

HOUSE FINANCE COMMITTEE

April 24, 2024

2:20 p.m.

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CALL TO ORDER

Co-Chair Edgmon called the House Finance Committee meeting to order at 2:20 p.m.

MEMBERS PRESENT

Representative Bryce Edgmon, Co-Chair
Representative DeLena Johnson, Co-Chair
Representative Julie Coulombe
Representative Mike Cronk
Representative Alyse Galvin
Representative Sara Hannan
Representative Andy Josephson
Representative Dan Ortiz
Representative Will Stapp
Representative Frank Tomaszewski

MEMBERS ABSENT

Representative Neal Foster, Co-Chair

ALSO PRESENT

Representative Louise Stutes, Sponsor; Donna Fox Page, Staff, Representative Louise Stutes; Glenn Haight, Commissioner, Commercial Fisheries Entry Commission, Department of Fish and Game; Representative Jesse Sumner, Sponsor; Dan Stickel, Chief Economist, Economic Research Group, Tax Division, Department of Revenue; Lacy Wilcox, Legislative Liaison, Alaska Marijuana Industry Association; Clark Bickford, Staff, Representative Sumner; Lacy Wilcox, THC Alaska, Juneau.

PRESENT VIA TELECONFERENCE

Jeffrey Schmitz, Director, Division of Motor Vehicles, Department of Administration; Sandra Moller, Director, Division of Community and Regional Affairs, Department of Commerce, Community, and Economic Development; Aaron Timian, Acting Chief, Statewide Abatement of Impaired Land

Section, Division of Mining, Land, and Water, Department of Natural Resources; Brandon Emmett, Co-Chair, Governor's Taskforce on Recreational Marijuana, Fairbanks; Bailey Stuart, Member, Alaska State Marijuana Control Board, Wasilla; Thomas Azzarella, Executive Director, Alaska After School Network, Anchorage; Aaron Stiassny, Self, Anchorage; Jana Weltzin, Co-Chair, Governor's Advisory Task Force on Marijuana, Anchorage; Tasha Grossl, Self, Soldotna; Sam Hachey, Owner, Tanana Herb Company, Fairbanks.

SUMMARY

HB 19 REGISTRATION OF BOATS: EXEMPTION

CSHB 19(FIN) was REPORTED out of committee with ten "do pass" recommendations and with one new fiscal impact note from the Department of Administration, one new fiscal impact note from the Department of Fish and Game, one new zero note from the Department of Commerce, Community and Economic Development, and one new zero note from the Department of Natural Resources.

HB 119 MARIJUANA TAX

HB 119 was HEARD and HELD in committee for further consideration.

HB 257 COOK INLET SEISMIC DATA

HB 257 was SCHEDULED but not HEARD.

Co-Chair Edgmon reviewed the meeting agenda.

#hb19

HOUSE BILL NO. 19

"An Act relating to the registration of commercial vessels; and providing for an effective date."

[2:21:35 PM](#)

Representative Josephson was prepared to take action on the first and third bill. He noted there had been no deadline given on HB 119.

[2:22:14 PM](#)

AT EASE

[2:22:51 PM](#)

RECONVENED

Co-Chair Edgmon asked for a recap of the bill.

REPRESENTATIVE LOUISE STUTES, SPONSOR, complied. She thanked the committee for the third hearing on the bill. The committee last heard the bill in March. She explained that it would eliminate duplicative registration requirements that resulted from the passage SB 92 in 2018. Specifically, the bill would remove the requirement for the United States Coast Guard (USCG) documented vessels with current Commercial Fisheries Entry Commission (CFEC) licenses to register every three years with the Division of Motor Vehicles (DMV). She continued that SB 92 had aimed to provide the state and local municipalities with a searchable database containing details of vessels and ownership to allow them to locate derelict vessel owners. The database existed for commercial fisheries with the CFEC.

Representative Stutes detailed that HB 19 would institute an annual \$8 fee for documented CFEC-registered vessels upon renewal or issuance of a license. The fee was in lieu of the \$24 fee the vessels were required to pay to the DMV every three years, which had not been enforced since the passage of SB 92. However, the Department of Public Safety (DPS) had indicated that if HB 19 did not pass, it would have no choice but to enforce having duplicative registration, and it would ticket vessels without. She emphasized the importance of the state's commercial fishing fleet. She thought the state should not require vessel owners to register every three years with the DMV as they were also required to register with CFEC.

Co-Chair Edgmon thought the bill was straightforward.

DONNA FOX PAGE, STAFF, REPRESENTATIVE LOUISE STUTES, noted there was one amendment.

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AT EASE

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RECONVENED

Co-Chair Edgmon asked for a review of the fiscal notes.

JEFFREY SCHMITZ, DIRECTOR, DIVISION OF MOTOR VEHICLES, DEPARTMENT OF ADMINISTRATION (via teleconference), discussed a fiscal note with OMB component number 2348. He stated that the fiscal note reflected the amount of money DMV would not be collecting if the bill passed, which was reflected in a \$38,000 decrement to the state. The funds would now be collected by CFEC. Page 2 of the fiscal note discussed the number of vessels that would typically be seen in the span of a year.

