

**ALASKA STATE LEGISLATURE
HOUSE LABOR AND COMMERCE STANDING COMMITTEE**

March 2, 2016

3:19 p.m.

MEMBERS PRESENT

Representative Kurt Olson, Chair
Representative Shelley Hughes, Vice Chair
Representative Jim Colver
Representative Gabrielle LeDoux
Representative Cathy Tilton
Representative Andy Josephson
Representative Sam Kito

MEMBERS ABSENT

Representative Mike Chenault (alternate)

COMMITTEE CALENDAR

PRESENTATION: ECONOMIC IMPACTS OF ALASKA FISCAL OPTIONS -
INSTITUTE OF SOCIAL & ECONOMIC RESEARCH

- HEARD

HOUSE BILL NO. 304

"An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the taxes on cigarettes and tobacco products; taxing electronic smoking products; adding a definition of 'electronic smoking product'; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 304

SHORT TITLE: ELECTRNC TAX RETURNS;TOBACCO & E-CIGS TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

02/08/16	(H)	READ THE FIRST TIME - REFERRALS
02/08/16	(H)	L&C, FIN
02/19/16	(H)	L&C AT 3:15 PM BARNES 124
02/19/16	(H)	Heard & Held
02/19/16	(H)	MINUTE(L&C)
02/22/16	(H)	L&C AT 3:15 PM BARNES 124

02/22/16	(H)	Heard & Held
02/22/16	(H)	MINUTE(L&C)
02/24/16	(H)	L&C AT 3:15 PM BARNES 124
02/24/16	(H)	Heard & Held
02/24/16	(H)	MINUTE(L&C)
02/27/16	(H)	L&C AT 10:00 AM BARNES 124
02/27/16	(H)	-- MEETING CANCELED --
03/02/16	(H)	L&C AT 3:15 PM BARNES 124

WITNESS REGISTER

GUNNAR KNAPP PhD, Director/Professor of Economics
 Institute of Social & Economic Research
 University of Alaska Anchorage
 Anchorage, Alaska

POSITION STATEMENT: Provided concluding slides and corrections for a PowerPoint presentation entitled, "Economic Impacts of Alaska Fiscal Options Overview of Draft Conclusions" dated 2/29/16, first presented during the House Labor and Commerce Standing Committee meeting of 2/29/16.

STEPHANIE CHILTON, Owner
 High Voltage Vapes
 Soldotna, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

TRISTAN TALIESIN
 Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

SETH PARKER
 Kenai, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

JORDAN EDWARDS
 Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

ELIZABETH RIPLEY, Executive Director
 Mat-Su Health Foundation
 Wasilla, Alaska

POSITION STATEMENT: Testified in support of HB 304.

ALISON HALPIN
 Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

ERIC VARGASON

Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

ANGELA CARROLL, Spokesperson

Smoke-Free Alternatives Trade Association

Wasilla, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

JAMES BRIGGS, Owner

Peche Foggin Sauce

Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to HB 304.

ACTION NARRATIVE

[3:19:41 PM](#)

CHAIR KURT OLSON called the House Labor and Commerce Standing Committee meeting to order at [3:19] p.m. Representatives Olson, Josephson, Hughes, LeDoux, Colver, Tilton, and Kito were present at the call to order.

**PRESENTATION: Economic Impacts of Alaska Fiscal Options -
Institute of Social and Economic Research**

[3:20:17 PM](#)

CHAIR OLSON announced that the first order of business would be a continuation of the presentation by the Institute of Social and Economic Research, University of Alaska Anchorage.

[3:21:04 PM](#)

GUNNAR KNAPP PhD, Director and Professor of Economics, Institute of Social and Economic Research (ISER), University of Alaska Anchorage (UAA), continued a PowerPoint presentation entitled, "Economic Impacts of Alaska Fiscal Options Overview of Draft Conclusions," which was first presented at the House Labor and Commerce Standing Committee meeting of 2/29/16. Dr. Knapp announced corrections to slides presented at the previous meeting as follows: slide 3 corrected the share of sales tax with fewer exclusions paid by non-residents from 7 percent to 9 percent; slide 4 corrected the share of reduced federal government tax obligations, after state obligations are deducted, from 4 percent. He continued to slides 5, 6, 7, 8 and 9 relating to total impacts of deficit reduction, how fast the

