

ALASKA STATE LEGISLATURE
SENATE LABOR AND COMMERCE STANDING COMMITTEE

February 16, 2016

6:01 p.m.

MEMBERS PRESENT

Senator Mia Costello, Chair
Senator Cathy Giessel, Vice Chair
Senator Kevin Meyer
Senator Gary Stevens

MEMBERS ABSENT

Senator Johnny Ellis

COMMITTEE CALENDAR

SENATE BILL NO. 133

"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 devices; and providing for an effective date."

- HEARD & HELD

SENATE BILL NO. 131

"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

PREVIOUS COMMITTEE ACTION

BILL: SB 131

SHORT TITLE: ELECTRONIC TAX RETURNS & ALCOHOL TAX

SPONSOR(S): RULES BY REQUEST OF THE GOVERNOR

01/19/16	(S)	READ THE FIRST TIME - REFERRALS
01/19/16	(S)	L&C, FIN
02/16/16	(S)	L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/16/16	(S)	L&C AT 6:00 PM BELTZ 105 (TSBldg)

BILL: SB 133

SHORT TITLE: ELECTRNC TAX RETURNS;TOBACCO & E-CIGS TAX
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

01/19/16 (S) READ THE FIRST TIME - REFERRALS
01/19/16 (S) L&C, FIN
02/16/16 (S) L&C AT 1:30 PM BELTZ 105 (TSBldg)
02/16/16 (S) L&C AT 6:00 PM BELTZ 105 (TSBldg)

WITNESS REGISTER

JACKSON BLACKWELL, high school student representing
American Cancer Society Cancer Action Network (ASC CAN)
POSITION STATEMENT: Testified in support of SB 133.

JOSEPH YOULKOSKI, eighth grade student representing
American Cancer Society Cancer Action Network (ASC CAN)
POSITION STATEMENT: Testified in support of SB 133.

STEVEN MAPES, representing himself
Vape shop owner
Kenai, Alaska
POSITION STATEMENT: Suggested amending SB 133 to remove all
vapor products from the bill.

PATRICIA PATTERSON, representing herself
Lucky Raven Tobacco
Kenai, Alaska
POSITION STATEMENT: Testified in opposition to SB 133.

LARRY HACKENMILLER, representing himself
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to SB 133.

CHARLES RIVERUP, representing himself
Fairbanks, Alaska
POSITION STATEMENT: Testified in opposition to SB 133.

ANGELA CARROL
Smoke Free Alternative Trade Association
Wasilla, Alaska
POSITION STATEMENT: Requested the committee remove all vapor
products from SB 133.

KAREN PERDUE, representing herself
Fairbanks, Alaska
POSITION STATEMENT: Spoke in support of SB 133 and asked the
committee to make sure that e-cigarettes are taxed.

TERRENCE ROBBINS, representing himself
Ketchikan, Alaska

POSITION STATEMENT: Testified in support of SB 133.

DR. KRISTEN COX, ND, representing herself
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 133.

MARGE STONEKING, Executive Director
American Lung Association in Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 133.

ISAAC HEWELL, owner
Cold Vapes 907
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 133.

JEFF FUHRMAN, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 133.

JASON JONES, owner
Legion Vapor
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 133.

TOM LAKOSH, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in support of sin taxes and suggested adding the consumption and production of fossil fuels to both SB 131 and SB 133.

SHEB GARFIELD, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 133.

GREGORY CONLEY
American Vaping Association
Medford, New Jersey

POSITION STATEMENT: Testified in opposition to SB 133.

ALEX MCDONALD
Ice Fog Vapor, Inc.
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to including vapor products in SB 133.

THOMAS BROWN, representing himself
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 133.

FRED STURMAN, representing himself
Kenai, Alaska

POSITION STATEMENT: Testified that he opposes taxes of any description until the legislature cuts at least 30 percent from the budget.

JEFF JESSE, Chief Executive Officer
Alaska Mental Health Trust
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 131.

BANDON HOWARD
Amalga Distillery
Juneau, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

ROBERT MCCORMICK, Director
Glacier Brew House
Chugiak, Alaska

POSITION STATEMENT: Testified in opposition SB 131.