Co-Chair Edgmon clarified the OMB component number. He asked Department of Commerce, Community and Economic Development (DCCED) to review its fiscal note.

SANDRA MOLLER, DIRECTOR, DIVISION OF COMMUNITY AND REGIONAL AFFAIRS, DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT (via teleconference), reviewed a fiscal note with OMB component 2879. She explained that it was a zero fiscal note. She explained that funds were passed through to a grant recipient for the Alaska Marine Safety Education Association (AMSEA) and there would be no impact to the Division of Community and Regional Affairs.

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Co-Chair Edgmon moved to the fiscal note from CFEC.

GLENN HAIGHT, COMMISSIONER, COMMERCIAL FISHERIES ENTRY COMMISSION, DEPARTMENT OF FISH AND GAME, relayed that OMB component number 471 reflected the opposite of the fiscal note referenced by Mr. Schmitz, as CFEC would be receiving the funds. The note reflected roughly \$37.6 thousand dollars. There was a transition period in which the department would provide forgiveness for those vessels that had paid within the three-year period. He relayed that CFEC would take in about \$37 million annually, before moving the funds to the Department of Administration (DOA).

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AARON TIMIAN, ACTING CHIEF, STATEWIDE ABATEMENT OF IMPAIRED LAND SECTION, DIVISION OF MINING, LAND, AND WATER, DEPARTMENT OF NATURAL RESOURCES (via teleconference), reviewed FN 4, OMB component number 3002. He identified

that the note was zero fiscal note. He relayed that there were notes in the narrative section. The bill would impact how division verified vessel ownership. He noted that his section ran the Department of Natural Resources' Abandoned and Derelict Vessels Program, which contacted owners regarding derelict vessels. Vessels in between licensing with CFEC and DMV would have to receive documentation from USCG.

Co-Chair Edgmon moved to the one amendment.

Representative Ortiz MOVED to ADOPT Amendment 1, 33-LS0251\A.1 (Bullard, 2/7/24) (copy on file):

Page 1, lines 1 - 2:
Delete "; and providing for an effective date"

Page 2, line 20:
Delete "2024"
Insert "2025"

Page 2, line 26, through page 3, line 6:
Delete all material.

Co-Chair Edgmon OBJECTED for discussion.

Representative Ortiz addressed the amendment. The amendment was a clean-up amendment that changed the date in Section 2 to January 2025 to bring the bill language up to date. The amendment removed all language from Section 3 pertaining to the transition period for the CFEC fee, removed the retroactivity clause in Section 4, and removed the immediate effective date in Section 5. The amendment simply moved the past dates from the bill, since the transition period had lapsed.

Co-Chair Edgmon asked for verification the amendment was friendly.

Representative Stutes supported the amendment.

Co-Chair Edgmon relayed that the date correction reflected the fact that the bill had been around for some time.

Co-Chair Edgmon WITHDREW the OBJECTION.

There being NO further OBJECTION, it was so ordered.

Co-Chair Johnson MOVED to REPORT CSHB 19(FIN) out of committee with individual recommendations and the accompanying fiscal notes.

There being NO further OBJECTION, it was so ordered.

CSHB 19(FIN) was REPORTED out of committee with ten "do pass" recommendations and with one new fiscal impact note from the Department of Administration, one new fiscal impact note from the Department of Fish and Game, one new zero note from the Department of Commerce, Community and Economic Development, and one new zero note from the Department of Natural Resources.

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AT EASE

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RECONVENED

#hb119

HOUSE BILL NO. 119

"An Act relating to marijuana taxes; and providing for an effective date."

[2:40:04 PM](#)

REPRESENTATIVE JESSE SUMNER, SPONSOR, relayed that the bill had been brought forward by request of the governor after the Governor's Advisory Task Force on Recreational Marijuana issued recommendations to help the legal cannabis market. He referenced the marijuana regulation section of the bill and noted that an amendment had been adopted to move from annual to biannual registrations. An amendment had added a provision to allow marijuana retail facilities to resell to marijuana cultivation facilities or marijuana product manufacturing facilities. He referenced marijuana taxation section of the bill and noted that a \$12.50 per ounce excise tax for transfers from cultivation facilities was adopted as a transition tax to a 6 percent sales tax on retail sales to customers to effective January 1, 2025.

Representative Sumner clarified that the rate was a policy question for the committee, and the House Labor and Commerce Committee had felt comfortable with the 6 percent

level, which he thought would be revenue positive. He mentioned debate with Department of Revenue (DOR) on the subject. He pointed out that while production of tobacco was heavily subsidized and the consumer was heavily taxed, he was not aware of a substantial black-market industry with the product. He was not proposing to subsidize marijuana but felt that if the state did not punitively tax producers, it would prevent diversion into the black market of the product supply.

Representative Josephson asked about the point of reselling from retail to cultivators.

Representative Sumner recalled that the provision had been a task force recommendation. He supported the bill as currently written. He thought the reselling would involve unsold product being resold to be turned into other products.