deficit should be reduced, and how to reduce economic impacts. Basically, the state has lost billions of dollars of oil revenue and thus must reduce its deficit, which will affect its economy. The impacts of deficit reduction began with earlier spending cuts to the capital budget, which will be felt by the construction industry in the near future. He opined that there will be a smoother economic adjustment to lower oil revenues if significant progress is made this year. Dr. Knapp presented slide 10 which illustrated the potential short-run impacts of reducing the deficit by \$1 billion, \$2 billion, and \$3 billion which is the scale of the actual deficit. He pointed out that reducing the deficit by \$1 billion would result in the loss of 17,000 jobs.

[3:34:44 PM](#)

REPRESENTATIVE JOSEPHSON recalled that the governor's fiscal plan to fix the deficit this year commits all resources, such as the Constitutional Budget Reserve (CBR), and the [supplemental budgets]. He cautioned that using "part of a budget patch," doesn't work because the governor's plan relies on every available dollar in savings.

DR. KNAPP expressed his understanding that the governor's plan has many aspects and would not completely close the deficit, but would accomplish the "vast bulk of the heavy lifting toward getting the state where, where the remaining spending would be financed in a sustainable way."

REPRESENTATIVE JOSEPHSON provided an example of a \$3.5 billion deficit and a \$2.5 billion fix that would require \$1 billion from savings, but which would derail the governor's plan because the savings are needed to "buttress, for example, the earnings reserve in a sovereign wealth model or to recreate the [supplemental budget] which would spin off some of its own new revenue."

DR. KNAPP acknowledged that the governor's plan, or others that use Alaska Permanent Fund earnings, affect how much the fund will produce investment returns in the future. As long as the state continues to run deficits, the deficits will reduce future earnings. He restated that the study was narrowly focused on certain aspects of cutting spending, however, drawing from savings would result in permanently reduced future earnings.

[3:41:29 PM](#)

REPRESENTATIVE KITO returned attention to slide 10 and asked whether the \$2 billion and \$3 billion cuts made by reducing workers are just for illustration.

DR. KNAPP said yes, because those cuts are not a real option.

REPRESENTATIVE COLVER asked for the indirect multiplier for non-government jobs.

DR. KNAPP said the loss of jobs would be a direct loss of 60 percent of government workers, and an indirect loss of 40 percent of private workers. Further information can be found on slides 35 and 36 that were presented at the meeting of 2/29/16.

REPRESENTATIVE COLVER surmised that a 2.5 multiplier indicates a loss of 5,200 state and state-contracted jobs, and a total loss of 13,000 jobs. He then asked for the number of lost jobs that would be catastrophic to the state's economy.

DR. KNAPP observed that the state's economy is in a weak state in that both the government and private industry must cut back. The oil, mining, and salmon industries are experiencing low prices and the capital budget cuts have affected the construction industry. Ideally, when the private sector economy is suffering it is not a time to reduce government spending. Dr. Knapp was unsure of "a tipping point."

[3:52:28 PM](#)

REPRESENTATIVE LEDOUX asked for clarification of slide 10.

DR. KNAPP explained that column five indicated spending was reduced one-third by cutting spending, one-third by raising an income tax, and one-third by cutting the PFD; the combined impact of all three actions would cost 10,000 jobs. In further response to Representative LeDoux, he said the total loss of income to Alaskans would be \$1.3 billion.

REPRESENTATIVE LEDOUX suggested that the percentages may be varied and requested additional charting to show "all of those different variables."

DR. KNAPP noted that slide 36, which was presented at the meeting on 2/29/16, allows members to complete additional calculations, or he could provide that information. In further response to Representative LeDoux, he said the option with the least effect on the economy - in the short term - is for the

state to save less. He added that the least effect on the total economy would be to cut capital spending, which has already been done by the legislature. He urged that members consider all options because the actions taken determine "the kind of state we have."

[4:00:58 PM](#)

REPRESENTATIVE HUGHES asked if Dr. Knapp was being paid by the administration to do this analysis, and whether ISER receives general funds from the state through the UAA budget.

DR. KNAPP responded that ISER receives general fund support through the UAA budget which covers about 40 percent of its budget. The study was financed one-half by the Office of Management & Budget and one-half by the Department of Revenue.