MARCY LARSON, co-founder
Alaskan Brewing Company
Juneau, Alaska

POSITION STATEMENT: Spoke in opposition to SB 131 due to its unintended consequences to the entire hospitality industry.

SASSAN MOSSANEN, founding partner
Denali Brewing Company
Talkeetna, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

GARY SUPERMAN, co-owner
Hunger Hut Bar and Liquor Store
Nikiski, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

KRISTEN MYLES, Director
Cook Inlet CHARR
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

RICK ARMSTRONG, owner
Baranof Island Brewing Company
and President
Brewers Guild of Alaska
Sitka, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

BILL BUBBEL
The Pump House Restaurant
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

TIFFANY HALL, Executive Director
Recover Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified in support of SB 131.

MARK STAPLES, President
Midnight Sun Brewing
Anchorage, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

TOM CHARD, Executive Director
Alaska Behavioral Health Association
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 131.

PAM WATTS, Member
Alaska Behavioral Health Association
Juneau, Alaska

POSITION STATEMENT: Testified in support of SB 131.

MICHAEL CERVANTES, owner/operator
The Banks Alehouse
Fairbanks, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

CARMEN LUNDE, Director
Kodiak CHARR
Kodiak, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

ROBIN MINARD, Director
Public Affairs
Matsu Health Foundation

Wasilla, Alaska

POSITION STATEMENT: Testified in support of SB 131.

PHILLIP LICHT, Chair-elect

Advisory Board on Alcoholism and Drug Abuse (ABADA)

Palmer, Alaska

POSITION STATEMENT: Testified in support of SB 131 on behalf of the ABADA Board, the Alaska Mental Health Board, and Thrive MatSu.

JIM PSENAK

Alpine Inn

Sutton, Alaska

POSITION STATEMENT: Testified in opposition to SB 131.

ACTION NARRATIVE

[6:01:11 PM](#)

CHAIR MIA COSTELLO called the Senate Labor and Commerce Standing Committee meeting to order at 6:01 p.m. Present at the call to order were Senators Giessel, Stevens, and Chair Costello.

SB 133-ELECTRNC TAX RETURNS;TOBACCO & E-CIGS TAX

CHAIR COSTELLO announced the committee would hear public testimony on SB 133.

[6:02:53 PM](#)

JACKSON BLACKWELL, high school student representing the American Cancer Society Cancer Action Network (ASC CAN), testified in support of SB 133. He reported that he has been involved in tobacco prevention for three years and feels it is important to do everything possible to protect the health of his peers by keeping electronic cigarettes out of their hands. He related that when he returned after spending six months serving as a U.S. page in Washington, D.C., he saw that the use of e-cigarettes and vapes had skyrocketed. He concluded saying the tobacco tax would be beneficial because it would make e-cigarettes more difficult to acquire.

[6:03:06 PM](#)

SENATOR MEYER joined the committee.

JOSEPH YOULKOSKI, eighth grade student representing the American Cancer Society Cancer Action Network (ASC CAN), testified in

support of SB 133. He said the increased tobacco tax would make it harder for middle school students to get vapor and e-cigarettes. It will keep the state healthier and generate revenue.

SENATOR STEVENS asked if anyone uses e-cigarettes to stop an addiction to combustible cigarettes.

MR. BLACKWELL replied some people use them as a means to quit smoking, but his perspective is that it creates an addiction to something else. He pointed out that e-cigarettes are not regulated so people could still be buying a nicotine product without knowing it. He reiterated that they shouldn't be readily available for anyone to use.

[6:06:28 PM](#)

SENATOR MEYER asked what the tobacco of choice is in schools now days.

MR. BLACKWELL replied he primarily sees the use of vapes, e-cigarettes and chewing tobacco, often by students he would not expect.

[6:07:27 PM](#)

MR. YOULKOSKI said kids have been educated through programs like DARE that nicotine products are harmful so they've switched to e-cigarettes and vapes. Those claim to be tobacco and nicotine free and he wonders what they do contain.

SENATOR MEYER commented on the problem in Anchorage with Spice and the lack of package labeling. He asked the students if they agree that that is part of the problem.

MR. BLACKWELL pointed out that some people are using vaping devices to smoke hash oil and opioids, which presents a whole new danger.

MR. YOULKOSKI added that his middle school doesn't have many problems with Spice and he attributes it to good education from teachers about its dangers.