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DAN STICKEL, CHIEF ECONOMIST, ECONOMIC RESEARCH GROUP, TAX DIVISION, DEPARTMENT OF REVENUE, provided a PowerPoint presentation titled "HB 119 Fiscal Analysis: House Finance Committee," dated April 24, 2024 (copy on file). He relayed that the department had been asked to supply a presentation that would walk through its most recent fiscal note. He highlighted that there was much uncertainty about the marijuana industry, and that it was in a period of change. The forecast and fiscal note were but one plausible scenario within a range of potential outcomes. He relayed that the thesis in DOR's spring revenue forecast was that the legal marijuana industry largely moved beyond the initial growth phases and was now in a mature industry situation. The department forecast that beyond the next year, total legal consumption would only increase at one percent per year, which was in line with the population growth assumption, with stabilization of the bud/flower component at 15 percent of total ounces.

Mr. Stickel continued that slide 4 showed a history and the spring forecast for total legal marijuana ounces of product, with different tax rates. The slide showed steady constant strong growth in the industry and in all product categories, until 2022. There was slower growth starting in 2022, with the bud/flower rate decreasing. The forecast

showed slow growth after the current fiscal year, with a stabilization of the shares of each category.

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Mr. Stickel tuned to slide 5 showing marijuana tax revenue showed strong growth in the first five years, peaking at just under \$30 million in FY 21 and FY 22 and a slight decrease in total marijuana revenue in FY 23. There was another slight decrease forecast for FY 24 followed by a fairly stable revenue forecast for the next several years. He pointed out the decrease in tax revenue being driven by lower collections in bud/flower as more consumption shifted to other product types.

Representative Galvin asked if Mr. Stickel was stating he was not certain about the outlook.

Mr. Stickel responded affirmatively. He explained that the decrease in revenue had moved away from the bud/flower and towards the immature plant and trim. The forecast predicted the change stabilized around current levels. Bud and flower were fairly stable. If the bud/flower share of consumption was reduced, there would most likely be reduced revenue.

Representative Galvin wanted to ensure they were appropriately articulating nuances that would change the forecast. She thought the slide might suggest that growth was flatlined. She thought Mr. Stickel was indicated that it was an unstable market presently.

Mr. Stickel agreed. The division chose one scenario it believed to be plausible and showed what had gone into the official revenue forecast. He noted that there was an alternate scenario at the end of the presentation that he thought might be of interest.

Representative Tomaszewski asked who determined what was bud/flower or trim. He asked if it was the industry that made the determination, if was there quality control, and if there was an inspector. He wondered who monitored the numbers.

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Mr. Stickel believed there was a component in the Alcohol and Marijuana Control Office (AMCO) office that might be

involved in the terms. He thought there was an audit and enforcement function within DOR.

LACY WILCOX, LEGISLATIVE LIAISON, ALASKA MARIJUANA INDUSTRY ASSOCIATION, introduced herself and relayed that she owned a marijuana company in Juneau.

Co-Chair Edgmon asked Ms. Wilcox to interpret slide 5.

Ms. Wilcox addressed Representative Tomaszewski's question about determination of marijuana "mix," and relayed that the cultivators made the determination of grade. She emphasized that Alaskans were not consuming less of the high value product, and inferred that there was cheating in order to evade taxation. She relayed that the process was not scientific, and that there was no enforcement of the declarations by industry.

Representative Tomaszewski stated that what Ms. Wilcox described was his take on the graph on slide 5. He was not sure that the trim or other parts were being used in products such as gummies.

Representative Hannan asked if it was safe to say that part of the goal in the tax reform proposal was to take away the incentive for the taxpayer to cheat by creating a single layer for all product types for taxation.

Ms. Wilcox answered that under the bill the tax burden shifted away from the cultivator and to the retailer. She explained that a cultivator would no longer be able to cheat if they wanted because they would not be the taxpayer.

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Representative Coulombe observed the product types and asked why the projection was for things to stay the same when there was growth in certain areas.

Mr. Stickel responded that from the division's standpoint, people would still be using bud/flower, and the division did not think it would be reasonable to show no consumption. The forecast was trying to pick a level of stabilization that seemed plausible. The forecast had used 15 percent as a reasonable target for stabilization to use in the revenue forecast, but acknowledged it was an

uncertain number. He cited that the most recent data from February showed bud/flower at just over 15 percent of reported legal consumption.

Representative Coulombe asked about Mr. Stickel's thoughts on the explanation of the graph, and the assertion that there was cheating to avoid higher taxes.

Mr. Stickel stated the division understood there was a shift in the product mix taking place, and that there may be some reporting issues for audit and enforcement staff to look at. The division understood that there were changes with consumption considering value-added productions. He noted that the division's goal was to provide one reasonable and plausible baseline scenario for the forecast. He reiterated that there was an alternative scenario at the end of the presentation.

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Representative Josephson stated that under the bill the cultivator would grow richer because there was no tax taken. He asked how the extra income would make it to retailers. He wondered if the price would stay high and not have any net result on the black market as a consequence.