REPRESENTATIVE HUGHES expressed her interest in the long-term effects on the economy and to younger Alaskans fifteen to twenty years hence; for example, the impacts to the Public Employees' Retirement System (PERS) and the Teachers' Retirement System (TRS). She cautioned that imposing an income tax may mean fewer jobs lost, but states with income taxes lose population in the long-term. She asked Dr. Knapp to comment on the long-term economic impacts on the private sector and the overall economy.

[4:05:06 PM](#)

DR. KNAPP agreed that long-term impacts are critically important, which is the focus of the remainder of his presentation. He pointed out that spending cuts, income taxes, sales taxes, and dividend cuts all have long-term impacts on Alaska's economy and its society. Alaskans will be more affected by long-term implications than by short-term implications, which is analogous to someone who is sick choosing treatment options: what hurts less versus what is going to make one healthy.

REPRESENTATIVE HUGHES said her understanding is a dollar in the private sector has a greater multiplier effect than a dollar in the public sector.

DR. KNAPP said he could neither agree nor disagree without "a clearer understanding of what was meant." Losing a job - public or private - would have same impact on the economy; the loss of their tasks is a different question.

4:10:06 PM

REPRESENTATIVE HUGHES returned attention to slide 8 which was presented at the meeting on 2/29/16 and asked whether Dr. Knapp advised "that it is better to not do everything in one year and to phase the solution."

DR. KNAPP clarified that there are very serious negative impacts to not making significant progress on the deficit. Although the economy is weak, he cautioned that the state cannot "save this problem for later."

REPRESENTATIVE JOSEPHSON asked whether there is an argument for stimulus through a capital budget, or for the state to issue bonds for some capital projects.

DR. KNAPP advised that if government finances are healthy there is a good argument for stimulus; however, the state has so much lost oil money that it cannot escape an adjustment. There is no question that it would definitely help the state's construction industry, but the state would face the consequences. He returned attention to slide 11 which listed the impacts of fully closing the deficit this year. However, slide 12 stated that the government can't permanently support an economy by running deficits, and he stressed the further negative consequences of delay, such as further draining of reserve funds, fewer options and less time to implement options, and the downgrading of Alaska's credit rating [slide 13]. Slide 14 showed additional negative consequences including rising business and household uncertainty about future services and taxes. Furthermore, there will be less confidence in whether Alaska can achieve a solution and remain a good place to do business and live. These are the consequences of not demonstrating that there is a plan for how to get out of this situation, although the consequences cannot be measured precisely.

4:21:06 PM

DR. KNAPP continued to slide 15, noting that significant progress includes a major reduction in the deficit, consensus on a plan for the future, demonstrating political ability to act, and a perception of significant progress by Alaskans. All of the fiscal options have many other potential impacts such as indirect and longer-term impacts, which are harder to estimate and important to Alaska's future [slide 17]. Impacts of spending cuts include increases in local taxes, user fees, loss of federal revenues, impacts of reduced capital budgets, and

impacts on government and university workforce [slide 18]. Further potential effects of spending cuts were listed on slide 19. Examples of potential impacts of income taxes include impacts to investment and to wages [slide 20]. Examples of potential impacts of sales taxes include administrative costs, impacts on local government and rural communities, and impacts on the visitor industry [slide 21]. Slide 22 listed the potential impacts of dividend cuts such as wages, spending, and quality of life for larger or poorer families. Dr. Knapp stressed that all of the foregoing long-term indicators are relevant and matter. Slide 23 listed more long-term impacts of adjusting to the deficit that were not addressed by the study. He concluded that the fiscal choices will significantly affect Alaska's future economy and society [slide 24]. In response to Chair Olson, he said the study is in its third or fourth version. In further response to Chair Olson, he said the study has been modified for corrections and to add details.

CHAIR OLSON has heard that the study was going to go into more detail on the proposed tax bills.

DR. KNAPP apologized, saying there was a misunderstanding. Other issues were beyond the scope of the study.

[4:31:00 PM](#)

The committee took a brief at ease.

[4:31:40 PM](#)

REPRESENTATIVE LEDOUX questioned whether bond ratings are based on legislative actions which could subsequently be repealed.