[6:08:43 PM](#)

STEVEN MAPES, representing himself, Kenai, Alaska, asked the committee to amend SB 133 to remove all vapor products from the bill. He stated that he is speaking as an ex-smoker, former e-cigarette user and current vape shop owner. He shared his story of trying to kick the habit of smoking three packs of cigarettes

per day. The only thing that worked for him was e-cigarettes so he decided to open a vape shop and help others get off tobacco. He described the success of his business and the fact that he has been able to help hundreds of people to stop using tobacco products. Increasing the tax on tobacco as proposed would put him out of business and drive the market to the Internet.

[6:11:44 PM](#)

At ease

[6:12:25 PM](#)

CHAIR COSTELLO reconvened the meeting.

PATRICIA PATTERSON, Lucky Raven Tobacco, Kenai, Alaska, testified in opposition to SB 133. She said there is no federal or state law that prohibits an Alaskan from buying pipe tobacco, cigars or vape products online, and the 75 percent state tax isn't levied on those sales. That is her competitor. She pointed out that there are just three humidors left in the state and increasing the 75 percent tax to 100 percent will get rid of all three. She opined that the current 75 percent tax has done nothing but move business to other states. She posited that the same thing will happen to in-state e-cigarette and vape shops if those products are included in the tax scheme. The revenue the state would gain is insignificant compared to the damage it will do to local economies throughout the state.

[6:14:48 PM](#)

LARRY HACKENMILLER, representing himself, Fairbanks, Alaska, testified in opposition to SB 133. He stated total opposition to taxing electronic smoking devices, maintaining that they have nothing to do with cigarettes or tobacco products. He said no concrete research shows hazards associated with the use of this device or its benefit as a means to quit smoking tobacco. He also requested the committee remove the requirement to file tax forms electronically and instead state it is the preferred method.

CHARLES RIVERUP, representing himself, Fairbanks, Alaska, testified in opposition to SB 133. He offered his belief that vape products are not tobacco and should not be taxed as such. He and others purchase their vape products locally and the proposed tax would send this business outside the state. "That doesn't seem logical to me," he said.

[6:18:34 PM](#)

ANGELA CARROL, Smoke Free Alternative Trade Association, Wasilla, Alaska, requested the committee amend SB 133 to remove all vapor products from the bill. She referred to reports in the bill packets from the Mayo Clinic and Public Health England that discuss how vapor products benefit adults addicted to cigarettes. She pointed out that the proposed tax on these products would bring the tax on vapor products from zero to 100 percent overnight, which will be a huge burden to the consumer. She maintained that the proposed tax will drive consumers back to combustible cigarettes, deter a current smoker from switching to a vapor product or drive sales to the Internet. This won't be good for the economy or selective businesses in Alaska.

[6:21:04 PM](#)

KAREN PERDUE, representing herself, Fairbanks, Alaska, said she is retired and working with the American Cancer Society Alaska Cancer Action Network, and is speaking in support of SB 133. She informed the committee that she was involved in the 1997 initial tobacco tax increase when an amazing bi-partisan effort resulted in Alaska having the highest tobacco tax in nation. The tax had a dramatic effect on consumption; in particular, youth consumption has gone down 70 percent since then. She asked the committee to make sure that e-cigarettes are taxed to help ensure that young people do not start using them. She highlighted that current data shows that far more young people are using those products than tobacco. Responding to a question, she confirmed that this information is from the Behavioral Risk Survey.

She said the track record is great for using the tobacco tax for public health purposes rather than revenue purposes, and tobacco advocates would like to see the additional tax focused on reducing consumption.

MS. PERDUE said the use of e-cigarettes has exploded in the Fairbanks community and it makes no sense to exclude them from taxation. They're a medium for delivery of both tobacco and marijuana and those products already are or will be taxed.

[6:24:35 PM](#)

SENATOR STEVENS mentioned a bill he introduced intended to keep children from buying e-cigarettes. In the process, he learned that a young person who is addicted to cigarettes can get a prescription for e-cigarettes to help break the addiction. He asked if this is a legitimate way to help people stop smoking and, if so, why charge them more.

