM](#)

CAROL FRASER, General Manager, Lakefront Anchorage Hotel, said she was speaking as an Alaskan and as a member of the tourism industry. The Lakefront Anchorage Hotel employs over 120 Alaskans year-around as housekeepers, bussers, clerks, drivers, and servers. She opined HB 252 is a jobs bill. The hotel operates year-around but primarily relies on tourism; 70 percent of the hotel's revenue is received between 5/15 and 9/15, during

the cruise ship season. The bill proposes to increase the cruise ship passenger tax, and she urged legislators to review the impacts of the [Alaska Cruise Ship Tax Initiative Measure 2, approved 8/22/06 (cruise ship initiative)] that resulted in taxation which made Alaska the "most expensive destination in the world for cruise ship operations." The cruise ships are floating hotels and can move anywhere in the world; in 2010, as a result of the additional tax, the cruise lines moved their ships to other destinations that brought a higher return - subsequently 140,000 less customers came to Alaska and there was a loss of 5,000 jobs. In 2009, through agreements between the tourism industry and state government, there was a reduction in taxes and the cruise ships moved vessels back to Alaska; since 2012, the tourism industry in Alaska has increased each year and tourism is expected to have a banner year in 2016. Ms. Fraser said this will create more jobs for Alaskans, more revenue for communities, and more taxes for the state. Tourism employs almost 40,000 Alaskans, many of which are entry jobs that can lead to careers. She stated there is a need to protect the tourism industry - which is a renewable resource for Alaska - and HB 252 will again make Alaska uncompetitive in the worldwide cruise market. She concluded, noting that Alaska cannot afford to lose any more jobs.

[11:31:34 AM](#)

GIDEAN GARCIA, Chief Operating Officer, CIRI Alaska Tourism Corporation, stated his opposition to HB 252. He said CIRI benefits from a strong cruise industry as many passengers stay at CIRI lodges in Seward and Talkeetna, or take CIRI wildlife cruises. Not all cruise ship guests stay at affiliated hotels, but many do support other Alaska-owned businesses. Mr. Garcia said additional costs to passengers reduces potential "guest-spend" in the state. He questioned what can be gained from funds that are restricted by federal law and cannot be used in the general fund. In 2015, the number of visitors was the highest on record, and strong growth in the industry is returning after many years; he cautioned against risking growth by raising taxes. Although the state has a significant budget shortfall, his organization is generally against targeted taxes, and he urged for legislators to look for broad-based and equitable sources of new revenue.

[11:33:24 AM](#)

PATTI MACKEY, president and CEO, Ketchikan Visitors Bureau, asked the committee to consider the negative impacts of

repealing the tax reduction in communities where a local passenger fee is also imposed. Although she is aware of the state's fiscal issues, the [Commercial Passenger Vessel Excise Tax] fund is not a source of revenue for the general fund. At the time of the initial state fee, there was an adverse impact on communities that depend on the cruise industry; high taxes and fees caused the cruise lines to take a look at the high cost of doing business, which resulted in fewer ships and passengers, and less revenue. When the tax reduction was put in place five years ago, growth returned to the cruise ship industry. Ketchikan is more dependent than ever on locally-generated revenue, such as sales taxes paid by visitors, and the state faces competition from other cruise destinations; Alaska's market share has declined steadily from 7 percent in 2007 to about 4 percent today. The state needs to be mindful of its high operating costs for cruise lines. Ms. Mackey stated that the tax reduction was recognition that cruise lines help pay for services directly to port communities, and that Alaska is open for business.

[11:35:35 AM](#)

BOB SIVERTSEN, speaking on his own behalf, said he is opposed to HB 252. In 2010, former Governor Sean Parnell worked to address industry concerns regarding cruise ship operations in Alaska. The governor and the legislature lowered the cruise passenger head tax out of concern for the future of Alaska's cruise industry. Mr. Sivertsen opined the state should honor the past agreement, and if necessary, the state and the industry should work out an equitable agreement. The present tax promotes investment and meets applicable federal and state laws regarding the use of the taxes. Mr. Sivertsen said increased taxes will hurt local and state tourism businesses and will not reduce the state deficit. What HB 252 may do is jeopardize the economy and send the wrong message to an Alaska-friendly industry. The state should learn from past mistakes and successes.

