

ALASKA LEGISLATURE COMMITTEE BILL FILES - 1987 - 1988 8879

CSSHB 252 cont., HB 260 313

Currently, SBS is funded by contributions by the employer in an amount equal to 12.26 percent of each of its employee's wages, up to the social security taxable wage base. Half of the contribution comes from a mandatory before-tax reduction in employee wages. Therefore, in effect, the employer and employee each contribute 6.13 percent of wages. Under the sponsor substitute, the entire amount of both the employer and employee portions of the contribution will be deposited in the annuity account. Employees will be able to elect additional tax-free wage reductions to pay for insurance benefits available under the cafeteria plan. Of course, an employee's election of further wage reductions to purchase cafeteria plan benefits will result in lower take-home pay. This result could be avoided if some lesser fixed portion of the employee's current 6.13 percent wage reduction is required to be deposited in the annuity account. The remaining portion would then be available for the employee to allocate to cafeteria plan benefits (tax-free) or to increase take-home pay (taxable earnings).

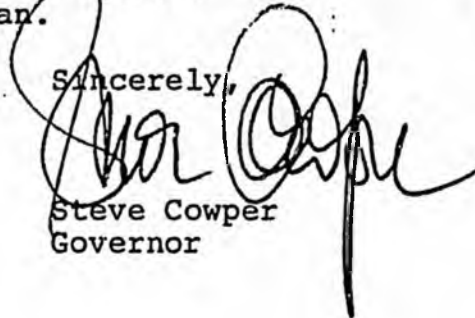
Because of the varying financial situations among state employees and varying needs for insurance benefits, my Administration has not, at this point, attempted to select a partial amount of the employee contribution to be made available to purchase those benefits. As I mentioned earlier, the bill simply requires the full 6.13 percent employee contribution to be deposited in the employee's annuity account. The division of retirement and benefits will prepare written materials to be sent to all SBS members explaining the need for and provisions of this bill. In addition, informational meetings are being planned by the division to be held throughout the state. At these meetings, SBS members will be afforded the opportunity to express their preferences as to whether the bill should make part or all of the employee contribution available for members to allocate to purchase of insurance benefits and increase in take-home pay instead of requiring the entire employee contribution to be deposited in the annuity account.

Two additional amendments to the SBS statutes are included in the sponsor substitute. First, the option of selecting dependent care benefits is added to the cafeteria plan. Section 5 of the bill. Second, provisions that protect SBS contributions from certain alienations and attachments are specifically added to the statute. Section 7 of the bill. Although the SBS Annuity Plan already provides for this protection (as do all private pension plans and the state's teachers' and public employees' retirement systems), the terms of the plan are only readily available in pamphlets

printed by DOA's division of retirement and benefits. Inclusion of the safeguard provisions in the statute will better alert SBS members and their creditors to the protection.

I urge prompt passage of this sponsor substitute to assure the integrity of our SBS plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Cowper", written over the typed name and title.

Steve Cowper  
Governor

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200

The Honorable Al Adams  
Chairman, House Finance Committee  
Alaska House of Representatives  
P.O. Box V  
Juneau, Alaska 99811

April 8, 1988

Dear Representative Adams:

The purpose of this letter is to apprise your committee of a provision in SSHB 252 that was deleted by the House State Affairs Committee.

Section 3 of SSHB 252 would have reduced both employer and employee contributions to the Supplemental Benefits System by any mandatory payments to the federal social security system. CSSS HB 252 (SA) does not include this section.

I respectfully request the House Finance Committee to consider reinstating this provision for two reasons:

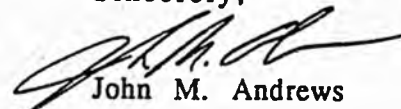
1. For employees hired after March 31, 1986, the state and employees are already required to pay premiums to the federal government for the medicare portion of social security. This currently costs the State ~~\$650,000 per year~~, and costs employees an equal amount. Reinstating the provision will represent immediate savings to both the State and employees. Furthermore, these savings will increase as turnover in the workforce produces more and more employees subject to this participation. *1.5 million in 1st full year of operation*
2. We expect Congress to consider, but not necessarily to pass this year, a provision to require medicare premiums for all employees regardless of hire date. In addition, some time down the road, they will probably once again consider compelling full participation of state employees in the social security system. Reverting back to the provisions of SSHB 252 will protect the state and employees from double payment i.e making contributions to SBS and at the same time being required to participate, partially or fully, in social security.