DR. KNAPP agreed that close legislative votes convey a message; however, the negative economic consequences from bond rating agencies, Alaskans, or Alaska businesses are related to uncertainty and confidence in the legislature finding a solution.

REPRESENTATIVE LEDOUX remarked:

... you're saying that we not only need to do something, but we all need to do it together and if, if it's a slim margin, that that's not going to accomplish the purposes.

DR. KNAPP responded:

All I'm really saying is that the, that the negative economic consequences of delay are tied to the extent that they create business uncertainty and, and business, and household and investor uncertainty about what will be done, and whether something can be done.

DR. KNAPP provided examples of delays.

[4:38:24 PM](#)

REPRESENTATIVE JOSEPHSON returned attention to slide 18 which indicated there is a potential loss of federal matching funds. He surmised that the state seeks to benefit from federal matching funds for the University of Alaska budget and other programs, and asked, "Are we right that the four dollars from Washington, DC that gets spent in Alaska has the same impact, generally speaking, as the dollar we supply?"

DR. KNAPP explained that the impact on the construction industry is the same whether the state or federal government pays for a project. Approximately one-third of the state's economy comes from the federal government. He continued, "... the impact on the economy is four times as great if you cut something that brings in matching funding." In further response to Representative Josephson, Dr. Knapp said that the potential impact of migration from rural villages listed on slide 19 is due to the closing of small schools, which could lead to higher social service costs in urban areas. He urged for further testimony on all of the potential impacts listed on slide 19.

[4:43:39 PM](#)

REPRESENTATIVE HUGHES stated that she is open to new information; however, she suggested there is a bias in the study because there were many more potential impacts listed for spending cuts on slide 18, then for increased taxes listed on slide 19. Representative Hughes encouraged Dr. Knapp to reconsider whether the information presented is truly an objective approach.

DR. KNAPP acknowledged Representative Hughes' statement as fair. There are many different kinds of spending, thus there are many impacts related to spending cuts, but how an income tax affects the economy "can be boiled down to one or two questions." He agreed to provide a better perception.

[4:46:35 PM](#)

HB 304-ELECTRNC TAX RETURNS;TOBACCO & E-CIGS TAX

CHAIR OLSON announced that the final order of business would be HOUSE BILL NO. 304, "An Act requiring the electronic submission of a tax return or report with the Department of Revenue; relating to the taxes on cigarettes and tobacco products; taxing electronic smoking products; adding a definition of 'electronic smoking product'; and providing for an effective date."

[4:46:40 PM](#)

CHAIR OLSON reopened public testimony on HB 304.

[4:47:30 PM](#)

STEPHANIE CHILTON, Owner, High Voltage Vapes, urged members not to support HB 304 because it would cripple her business. Her husband previously worked in the oil field and her home and livelihood depends on the success of her business to support her family of five. She has closed one shop and laid off four employees already. The bill will cause the state to lose income from the taxes that businesses are currently paying because customers will shop online instead of supporting local businesses.

[4:48:49 PM](#)

TRISTAN TALIESIN informed the committee he began vaping seven months ago and successfully quit smoking tobacco products after twenty-eight years. The bill would force him to buy products online and if the local shop raises its prices he will not shop locally. He votes and lives in Alaska and served in the military. Mr. Taliesin stressed that e-cigarettes and vaping are a consumer-driven market as an alternative to smoking tobacco products; laws may cause him to spend his money out of state or overseas.

[4:50:35 PM](#)

SETH PARKER said vaping saved his life when he started in January 2015. The bill would hurt local businesses and destroy the vaper industry in Alaska, and will force him as a consumer to take his money out-of-state, even if he prefers to buy locally.

[4:51:59 PM](#)

JORDAN EDWARDS said he has lived in Alaska for 30 years. He said he smoked for ten years and quit five years ago by using vaper products. He urged the committee to consider the impact of HB 304 on small shops, local consumers, and the public in Alaska. He opined that vaping is not smoking as stated in a recent legal case. If a 100 percent wholesale tax takes effect, shops will not be able to compete and all of the shops in the Matanuska-Susitna area will close. Mr. Edwards warned that all vapers will return to smoking or will purchase products online, and the first line of defense against underage vaping will be stopped. Currently, shops ask for identification, and kids will turn to online purchases by the use of prepaid credit cards. All consumers will turn to Internet purchases, resulting in lost jobs, lost taxes, lost in-state commerce and revenue, and the state will suffer far greater than if a realistic tax were chosen. He concluded, saying that during the next decade one billion people will die worldwide from tobacco-related illnesses if vaping products are demonized.