MS. PERDUE replied the policy is to tax tobacco and she views e-cigarettes as a delivery mechanism for tobacco and other products. She added that it's one thing if someone actually quits using tobacco altogether but the nicotine levels in e-cigarettes could be higher than a combustible cigarette because they aren't currently regulated by the FDA.

[6:26:35 PM](#)

TERRENCE ROBBINS, representing himself, Ketchikan, Alaska, testified in support of SB 133. He cited U.S. surgeon general findings that every 7 percent increase in the retail price of cigarettes will result in 7 percent reduction in youth smoking rates. He also mentioned data from 2015 showing that 27.5 percent of Alaskans age 12-17 have used cigarettes or e-cigarettes in the last 30 days. He said e-cigarettes are a nicotine product and increasing their retail price will decrease use rates among youths.

[6:29:42 PM](#)

DR. KRISTEN COX, ND, representing herself, Juneau, Alaska, testified in support of SB 133. She said in 2014 the State of Alaska collected \$100 million between tobacco taxes and the Tobacco Master Settlement Agreement. However, the costs associated with smoking in Alaska totals \$600 million. She pointed out that these costs equate to \$20 per pack of cigarettes which arguably means the state is essentially subsidizing the tobacco industry. Clearly, increasing the cost of cigarettes decreases use rates in youths, she said. Even Phillip Morris recognized this in a 1988 statement.

CHAIR COSTELLO asked Dr. Cox to provide the backup for the \$600 million she cited.

DR. COX said the data came from the Department of Health and Social Services data from the Tobacco Prevention and Control Program. She offered to leave her copy.

[6:32:23 PM](#)

MARGE STONEKING, Executive Director, American Lung Association in Alaska, Anchorage, Alaska, testified in support of SB 133. Reading from prepared testimony she stated that tobacco taxes are a proven method to reduce tobacco use and tobacco related illnesses. Increasing these taxes also saves government and businesses millions of dollars in tobacco-related healthcare costs. She reported that increasing tobacco taxes 10 percent reduces youth smoking by a minimum of 7 percent, reduces adult smoking by 4 percent, and reduces pregnant women smoking by 7

percent. A vast majority of people who smoke want to quit and the increased price is yet another incentive to quit. Thus, the American Lung Association supports the proposal to increase the price of cigarettes a minimum of \$1 per pack and the equivalent increase on other tobacco products, including electronic cigarettes.

MS. STONEKING highlighted that there are seven approved products for tobacco cessation and e-cigarettes are not one of them. In fact, the tobacco industry sued the FDA to treat these devices as a tobacco product, not as a cessation device. She also suggested that e-cigarette vendors should have a tobacco endorsement so they'll be part of the state's underage enforcement program.

[6:36:12 PM](#)

ISAAC HEWELL, owner, Cold Vapes 907, Anchorage, Alaska, testified in opposition to SB 133. He listed his family run business, employees, rent, insurance and ancillary businesses, all of which would be affected if the bill were to pass and become law. He described the bill as an unemployment bill for the vaping industry in Alaska because it will drive sales to the Internet. He maintained that an estimated 9 million smokers, including himself, have switched from combustible tobacco products to vaping. He urged the committee to hold the bill so the state can continue to profit from his business as it does now.

[6:38:47 PM](#)

JEFF FUHRMAN, representing himself, Anchorage, Alaska, testified in opposition to SB 133. He shared personal stories about cigarette smoking and lung cancer and related that he was initially skeptical about vaping. However, he has not touched a cigarette since he started to vape 3.5 years ago. He maintained that the effect of SB 133 will be to close small businesses in Alaska and drive the consumers to online sales. Furthermore, it will make it more difficult for people like him to quit smoking. It's reprehensible that the state is increasing the cost of a device that is helping people quit and saving lives, he said.

[6:42:02 PM](#)

JASON JONES, owner, Legion Vapor, Anchorage, Alaska, testified in opposition to SB 133. He related that after 17 years and multiple failed attempts to stop smoking cigarettes, he turned to vaporizers and was finally successful. That was three years ago and he's still smoke free. Speaking as a vape shop owner, he stressed that taxing vaporizer products will not create revenue

for the state because it will drive consumers to purchase online. The result will be that the 20 locally-owned, family vape shops in Alaska will be forced to close. An unintended consequence is that it will remove the first line of defense in keeping vaporizer products out of the hands of children.