Rep Al Adams

April 8, 1988

Attached is Section 3 of SSHB 252 which was deleted in the House State Affairs committee. I hope this information will be of assistance to you.

Sincerely,



John M. Andrews  
Commissioner

Attachment

Sponsor Substitute House Bill 252

Sec. 3 AS 39.30.150 is amended by adding a new subsection to read:

(d) If a participating employer is required by federal law to participate in any part of the federal social security system, (1) the employer contribution required by (a) of this section must be reduced by either the amount required to be paid by the employer to the social security system on behalf of the employee, or 6.13 percent whichever is less, and (2) the employee wage reduction required by (a) of this section must be reduced by the amount required to be paid by the employee to the social security system or 6.13 percent whichever is less.



Alaska Public  
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

MEMORANDUM

TO: Representative Fran Ulmer, Chairperson  
House State Affairs Committee

FROM: Cherie Shelley *CS*

SUBJECT: HB 252

DATE: February 23, 1988

APEA has reviewed the Department of Administrations proposed letter and draft ballot (attached) regarding the Supplemental Benefits System. The proposed letter is clear and concise but both does not address Section 3 of the legislation which would reduce employer and employee contributions to the SBS annuity account. In order to make an informed choice that issue should be resolved prior, to an election. An employee hired after April 1986 may vote for a lower employee contribution to the annuity account believing the employer contribution would be 6.13% when in fact it would be 4.68% as the legislation is currently drafted.

As I indicated previously, APEA is concerned about automatic provision of the legislation which would reduce employer and employee contributions to the annuity program for mandatory social security contributions. APEA believes each social security change should be scrutinized carefully for its impact on the SBS and change should then be made as the legislature deems as appropriate.

In the present case, APEA opposes reducing employees' benefits by 1.45%. The state's contributions to the SBS and the 1.45% to social security for those employees hired after April 1986 it is approximately the same as the current level of social security contributions. The increased cost which the state is currently paying is more than offset by the millions of dollars in employer savings resulting from participation in the SBS rather than social security.

In reference to the draft ballot, APEA would like to see the ballot provide for only two choices. This legislation is quite

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Telephone: (907) 274-1688

Juneau Field Office  
227 4th Street  
Juneau, AK 99801  
Telephone: (907) 586-6305

complex and expanding the options available creates unnecessary confusion about which option to select. APEA's preference on the ballot is two options including an annuity of 6.13% and an annuity of 4.25%. The SBS was designed primarily as a retirement system to replace social security, not provide additional take home dollars today.

I would be happy to answer any questions you may have.

Attachment

cc: House State Affairs Committee

CS/kr



Alaska Public  
Employees Association **APEA**

State Headquarters: 340 N. Franklin, Juneau, AK 99801 (907) 586-2334

MEMORANDUM

TO: Representative Al Adams, Chairman  
House Finance Committee

FROM: Cherie Shelley

SUBJECT: CSHB 252  
Supplemental Benefits System

DATE: April 8, 1988

CSHB 252 is vital legislation for the Supplemental Benefits System. As a result of the federal Tax Reform Act of 1986, the Supplemental Benefits System must be amended prior to January 1, 1989 or the SBS contributions will be subject to federal taxation. Such taxation would adversely affect all SBS participants, which include executive, legislative and judicial branch employees.

The legislation amends the Supplemental Benefits System to provide for both the employer's and the employee's contributions to be deposited in the employee's SBS annuity account. This is consistent with the recent Department of Administration survey in which 84 percent of the employees responding voted for the maximum contribution to the annuity account. Supplemental insurance previously available under SBS may be purchase from the employee's regular paycheck. However the legislation allows the insurance premium to be deducted prior to federal taxes being withheld.

APEA has been advised that the Department of Administration will be submitting an amendment to CSHB 252 which would automatically reduce both the employer and the employee contributions to the SBS annuity account by any mandated contributions to the federal social security system. This language, if adopted, would immediately reduce SBS benefits. The state is currently contributing 1.45 percent to the medicare program for employees hired after April 1986. Such employees are also making a like contribution. APEA opposes reducing the SBS benefits for these employees.