[4:54:00 PM](#)

ELIZABETH RIPLEY, Executive Director, Mat-Su Health Foundation, informed the committee her organization's board of directors strongly supports HB 304 for the following reasons: increased tobacco taxes reduce youth and adult smoking rates; the proposed tax includes e-cigarette products, which are currently outside of Alaska's laws and tax structures. Higher taxes prevent youth tobacco use and reduce health care costs; for example, in 2005, a tax of \$1 per pack in the Matanuska-Susitna (Mat-Su) Borough and an additional \$1 per pack state tax were effective and decreased smoking 58 percent for Mat-Su middle schoolers, 8 percent for traditional high schoolers, 22 percent for alternative high schoolers, and 35 percent for adults. Ms. Ripley said these decreases were a health and economic win for affected individuals, their families, and for communities. The foundation also supports the bill because it includes e-cigarette products, which are perceived by adolescents to be safer than traditional cigarettes. She said e-cigarettes are a "grooming tool," which allows kids to become addicted to tobacco and nicotine using flavors such as bubble gum and Skittles. A report in 2015 showed that ninth graders who use e-cigarettes were three times more likely to switch to combustible tobacco products [report not provided]. She urged the committee to pass HB 304 in order to protect all of Alaska's children and to improve the health of the Alaska population.

REPRESENTATIVE JOSEPHSON asked Ms. Ripley to provide the committee with the abovementioned report.

[4:57:06 PM](#)

ALISON HALPIN stated her opposition to HB 304. Ms. Halpin said she is an [e-liquid] manufacturer, a vape shop manager, and a consumer who would be affected by the proposed tax. Firstly, she would be taxed for manufacturing [e-liquids] for sale; secondly, her retail location would be taxed; and finally, she would have to pay a higher price for products. The tax would decimate an industry which helps people stop smoking, as she was able to with a personalized vaporizer, and she has helped others quit smoking. The tax would push customers to online retailers. Ms. Halpin said vape shops are the first line of defense against underage vaping. Demographics indicate the people who smoke are individuals who suffer from depression and mental illness, are low-income, and are in high-stress environments; the bill would remove vaping as an option for those who want to stop.

[4:58:47 PM](#)

ERIC VARGASON said he opposes the tax because shops will close and force people to shop online, and consumers will not receive instruction on battery safety and support for quitting smoking. Most importantly, vape shops check identification and shun people under the age of 19 away from vaping. The tax will put people out of work, close shops, and remove the opportunity for people to quit smoking.

[5:00:32 PM](#)

ANGELA CARROLL said she was speaking on behalf of members of the Smoke-Free Alternatives Trade Association. If HB 304 becomes law, the bill would tax vape products at 100 percent of wholesale price and treat alternative products just like cigarettes. According to the Department of Revenue, small operations would be required to carry tobacco licenses issued by the state as if they were selling tobacco products, which they are not. She said categorizing vape products into a tobacco tax scheme is the wrong approach. Ms. Carroll described the paperwork required by the bill, and she urged the committee to review the forms. The remainder of her testimony will be submitted in written form.

[5:02:53 PM](#)

JAMES BRIGGS said he owns an e-liquid company called Peche Foggin Sauce. Mr. Briggs expressed his opposition to HB 304 because the proposed wholesale tax will hurt him as a consumer and drive him out of business. The tax will close local businesses and drive consumers to online sales. E-liquid contains "pg, vg," artificial and natural flavorings, and sometimes nicotine. The ingredients vary in price from \$30 per gallon to \$200 per gallon, and nicotine costs \$300 per gallon. The tax will double his costs and the price of his product, so consumers will turn to online vendors, ultimately hurting state taxes. Also, some will return to combustible cigarettes which contain 4,000 chemicals and known carcinogens. Mr. Briggs urged the committee to oppose the tax.

[5:04:34 PM](#)

CHAIR OLSON closed public testimony.

[HB 304 was held over.]

[5:05:25 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Labor and Commerce Standing Committee meeting was adjourned at 5:05 p.m.