Ms. Wilcox responded that in a free market she could not guarantee that the price would be reduced at wholesale based on the change proposed in the bill, but she expected it would for competitive reasons. She thought a cultivator would be deeply incentivized to reduce its price. If they did not reduce the price the retailer may not buy from the cultivator. She proposed that currently there was an artificial floor that did not allow her to reduce her price below \$800/pound, which she thought was illogical. She assumed that if cultivators reduced the price, the retailer could pass on the savings to the consumer as an enticement. She thought it would not be known until the change was made.

Representative Josephson asked how they knew some of the industry's problems were not just due to too much product.

Ms. Wilcox responded that the ballot measure did not consider a license cap. She thought there would be natural attrition. She could not predict what the behavior of the market would be with respect to Representative Josephson's

question. She emphasized the need for a healthy stable tax structure as the base of the market to deal with the black market. She emphasized the need for robust enforcement and reliable taxation. She mentioned a lack of banking, loans, and reliable insurance. She thought there was risk in the business. She argued that the industry was asking for a fundamental economic equilibrium. She thought commonsense change was needed.

Representative Josephson stated his understanding that there was no robust enforcement. He thought it was a self-enforced model.

Ms. Wilcox responded that there was self-declaring tax reporting model in which she declared what she owed. She noted that the DOR criminal investigations unit could show up, but she did not know if there were resources for it to do so. She noted that AMCO could show up and watch the harvest, but did not think there was resources to do so. She described the process as an honor system. She was trying to be honorable as a taxpayer. She thought there was less enforcement than there could be.

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Representative Josephson respected that individuals were honorable, but he noted that Ms. Wilcox had also stated there was cheating going on. He asked that if there was an un-factual reporting mix, one could expect cultivators to say everything was bud/flower in order to drive up the price.

Ms. Wilcox answered there was incentive to declare things differently than they were. She used an analogy to describe the ability of retailers to sell things differently than purchased. She thought declaring goods for taxes was a different topic.

Mr. Stickel thought the discussion shed light on the challenge DOR faced in coming up with a forecast for the variables. He moved to slide 6 titled "Key Assumptions: HB 119." He explained that HB 119 had two tax changes. On July 1 of the current year, all product types would move to a \$12.50 per ounce wholesale tax; and on January 1, of 2025 all marijuana would move to a 6 percent retail tax. He continued that one recent change he had made to the bill

analysis was to incorporate an elasticity analysis. The analysis signified that to the extent that the tax changes resulted in a reduction in price to the customer, DOR expected it to translate to a slight increase in demand in the legal marijuana market. He cited a little under 5 percent reduction in price from the tax change, with the assumption of a corresponding increase in demand of almost 5 percent as a result.

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Representative Stapp found the idea of moving to a 6 percent sales tax was a more efficient way to tax something as it was indexed to the price of the goods. He thought the change would give more flexibility. He preferred the proposed tax structure. He asked Mr. Stickel to comment on how a percentage of retail tax tracked better with market performance.

Mr. Stickel pondered that DOR had not assumed there would be changes in behavior and product mix specific to the retail tax, other than a response to the change in price overall. By moving to the retail tax, especially lower value product would no longer be burdened by a high wholesale tax and there was a possibility that there would be a stronger support for lower value product.

Representative Stapp asked for verification that DOR did not take into account any structural change such as deadweight loss.

Mr. Stickel answered "no," and clarified that DOR assumed no changes in behavior other than a small increase in legal demand. He moved to slide 7 and discussed the retail sales value projections under current law and under HB 119. He cited that total retail sales value was \$279 million in FY 22 and \$281 million in FY 23. He discussed graph assumptions including inflation and other factors such as an estimated increase in demand due to lowered taxes. Over the long run, even as the state collected lower tax, there was a higher total value being paid by the consumer.

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Mr. Stickel turned to slide 8 showing spring forecast 2024 versus HB 119 revenue. He noted that DOR was estimating that HB 119 would result in a tax reduction, and most so in

FY 25. The switch from the wholesale to retail tax created a small increase for FY 25.

Representative Galvin stated her understanding that instead of taxing the farmers the bill would reduce the tax to the farmers and add a sales tax to the consumer.

Mr. Stickel agreed.

Representative Galvin asked if there had been any consideration of first-year revenue loss after lowering taxes on the grower, and if there had been thought of immediately shifting the tax to the consumer.

Representative Sumner noted that the previous slide indicated that DOR had not accounted for double taxation. The abrupt switch from cultivator tax to retail tax would result in substantial double taxation, which was the reason for a transition period. He considered that there would be substantial market disruption with a sharp change between the two tax methods.

CLARK BICKFORD, STAFF, REPRESENTATIVE SUMNER, noted an individual online.

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Representative Galvin asked why the bill did not propose to immediately switch to taxing the consumer at 6 percent instead of lowering the grower's tax. She asked of the policy standpoint. She wondered if time was needed to set up the sales tax.

Representative Sumner responded that if a retail store paid the \$800 tax passed through from the cultivator, and also paid a sales tax the following month, the product acquired during the period would be double taxed. He thought there would be several market distortions if there were to be no transition period. He pointed out that some part of inventory would inevitably be double-taxed.

Representative Galvin believed she understood the sponsor's line of thought.