[6:43:40 PM](#)

TOM LAKOSH, representing himself, Anchorage, Alaska, testified in support of sin taxes and suggested adding the consumption and production of fossil fuels to both SB 131 and SB 133. He also described the proposed tax on vaping products as "quite a cost to bear."

[6:45:27 PM](#)

SHEB GARFIELD, representing himself, Anchorage, Alaska, testified in opposition to SB 133. He stated that after smoking for 20 years, he's been cigarette-free for 3 years, and he owes that healthy achievement to vaping. He stressed that the 100 percent wholesale tax will start a domino effect that will end the cottage vaping industry in Alaska. Consumers will be forced to shop online or go back to smoking. Either circumstance will cause the 20 mom-and-pop vape shops in Alaska to cut employees and eventually close. The State of Alaska is shooting itself in the foot in its decision to tax vaping products when it's a proven method for helping people to quit smoking, he said.

[6:47:40 PM](#)

GREGORY CONLEY, American Vaping Association, Medford, New Jersey, testified in opposition to SB 133. He related that he is an ex-smoker and attorney who has been advocating for sound policies for vapor products for more than 5 years. He discussed the public health impacts of vapor products and the ongoing debate within the tobacco control community. He cited a Center for Disease Control and Prevention (CDC) survey that found that 22 percent of the adults who claimed to have quit smoking in the past year are using vapor products. Regardless of whether people approve, this is what is happening, he said.

Turning to the question of vaping use among youth, he pointed to the short summary issued by Ohio Attorney General, Tom Miller, and urged a smart review of the numbers. They show that only 2 percent of American youths are using vapor products more than 20 days of the month. Other surveys found that 60-80 percent of youth that report using vapor products in the last month are using a non-nicotine product. He suggested the committee keep the numbers in perspective.

[6:50:18 PM](#)

ALEX MCDONALD, Ice Fog Vapor, Inc., Fairbanks, Alaska, testified in opposition to including vapor products in SB 133. He related how vapor products helped end his 19-year tobacco addiction. He maintained that the tax proposed on vapor products is different than on tobacco products because the former are readily available for purchase on the Internet. It will be impossible for small family-owned businesses to compete with that market. Furthermore, online vendors lack the ability to check IDs to ensure they aren't selling to minors. The vaping industry in Alaska is in full support of SB 141 relating to the sale of vapor products to minors, he said.

[6:51:57 PM](#)

THOMAS BROWN, representing himself, Anchorage, Alaska, testified that he opposes SB 133 for a number of reasons. First, vaping is a healthy alternative to combustible tobacco. This is evidenced by documents he intends to provide to the committee. Second, as vaping goes up smoking goes down. This is true for every age range so the behavior should be promoted. Third, SB 133 will harm Alaskan businesses and jobs. The tax will cause consumers to turn to the Internet or the black market. Fourth, the unintended consequence of increasing sin taxes is that revenue goes down. This bill will cause more people to smoke, cost Alaskans jobs, and create a new class of criminals. Nothing about the bill is desirable, he said.

[6:54:14 PM](#)

FRED STURMAN, representing himself, Kenai, Alaska, stated that he opposes taxes of any description until the legislature cuts at least 30 percent from the budget. He highlighted that Ruby Hines sent suggestions for cutting the budget in 14 places and he's aware of no cuts thus far. He suggested punitive measures to ensure this is done.

CHAIR COSTELLO, finding no further comments on SB 133, closed public testimony and held the bill in committee.

[6:57:35 PM](#)

At ease

SB 131-ELECTRONIC TAX RETURNS & ALCOHOL TAX

[7:00:59 PM](#)

CHAIR COSTELLO reconvened the meeting and announced the committee would hear public testimony on SB 131.

JEFF JESSE, Chief Executive Officer, Alaska Mental Health Trust, Juneau, Alaska, testified in support of SB 131. He directed attention to a spreadsheet from the Division of Behavioral Health that shows that the state spent over \$41 million for alcohol treatment and prevention. Additionally, other general fund costs due to alcohol are substantial.