It should be noted that the SBS contribution rate is fixed at 6.13 percent; the current social security rate is 7.51 percent. The

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state's 6.13 percent contribution to SBS and 1.45 percent contribution to medicare totals 7.58 percent or just 0.07 percent higher than the current social security rate. This increased cost is more than offset by the millions of dollars the state has saved and will continue to save in the future as a result of participating in SBS rather than the social security system. APEA opposes any amendment which would result in an automatic benefit reduction in the SBS annuity account.

The Alaska Public Employees Association requests your support for the House State Affairs Committee Substitute for HB 252.

Thank you.

cc: House Finance Committee



Alaska Public  
Employees Association **APEA**

Juneau Field Office: 227 4th Street, Juneau, AK 99801 (907) 586-6305

**SUPPLEMENTAL BENEFITS SYSTEM**

The difference between Sponsor Substitute for House Bill 252 and Committee Substitute for Sponsor Substitute for house Bill 252, State Affairs are as follows:

**SSHB 252**

Section 3 of SSHB 252 would automatically reduce both the employer and the employee contributions to SBS by any mandated contributions to the federal social security system. Currently both the state and the employees hired after April 1986 are contributing 1.45% to the social security medicare program in addition to the 6.13% contribution to SBS.

While Section 3 would save the state \$655,000 in FY 89, it should be noted that participation in SBS rather than social security saves the state millions of dollars. According to the Department of Administration, Division of Retirement and Benefits, during calendar year 1987, the state saved \$3,937,100 by participating in SBS rather than social security; this cost savings includes the cost of medicare participation. In calendar year 1988, the savings as a result of SBS participation will increase to \$5,348,800.

**CSSSHB 252**

The House State Affairs Committee removed the language of Section 3 and maintained the status quo. APEA supports the House State Affairs Committee's action on the committee substitute.



Official Business

# Alaska State Legislature

## House

P.O. BOX V  
State Capitol  
Juneau, Alaska 99811

March 2, 1988

TO: House State Affairs Committee

FROM: Representative Fran Ulmer, Chair  
House State Affairs

RE: SSHB 252

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I received the attached letter from Commissioner John Andrews outlining when the survey was sent and his expectations as to when the ballots will be returned. He also explains why a reference was not made to the 1.45% Medicare reduction for new employees.

It was my intention that the House State Affairs Committee have a chance to comment on the letter and survey prior to its being sent. Apparently this was not the Commissioner's understanding since he did mail their draft version. Regardless, we do have SSHB 252 before us, and will have ample opportunity to consider the survey results, hear testimony and make changes as necessary.

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

STEVE COWPER, GOVERNOR

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200

February 26, 1988

Honorable Fran Ulmer  
Representative  
P.O. Box V  
Juneau, Alaska 99811

Re: SBS Letter to Employees

Dear Representative Ulmer:

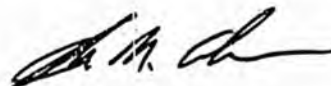
The attached letter and ballot are being sent to all State employees. Approximately 6,000 will reach the post office on Saturday, February 27, 1988, with the remainder mailed by Monday afternoon, February 29, 1988.

The ballots will be individually numbered and the return deadline is March 15, 1988. We plan to provide a report of the results to the House State Affairs Committee by March 18.

The ballot offers three options (6.13%, 4.25%, 2.37%) to give a broad range of realistic alternatives.

The 1.45% for Medicare is not mentioned in the employee survey in order to keep the question as simple as possible and to limit the question to the issue of how State employees wish to spend their own money. I view the 1.45% Medicare question as a matter of state fiscal policy which should be resolved directly between the Legislature and the executive branch.

Sincerely,



John M. Andrews  
Commissioner

Attachment

JMA/lc

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

### DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

P.O. BOX CR

JUNEAU, ALASKA 99811-0203

PHONE: (907)465-4460

2600 DENALI ST. SUITE 401

ANCHORAGE, ALASKA 99503-2740

PHONE: (907) 277-7504

Public Employees Retirement System  
Judicial Retirement System  
Elected Public Officers Retirement System  
National Guard Retirement System  
Territorial Retirement System  
Retirees Voluntary Dental-Vision Audio Plan  
Supplemental Benefits System  
Group Health Life Insurance Benefits  
Deferred Compensation Plan  
Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

February 25, 1988

Dear SBS Participant:

Major changes will be required in the Supplemental Benefits System (SBS) beginning January 1, 1989. These changes are required as a result of the federal Tax Reform Act of 1986. Legislation has been introduced by the governor and must be enacted this session to provide for the changes. Information is being requested from you to help determine the direction the change will take.