Representative Josephson asked why the 18-month transition proposed a \$12.50 rate when the lowest rate had been \$15 per ounce.

Representative Sumner believed it had been felt that the industry needed immediate tax relief and thought the problem of addressing double taxation would be best handled by lowering the tax. He noted that the transition was mid-way through the retail year. He reiterated that there would be a period of time in which industry's inventory would be double-taxed.

Co-Chair Edgmon asked if the bill was brought forward with the help of the industry.

Representative Sumner answered that there were a number of recommendations from the governor's task force including the sales tax transition and the tax relief recommendations. The sponsor decided not to pursue all of the tax force recommendations.

Representative Josephson asked why 6 percent rate was chosen, which he thought was the lowest in the nation.

Representative Sumner responded that the rate had been changed a couple of times in the House Labor and Commerce Committee. There had been a change in the rate from 3 percent to 10 percent, and then back to 6 percent. The committee felt, based upon its own financial projections, that the 6 percent rate would represent a slight revenue increase over time. He understood there was some dispute about the projection. He believed the product mix would continue to have a decline in bud. He thought if cultivators were well-intentioned, competitors incentivized to cheat would outcompete them, and under the current tax scheme there would be a continued decline in tax revenue. He thought even at the 6 percent rate, the proposed change would result in increased state revenue.

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Co-Chair Edgmon thought there had been mention of marijuana being a mature industry. He got the strong sense that the industry was in its nascent stages. He recalled that the initiative [to legalize marijuana] had passed in 2014. He asked if he had made a fair characterization.

Representative Sumner agreed. He thought there was substantial potential for growth in recapturing the black-market sales. He pondered that potential black-market sales

quality was unknown and could be as much as equivalent to legal sales. He pointed out that product consumption had increased. He took issue with part of the DOR modelling that did not include an inflation adjustment.

Mr. Stickel remarked that DOR's HB 119 assumption did assume retail value would grow with 2.5 percent inflation as well as 1 percent consumption growth. He pointed out the slope on the orange line was steeper than the blue line. He responded to a question by Representative Galvin related to the two tax changes. He relayed that from DOR's standpoint, a change to a wholesale tax rate of \$12.50 was fairly easy in the system; however, the change to a retail tax would be creating a new tax type within the division and was more challenging process from an administrative and programming standpoint. He specified that January 1 was an aggressive timeline to roll out a retail sales tax. He mentioned that the original timeline had included a 12-month lead time for transitioning to a retail tax.

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Representative Stapp asked if there was any issue with using existing infrastructure in municipalities that already collected sales taxes, or if DOR had to build a new infrastructure.

Mr. Stickel deferred the question and stated his focus was on the revenue estimation side of things. He thought one challenge was that not all municipalities would have a tax or would tax in the same way.

Mr. Stickel turned to slide 9 and discussed a fiscal note comparison from the version put out on January 19 versus the updated version DOR put out on April 11. There had been a small change in the baseline revenue forecast based on recent actual data, including an increase to the marijuana forecast from the spring to the fall. The main reason the fiscal note changed was due to changes in the estimate for the retail tax base under HB 119. There were two components, including updated retail sales data from AMCO. He noted that FY 23 retail sales value came in lower than expected, which supported the assumption that retail prices were under pressure and the industry was under pressure. Another change was to methodology, which he thought was an improvement. The January version of the fiscal note applied a 6 percent retail tax to the retail sales value without

adjusting for the wholesale tax. The change was to back out the wholesale tax when coming up with an estimated tax base for the retail sales value. The combination of the changes showed in negative impacts to revenue shown in the updated fiscal note dated April 11, and showed about \$3 million more impact than in the earlier fiscal note.

Mr. Stickel noted that the last two slides spoke to alternative scenarios. He moved to slide 10, which showed options under different tax rates. To reach revenue neutral under the assumptions that were discussed would require a retail tax rate between 8 percent and 9 percent.

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Mr. Stickel turned to slide 11 showing alternative scenario with different assumptions. He noted that DOR had the ability to run many different scenarios. The scenario on the slide showed the official spring forecast in the solid blue line, and what the forecast would look like if the bud and flower percentage stabilized at 5 percent of total consumption instead of 15 percent. He observed that the change caused an approximately \$4 million decrease to the revenue forecast. The scenario considered different consumer and industry (with HB 119) and there was a 20 percent increase in consumption with the tax change along with a slightly higher long term growth rate. The assumption resulted in the bill being revenue neutral/positive by the end of the forecast period, even at the 6 percent tax rate. He thought the slide showed that different assumptions resulted in materially different results.

Representative Hannan asked for a status update on the tax repository for the tax collection. She foresaw that there was a far greater number of retailers than cultivators and were the bill to pass there would be a far greater number of cash deposits necessary. She referenced funding for DOR to build a cash depository vault in Juneau. She had not been able to get an answer from the department.

Mr. Stickel responded that he was not prepared to speak to the question and would pass it on.

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Representative Stapp asked about the 20 percent increase in sales and if the graph was modelled from slide 10. He thought the assumptions on slide 10 assumed the same consumer behavior regardless of the tax amount.