A survey by the McDowell Group found that the 2010 general fund spending for alcohol-related healthcare costs totaled \$170 million; \$9.5 million for public assistance; \$50.5 million for traffic accidents; \$156.7 million for the criminal justice and Office of Children's Services systems of care. Together that is a \$387 million cost to the general fund from alcohol. That is larger than every department and every budget component except the foundation formula and the Medicaid program. He pointed out that this cost will be paid through user fees, as contemplated by SB 131, or it will be passed on to all Alaskans through other taxes and decreased dividend payments.

To further emphasize the magnitude of the problem, he pointed out that the loss of productivity due to alcohol is \$500 million per year. He emphasized that the alcohol tax is one of the fairest ever devised.

[7:05:13 PM](#)

BANDON HOWARD, Amalga Distillery, Juneau, Alaska, testified in opposition to SB 131. He is starting a new distillery in an industry that is growing quickly. In 2003 there were about 40 licensed producers in the U.S. and now there are close to 600. He suggested that growth is a better way to generate revenue than increasing taxes. The industry has both capital and administrative barriers and the proposed tax will add to those. If SB 131 were to pass and become law, he will pay about \$8/bottle in state excise tax. He'll pass that on, but it will make his business less able to compete with producers outside the state.

[7:07:35 PM](#)

ROBERT MCCORMICK, Director, Glacier Brew House, Chugiak, Alaska, testified in opposition SB 131. He said he appreciates the need to find new sources of revenue for the state, but he believes that any tax should be broad based and not come from sources where Alaskans already pay more than average. Alaska has among the highest liquor taxes in the nation and doubling them doesn't make sense. While the tax is levied at the wholesale level, it's exponential from there with everyone adding their markup. A 3

ounce martini will likely cost the customer \$2.25 more, not 45 cents more, he said.

He pointed out that the brewing industry is one of the few industries in Alaska that is growing and it's grown without incentives from the state. Doubling the excise tax will only hurt the industry and drive sales online, he said

[7:11:11 PM](#)

MARCY LARSON, co-founder, Alaskan Brewing Company, Juneau, Alaska, stated that SB 131 has unintended consequences for the entire hospitality industry, not just the producers. She agreed with Mr. McCormick that the tax is exponential because it goes up every step along the way. That includes the city sales tax, which will be raised five percent. She opined that the extreme nature of the proposed tax will affect the health of the hospitality industry and "make it no longer hospitable."

MS. LARSON pointed out that the existing excise tax on alcohol makes it possible for someone in Oregon to buy Alaskan beer at the same price as in Alaska. If the tax is doubled, it will be cheaper to purchase Alaskan beer in Oregon than here where it's made. She proposed not raising the tax to such extreme levels so the hospitality industry can stay strong.

[7:14:08 PM](#)

SASSAN MOSSANEN, founding partner, Denali Brewing Company, Talkeetna, Alaska, testified in opposition to SB 131. He shared the history of the company and its robust growth over the last seven years. All their available capital is reinvested in Alaska. With 27 year-round employees they are the largest employer in Talkeetna and the largest consumer of energy.

He expressed concern that an unintended consequence will be that people will figure out a way to circumvent the system. He maintained that to create and maintain mental health, people need to be engaged in their community. "When you create a prohibitive state where people hide, it makes it harder to keep track of who is consuming what." He pointed out that during Prohibition, people drank more and community costs went up.

MR. MOSSANEN reported that Denali Brewing was approached last year by the state Division of Economic Development and the U.S. counterpart to engage in talks about increasing Arctic commerce. As a result, they collaborated with a brewery in Norway in an effort to further the economic benefits of alcoholic beverages produced in Alaska. He encouraged the committee to consider

creating an exemption for wineries and distilleries that small breweries currently enjoy.

[7:18:38 PM](#)

GARY SUPERMAN, co-owner, Hunger Hut Bar and Liquor Store, Nikiski, Alaska, testified in opposition to SB 131. He shared the history of his career and described himself as "strictly blue collar, working class." He lives among folks that get by on \$30,000-\$50,000 per year; they build their own homes. His perspective is that doubling the alcohol taxes is an assault on the blue color working class in Alaska. He stressed that the proposed alcohol and tobacco taxes coupled with the permanent fund proposals will consume a significant portion of the working class's disposable income. "If you're looking for a new revenue stream, I suggest that you look elsewhere for the sake of fairness," he said.