[11:37:04 AM](#)

RYAN BINKLEY, President, Riverboat Discovery, stated his opposition to HB 252. He informed the committee he is a life-long Alaskan and his family's business has been building and operating boats across the state for over 100 years. In 1950, his grandparents began a river tour and became part of the tourism business and the economy in Fairbanks. He observed that Fairbanks is a cruise port, and relies on the visitors who cruise to Alaska; in fact, the effects of cruise visitors is

felt even more in Fairbanks because the itineraries that bring visitors there are the longest and most expensive and are the first eliminated by barriers to travel, such as a tax. Mr. Binkley said one-third of cruise ship passengers cross the Gulf of Alaska, thus a negative effect is magnified in the Interior. Policy effects of legislation are usually speculative, but the state has seen the impacts of head tax increases to the visitor industry in 2006. In the Interior in 2008, there was almost a 40 percent drop in the number of visitors, and his business was forced to eliminate 70 positions. Also, the Interior has not rebounded as completely as other parts of the state, and remains at 30 percent off of the tourism business levels prior to passage of the cruise ship initiative. Mr. Binkley acknowledged that the state must work together to solve budget problems, and inquired as to why the state would harm the economy of Alaska, when HB 252 does not contribute to closing the fiscal gap. Furthermore, there may be litigation that jeopardizes "the entire tax program." He cautioned that cruise companies will not be harmed by HB 252, but small Alaska businesses will feel its effects. He urged the committee to oppose HB 252.

[11:40:48 AM](#)

STEVE HITES, said he and his wife own the Skagway Street Car Company and have been in business for 30 years. He recalled that when the cruise ship initiative passed, the cruise industry pulled its ships out of Alaska due to the increased cost of doing business, and in subsequent years his family's company hired fewer employees. Former Governor Sean Parnell saw the need to address the problem and met with officials of the international cruise industry, which Mr. Hites said had not happened before in his 40 years of experience in the cruise industry. Mr. Hites said the governor and the legislature reduced the head tax and the ships were redeployed to Alaska. He said [HB 252] will not do any good and will create a giant hole in an industry that is a bright spot in the economy, and that provides an engine for the private sector. The Skagway Street Car Company pays \$70,000 in city sales tax in Skagway, and pays \$23,000 in property tax. In addition, his small business employs people and provides help. The bill will drive away a sector of the economy, and because Alaska is in competition with the Asian market, cruise companies are looking globally at operating costs. He recalled that Alaska was 14 percent of the global cruise ship industry and is now 4 percent. He stressed that Alaska must remain competitive by not imposing additional taxes.

[11:44:42 AM](#)

LAWRENCE GAFFNEY, CEO, Huna Totem Corporation, informed the committee Huna Totem Corporation has 1,300 shareholders and owns and operates Icy Strait Point, which is the largest employer and the largest payer of sales tax in the City of Hoonah, a rural community of 760 residents. Last year, Huna Totem Corporation provided 125 jobs, 85 percent of which were local hire, and contributed over \$4 million into the community. The last cruise ship tax increase resulted in a 30 percent decline in business and, 7 years later, the business has not fully recovered. This May, his firm is completing a \$40 million new investment program, in conjunction with the City of Hoonah, as a public and private partnership, building a new cruise ship dock and expanding facilities. This tax increase will have a chilling effect on the attractiveness of Alaska to the cruise industry, which provides 90 percent of Huna Totem Corporation's revenues and is responsible for many jobs. The result will be fewer ships, less profitability, fewer jobs, and a blow to the economic driver of Hoonah.

[11:47:28 AM](#)

The committee took an at ease from 11:47 a.m. to 12:00 p.m.

[12:00:44 PM](#)

CHAIR OLSON announced that public testimony would remain open.

[HB 252 was held over.]

[12:01:32 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 12:01 p.m.