Mr. Stickel agreed.

Representative Stapp emphasized that taxes influenced behavior. He cited that establishments in Juneau charged \$17.50 in tax for a pack of cigarettes, presumably so that people would smoke less. He questioned why DOR would model the same demand structure for a 4 percent and 10 percent tax rate.

Mr. Stickel replied that on slide 10, there was an elasticity of demand assumption around the changes of price built into the 2025 assumptions. On slide 10, the graph modelled some consumer response to a higher or lower tax rate, but beyond that the assumptions for underlying growth were the same.

Mr. Stickel concluded his presentation. He was happy to model other scenarios if the committee had any it wanted to see.

Representative Galvin looked at slide 10, and asked if DOR had considered research in other states that might show how Alaska compared to other markets in product pricing and taxes.

Mr. Stickel answered it had not explicitly been included into the analysis. He had seen information that showed Alaska was a fairly high price jurisdiction.

Representative Galvin understood that 10 percent was the floor of what other states were adding to the price of the products. She wondered if she had heard directly.

Mr. Stickel responded that he did not have the data on hand to confirm the information. He questioned how the amount related to municipal taxation. He noted that different states had a variety of different taxes to compare including marijuana-specific taxes or general sales taxes.

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Representative Galvin asked if the proposed marijuana tax would be on top of existing taxes in Southeast communities.

Mr. Stickel responded that currently DOR levied the wholesale tax, which then was rolled into the retail price, after which the municipal tax was applied. He agreed that there was currently double taxation with a wholesale tax and a municipal retail tax. Under HB 119 there would not be a wholesale tax, but rather a retail price; and state and municipality would apply tax to the retail price.

Representative Coulombe did not understand why the spring forecast was flat.

Mr. Stickel explained that for FY 23 and FY 24, the change in product mix roughly offsets increasing overall consumption. There was growing overall consumption and a decreasing share of bud and flower, and the impacts roughly offset for a fairly flat forecast. For FY 25 and beyond, DOR was forecasting relative stability in the baseline. As was shown on slide 11, if one assumed more decrease in the bud and flower share of product, there would be a decrease in revenue.

Representative Coulombe asked why the presentation assumed it was stabilized.

Mr. Stickel relayed that DOR was looking at data showing that at the time of the forecast, bud/flower was representing a little over 17 percent of total consumption. The department believed bud and flower would not go all the way to zero and believed that there would be bud/flower consumption. Internally, DOR had picked a nice round number that was thought to be a reasonable and plausible assumption within the forecast working group, while acknowledging the uncertainty around the assumption.

Representative Tomaszewski thought he heard the cultivators would not be paying tax but considered that the tax was just going down to \$12.50 for wholesale.

Mr. Stickel answered that the cultivator tax under HB 119 would reduce to \$12.50 per ounce in July 2024 and would be eliminated on January 1, 2025, and be replaced by the retail tax.

Representative Tomaszewski asked for the number of cultivators and retailers in the state.

Mr. Stickel did not have the number.

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Co-Chair Edgmon OPENED public testimony.

LACY WILCOX, THC ALASKA, JUNEAU, referenced remarks by Mr. Stickel with regard to the assumption that some people would continue to sell bud. She relayed that her company had never cheated. She informed that her company employed 10 people and paid a good wage with health insurance benefits. She relayed that she had worked in public policy and in the capitol building for several years. She thought the tax language in the ballot measure had been flawed and had created an artificial tax floor. She pointed out that the industry had been around for ten years and emphasized that her business would close if the tax structure was not fixed. She offered to show her books to committee members upon request. She thanked members for their time.

Co-Chair Edgmon asked if the bill was the solution Ms. Wilcox was seeking.

Ms. Wilcox supported the bill as written. She relayed that if the bill was to increase the retail tax to 6 percent, she would no longer support the bill. She supported the bill at a 3 percent retail tax rate. She thought the \$12.50 short term reduction was a "band aid" for a bad tax situation. She supported the current version of the bill. She stated the industry was new and was not certain what would happen on a federal level. She emphasized that her business would not survive if action was not taken.

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Representative Stapp asked about the amount of current license fees for growers.

Ms. Wilcox replied that she paid \$7,500 per year.

Representative Stapp asked if the amount was fixed at the \$7,500 amount.

Ms. Wilcox agreed.

Representative Stapp asked for the penalty for unlicensed growers in the state.

Ms. Wilcox replied that she had not seen enforcement on the black market in a long time. She referenced a large bust in Homer shortly after the ballot measure, which had resulted in a big civil penalty 7 years ago.

Representative Stapp thought one way to combat the black market was to raise the fees.

Ms. Wilcox agreed.

Representative Josephson stated that slide 11 had seemed most telling. He was concerned that the state would not return to its profit level of \$28 million in revenue until well into the 2030's.

Ms. Wilcox agreed.

Representative Josephson asked about the \$7,500 licensing fee. He asked what the industry was getting for that amount, since the state was not regulating the industry much.