[7:23:00 PM](#)

KRISTEN MYLES, Director, Cook Inlet CHARR, Anchorage, Alaska, testified in opposition to SB 131. She pointed out how this tax will hurt those who serve alcohol. Speaking hypothetically, she said if Senator Stevens' martini costs \$8.50 he probably gives the server \$10. With the proposed tax the martini will cost closer to \$9.50. While the Senator is aware of the tax situation and may adjust his spending so the server isn't punished, the average patron likely won't give a thought to the dollar or so the server is losing on each drink sale. "Now we're punishing business owners, responsible consumers and employees," she said.

[7:24:47 PM](#)

RICK ARMSTRONG, owner, Baranof Island Brewing Company, and President, Brewers Guild of Alaska, Sitka, Alaska, testified in opposition to SB 131. He opined that the industry is already doing its fair share when it collects over \$40 million each year for the state. The proposed tax places a burden on the only small industry in Alaska that is growing and punishes responsible adults who are trying to make an honest living. Higher prices won't lower consumption, but force consumers to buy lower priced products elsewhere. He agreed with previous testimony that the dime a drink argument is inaccurate. If SB 131 passes and becomes law, Alaska will have the highest alcohol taxes in the nation. "I strive to be number 1, but not in this instance and I'm quite happy knowing that we're already at number 2," he said.

[7:26:58 PM](#)

BILL BUBBEL, The Pump House Restaurant, Fairbanks, Alaska, testified in opposition to SB 131. He maintained that even if oil were to return to \$100 per barrel, the tax wouldn't return to the existing level because taxes never go down. He said the distributor pays the tax initially and it trickles down to the end user which ultimately inhibits sales. Municipalities often compound the problem by following the state policy and raising local taxes. He asked the committee to consider something more manageable and perhaps take another look at casino gambling or a Powerball lottery.

[7:28:41 PM](#)

TIFFANY HALL, Executive Director, Recover Alaska, Anchorage, Alaska, testified in support of SB 131. She stated that increasing the alcohol tax will generate needed revenue and support long-standing public health and safety objectives. She maintained that the increased tax will save money because the cost of alcohol abuse to Alaskans totaled \$1.2 billion in 2010. She noted she would submit her sources via email. Beyond the financial benefits, raising the alcohol tax will save lives, improve the health of babies and reduce underage drinking.

She reported that the increases in the alcohol tax in 1983 and 2002 were followed by 29 percent and 11 percent decreases in the number of alcohol related deaths in the state. Furthermore, increased alcohol taxes has been found to reduce binge drinking during pregnancy, decrease the incidence of fetal alcohol syndrome, and significantly reduce youth alcohol consumption. She stressed the importance of this, highlighting that youth that drink before age 15 are 5 times more likely to abuse alcohol as adults.

She noted that the U.S. surgeon general and a host of others recommend increasing the excise tax on alcohol because research indicates that it is directly related to decreased alcohol-related deaths, traffic crashes, violent crime, and child abuse.

[7:31:51 PM](#)

MARK STAPLES, President, Midnight Sun Brewing, Anchorage, Alaska, testified in opposition to SB 131. He said his brewery employs over 50 people and sells product in four states in addition to Alaska. It's been exciting to be part of this growing industry, he said, but growth could cease and the industry could be in peril if this tax goes forward. He referenced the list of proposed new revenue components and highlighted that with this legislation the alcohol industry will

be the third highest taxed industry in the state, which seems unfair.

[7:34:21 PM](#)

TOM CHARD, Executive Director, Alaska Behavioral Health Association, Juneau, Alaska, testified in support of SB 131. He isn't opposed to responsible consumption, but as Mr. Jessee pointed out, the tax increase ultimately ends with the consumer and their relative consumption. His hope is that this will mitigate the impact on business. He maintained that the tax increases revenue to help address the budget shortfall, decreases the costs associated with problem drinking, and raises much needed revenue for prevention and treatment efforts. Studies show the link between increased alcohol tax and decreased consumption, particularly among youth. He cited the McDowell report that found that the impact of alcohol on the system totaled \$1.2 billion. He noted that last year a group gathered in Anchorage to talk about drug and alcohol treatment options. Last night about 400 people gathered to talk about how the 14 detox beds in Anchorage can serve a population of 300,000.