Ms. Wilcox answered that the industry was highly regulated. The DCCED Marijuana Control Office enforced the regulations to the best degree it could. She believed the \$7,500 she paid was too much because there was a surplus going into the general fund. There was a request to make the fee biennial. She thought the tax declaration was less regulated. She stressed that her costs were huge and not decreasing.

[3:51:38 PM](#)

Representative Josephson did not have any idea of how many people were getting sanctioned for violations.

Ms. Wilcox answered that there was a fine and fee schedule for all regulations. She mentioned that the business could be fined for an odor violation, or non-timely tax payment, lack of appropriate signage, or other violations.

Representative Josephson thought the regulations were all knowable in 2014.

Ms. Wilcox replied in the negative. She explained that marijuana was legalized in 2014 but the regulations were not known. She relayed that often times the industry had opposed a proposed penalty or regulation. The ballot measure did not instruct a set of regulations. She relayed that she willingly pursued a business under the landscape. In hindsight she thought that if she had known the parameters in 2014, she may have chosen a different business.

Representative Josephson stated there was a lot that had gone on regulatorily that the legislature was unaware of. He recalled that the only bill the legislature engaged in had dealt with how many plants a person could have at home.

Co-Chair Edgmon thought the discovery process with the issue, which fed into the bill and policy decision, was significant. He noted that there were many testifiers waiting to speak.

[3:55:24 PM](#)

BRANDON EMMETT, CO-CHAIR, GOVERNOR'S TASKFORCE ON RECREATIONAL MARIJUANA, FAIRBANKS (via teleconference), supported the bill. He relayed that the task force felt the bill was in the best interest of the Alaskan economy. He concurred with earlier statements that the industry was suffering, and that tax reform was needed quickly to make the industry sustainable.

Representative Galvin asked if Mr. Emmett concurred that 6 percent was the right number to detract enough of the black market, so it was no longer a problem for growers.

[Mr. Emmett was no longer available online]

[3:58:27 PM](#)

BAILEY STUART, MEMBER, ALASKA STATE MARIJUANA CONTROL BOARD, WASILLA (via teleconference), shared that she had participated in the industry since its beginning. She relayed that she was a member of the Marijuana Control Board. She held multiple marijuana retail licenses. She supported the bill. She thought HB 119 would provide the state future revenue and thought federal legalization would result in most cannabis being imported into the state. She

noted a decline in marijuana tax. She thought many cultivators were operating at a loss and thought the tax burden was a factor. She cited a loss of 23 cannabis businesses the previous year, most which were cultivators. She supported paying taxes on a quarterly basis as proposed in the bill. She mentioned the burden of paying tax in cash with only one cash collection site. She discussed the burden of yearly renewals.

Ms. Stuart stated that as of April 30, 2023, the AMCO office reported 246 cultivators, which had been reduced to 223. She cited that in the current year there were already 9 surrendered licenses. She noted that in statute there was a limit on licensing fees, and thought the current license was above the amount.

Representative Josephson asked if Washington State had a 35 percent tax rate. He thought the Chamber of Commerce in Washington had indicated that legal marijuana was still cheaper than black market products.

Ms. Stuart believed Representative Josephson was correct, but she was not certain. She did know that the state of Washington had an issue with illicit cannabis.

[4:02:51 PM](#)

THOMAS AZZARELLA, EXECUTIVE DIRECTOR, ALASKA AFTER SCHOOL NETWORK, ANCHORAGE (via teleconference), testified in support of the bill. He relayed that the Alaska After School Network was a program of the Alaska Children's Trust (ACT), and was a coalition representing 360 before school, after school, and summer learning programs in the state. He requested that the committee examine how the changes in taxation structure and rates would impact revenue and its effect on programs that were recipients of the tax funding. He noted that currently the tax revenue supported the Marijuana Education Treatment Fund, the Recidivism Reduction Fund, and the General Fund. He thought changes to the funding could be positive or negative.

Mr. Azzarella discussed the Marijuana Education Treatment Fund, which was invested in five areas including the Positive Youth Development After School Grant Program, which funded nine grantees. He mentioned programming in suicide prevention programs, substance abuse treatment and prevention, juvenile justice, and counseling. He listed

public education with facts about marijuana use and encouraging responsible consumption for adults. He discussed policy supports, which encouraged the state to partner with other public health partners to ensure prevention. He discussed data and research to determine prevalence of use.

Mr. Azzarella discussed the Positive Youth Development After School Grant Program, which invested in nine organizations, which funded 39 programs throughout the state. The programs focused on engaging students in fifth through eighth grade in positive, prosocial activities to reduce the risk of engaging in underage substance abuse such as marijuana. The focus on middle school age children had been an intention choice in order to stop substance abuse before it started. The Youth Risk Behavioral Surveillance Survey showed that Alaskans had a higher risk of engaging in early onset substance abuse than the national average. He encouraged the committee to consider ways that the tax structure changes would not impact revenue used for after school programs and prevention effort.

[4:07:50 PM](#)

Mr. Emmett realized that he supported the bill in its current iteration. He reiterated that the task force had a recommendation for a 3 percent tax, which it considered to be sustainable. The task force supported biennial licensing. He noted that many on the task force had expected the taxes to be adjusted several years previously.

[4:09:34 PM](#)

AARON STIASSNY, SELF, ANCHORAGE (via teleconference), spoke in support of the bill. He was a member of the governor's task force and was a retail business owner. He was also a member of the industry association. He had mixed feeling about shifting the tax from the cultivation to the retail sector. He thought the current tax structure was no longer working effectively for the state. He thought with no change to the structure, there would be lost revenue. He thought the downturn in the market had created inequity. He echoed some of the concerns expressed about tax collection with only a single tax collection site. He felt there were bad actors taking advantage of the system and supported a more equitable system.

Mr. Stiassny noted that there were over 40 states that had some form of legalized marijuana. He expected changes at the federal level and thought the current structure would make it unlikely Alaskan businesses could compete. He mentioned competition with the black market. He mentioned a study of cannabis prices and mentioned that Alaska had been the costliest state. He supported the bill as originally proposed by the governor's task force. He supported immediate relief for the excise tax to be applied at \$12.50 per ounce.

Co-Chair Edgmon clarified that the last bill on the agenda would be rescheduled.

Representative Josephson asked if Mr. Stiassny was familiar with a policy study called the International Cannabis Policy Study. The study reported that only a quarter of people in a survey on the subject of the black market cited price as being the cause for the black market, and noted there were many other reasons for the black market.

Mr. Stiassny was not aware of the study.

[4:15:46 PM](#)

JANA WELTZIN, CO-CHAIR, GOVERNOR'S ADVISORY TASK FORCE ON MARIJUANA, ANCHORAGE (via teleconference), clarified that the ballot initiative set a stagnant price for marijuana. She thought stand-alone cultivators were not integrated. She discussed the costliness of growing. She thought the industry was the largest cash crop in the state. She noted that all marijuana businesses were subject to IRS Code - Section 280E, which affected the ability of deducting items on taxes. She mentioned Washington's tax rate of over 30 percent. She mentioned visiting Bethel and observing high prices. She considered that rural communities would be disproportionately impacted by any rise in taxes.

Ms. Weltzin discussed the marijuana black market and emphasized the price of retail marijuana was the highest in the nation. She stressed the need for tax relief. She was concerned about the sale of out of state products. She considered that a 6 percent retail tax was too high but was better than the existing structure.

[4:21:28 PM](#)

TASHA GROSSL, SELF, SOLDOTNA (via teleconference), shared that she owned and operated the Lady Gray business for seven years and had a cultivation license and a manufacturing license. Her business specialized in edibles. She had been in the state for over 30 years and was a University of Alaska graduate. She was in full support of the bill. She thought the industry in its current structure was dying. She discussed the loopholes in the farm bill that allowed for hemp-derived THC to be sold on the internet as CBD. She mentioned advertising reels on Instagram and Facebook. She thought the excise tax was one of the largest problems to overcome.

Ms. Grossl contended that business owners were constantly trying to voice ideas to AMCO to help support the industry and to help create a level playing field to compete with the black market. She discussed black market versus retail prices, as well as hemp-derived THC ordered from the internet at half the price. She thought the forecast had been bleak and mentioned advocating for necessary changes without response. She thought many business expansion plans had been set aside or postponed. She discussed Alaska products, and the support of other Alaskan businesses. She discussed efforts to create wellness products while educating the public and keeping safety at the forefront.

Ms. Grossl thought the state voters agreed with the industry in the desire to treat marijuana like alcohol. She cited that cannabis business owners were 40 percent more likely to be audited by the IRS and paid higher taxes due to the Section 280E tax code. She discussed being kicked out of banks. She was in full support of the bill. She asserted that businesses wanted to remain relevant and had worked hard to develop the business.

[4:28:03 PM](#)

SAM HACHEY, OWNER, TANANA HERB COMPANY, FAIRBANKS (via teleconference), relayed that he was a member of the governor's task force. He discussed the arduous licensing process to grow his business. He echoed earlier comments and stressed that the price of cannabis had not changed in over 20 years. He discussed being a cultivator and the cost of production. He noted that everything was imported at a higher cost and discussed transport challenges. He mentioned the tax code not being able to take advantage of

basic write offs. He discussed banking challenges. He mentioned the cost and the tax collected.

Mr. Hachey noted that half of what Washington produced was outdoor flower, but in Alaska most of the industry was conducted indoors. He thought it was very difficult to compare other states because they did not have the same playing field. He reminded the committee that the Alaska marijuana industry was the only industry 100 percent owned by Alaskans. He emphasized there was zero money from the federal government or outside interests. He thought the bill only impacted Alaskans. He fully supported the bill and the 3 percent tax rate in the original bill.

Representative Stapp thanked Mr. Hachey for calling in.

Co-Chair Edgmon appreciated the testimony of all participants.

Co-Chair Edgmon CLOSED public testimony. He set an amendment deadline for Tuesday, April 30 at 5:00 p.m.

HB 119 was HEARD and HELD in committee for further consideration.

Co-Chair Edgmon reviewed the schedule for the following meeting.

ADJOURNMENT

[4:33:44 PM](#)

The meeting was adjourned at 4:33 p.m.