[7:36:56 PM](#)

PAM WATTS, Member, Alaska Behavioral Health Association, Juneau, Alaska, testified in support of SB 131. Having worked in the behavioral health field for over 30 years, she can attest to the damage that alcohol has caused to individuals, families and communities and the cost to the state. Over time and with flat funding access to treatment and detox has been reduced. Treatment costs money but without treatment and resources to help people become healthy and productive, even more money is spent on public safety, court costs, prisons, and spiraling healthcare costs. Alaska has the distinction of being the first in the nation in alcoholism, alcohol-related deaths, fetal alcohol spectrum disorder, and alcohol-related domestic violence, rape and suicide. Changing those numbers takes money and the increased excise tax on alcohol will help, she said.

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MICHAEL CERVANTES, owner/operator, The Banks Alehouse, Fairbanks, Alaska, testified in opposition to SB 131. He works with 15 different breweries in Alaska and employs 55 people. The proposed tax will have a ripple effect. He'll pass the tax along to the consumers and they will go elsewhere. That may force him to look for other breweries outside the state with cheaper products.

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CARMEN LUNDE, Director, Kodiak CHARR, Kodiak, Alaska, testified in opposition to SB 131. She related that when the alcohol industry was taxed some years ago she didn't believe she'd live long enough to see another proposed hike. That made Alaska the highest in the nation for alcohol taxes with a couple of small exceptions. She said the alcohol tax brings the state \$40 million per year and she doesn't believe the state should be looking at the hospitality industry for more money. The industry already pays far more than the national average and the proposal to double the tax is outrageous. She suggested cutting government spending, revisiting the tax cuts for oil, having a state lottery, but not touching the permanent fund.

[7:43:05 PM](#)

ROBIN MINARD, Director, Public Affairs, Matsu Health Foundation, Wasilla, Alaska, testified in support of SB 131, pointing to the many benefits it offers. She highlighted that a substantial body of evidence demonstrates that an increase in the tax on alcohol results in reduced alcohol consumption and improvements in various health outcomes, particularly for youth. She pointed out that alcohol consumption contributes to the three leading causes of death for adolescents, and that it is a risk factor for a host of negative behaviors and experiences. She cited 2009 data showing that Alaska's youth consumed 17.9 percent of alcohol sold in the state that year, and noted that the surgeon general and the Institute of Medicine have specifically advocated for increases of excise taxes for alcohol as a means to reduce underage drinking. She also discussed the documented benefit to adults of increased excise taxes on alcohol.

MS. MINARD summarized that the proposed tax increase will help keep underage drinking indicators moving in the right direction, reduce deaths caused by alcohol and save babies, all while helping reduce costs in corrections, youth justice, and healthcare.

[7:45:10 PM](#)

PHILLIP LICHT, Chair-elect, Advisory Board on Alcoholism and Drug Abuse (ABADA), Palmer, Alaska, testified in support of SB 131 on behalf of the ABADA Board, the Alaska Mental Health Board, and Thrive MatSu. He noted that he submitted written comments. He asked the committee to consider SB 131 as part of a comprehensive effort to address the budget deficit and not a tax bill targeting a single industry. "It's really part of a larger effort to reduce spending, increase revenue, and contain costs through reform," he said. SB 131 provides revenue that is needed

to maintain access to substance abuse treatment and prevention efforts along with health and safety services.

7:47:15 PM

JIM PSENAK, Alpine Inn, Sutton, Alaska, testified in opposition to SB 131. He directed attention to Section 3 of the bill and questioned the reason that retailers are mentioned because the tax will be levied before it reaches the retail level. Next, he asked if the committee understands that he will incur a \$40.58 increase on each case of distilled beverage he purchases. He estimated that the up-front cost of the additional tax will be \$1,000 to \$1,200 per week. He questioned how the State of Alaska can give away between \$700 million and \$2.4 billion every year in the permanent fund dividend and then expect private industry to support the government. He warned that at some point the federal government will reevaluate what it sends to Alaska.

7:50:20 PM

Finding no further comments, Chair Costello closed public testimony on SB 131 and held the bill in committee.

7:51:12 PM

There being no further business to come before the committee, Chair Costello adjourned the Senate Labor and Commerce Standing Committee meeting at 7:51 p.m.