The SBS was created in 1980 to replace Social Security by providing future retirement benefits and current insurance benefits supplemental to the state health plan. Currently, the SBS consists of two major parts; insurance benefits and retirement money accumulation (annuity). Under today's SBS, 6.13% of your salary is deducted from your wages before taxes are calculated. This percentage is matched by the State for a total contribution to the SBS of 12.26% of your gross wages. This contribution is made to the SBS on each employee's behalf and is used to first pay the SBS administrative fees and insurance premiums for each employee, with the remainder being deposited into the employee's annuity account.

Since each employee chooses his or her own insurance election and insurance premiums vary with each employee's age and salary, the result is that different percentages of salary are contributed to the annuity accounts for each employee.

This structure will not be allowed under the Tax Reform Act. A pre-set, uniform, and non-discretionary percentage of salary must be contributed to the annuity account for each employee.

In an effort to maintain as much consistency with the current SBS plan and ideals, the proposed legislation establishes two separate plans; a free-standing insurance plan and a free standing annuity plan. Each plan will be qualified under separate provisions of the Internal Revenue Tax Code. The entire employer contribution (6.13%) will go into the annuity plan.

The question that remains, and on which we would ask your advice, is: What should each employee's percentage contribution be to the annuity plan?

The answer could be all, or some portion, of the current 6.13% employee contribution. Whatever portion of this amount is not paid into the annuity account would increase the employee's "pre-taxable income" (income before federal taxes are calculated). It would then be available to help pay premiums under the separate insurance plan, or to increase take-home pay.

February 25, 1988

The separate insurance plan will allow each employee to select from any or all of the insurance options (including dependent care coverage) and to pay for those selections with dollars from "pre-taxable income". Of course, the total cost of the options selected will ultimately affect your net taxable income.

We have selected three sample alternatives to illustrate the effects on the annuity account and on gross salary of various employee contribution percentages paid to the annuity account. These examples assume a monthly salary of \$2100.00 and monthly insurance premiums of \$50.00. The examples do not include administrative costs.

SAMPLE ALTERNATIVES

Employer 6.13% Annuity Contribution	Employee Annuity Contribution Percent	Employee Contribution Amount	Total Monthly Contribution to Annuity	Amount of Increase to "Pre-Taxable Income" Before Insurance Premiums	Net Effect on Taxable Income After Insurance Premiums of \$50/mo.
\$128.73	6.13	\$128.73	\$257.46	\$ 0	-\$50.00
128.73	4.25	89.25	217.98	39.48	- 10.52
128.73	2.37	49.77	178.50	78.96	+ 28.96

Enclosed is a survey form on which you may indicate your preference on the level of contributions all employees would make to their annuity accounts. Remember this is in addition to the "employer" contribution of 6.13%. If you choose a high amount, such as 6.13%, you are indicating your preference for pre-tax savings for retirement or other purposes for use after your termination. If you choose a low amount, such as 2.37%, you are indicating your preference for current-year income which you may use for the purchase of insurance premiums or to increase your regular taxable payroll.

The survey is for information purposes only. The results of the information will be used by both the legislature and the administration in determining the direction of the final legislation. The final employee's annuity contribution rate will ultimately be set by the legislature. However, your input will help provide needed information for the legislature's consideration.

These are important decisions. There will be future correspondence on this subject as events develop. If you have any questions, please contact the Supplemental Benefits System at 465-4460.

Sincerely,

*Robert F. Stalnaker*  
Robert F. Stalnaker  
Acting Director

RFS/MBC/LMT/cam/9  
Enclosure

DIVISION OF RETIREMENT AND BENEFITS

SUPPLEMENTAL BENEFITS SYSTEM SURVEY

Please indicate your preference for the "employee's" annuity contribution rate that should be established by the State by checking one of the following alternatives and returning this survey form by March 15, 1988 to: *Division of Retirement & Benefits, P.O. Box CR, Juneau, Alaska 99811* or *2600 Denali, Suite 401, Anchorage, Alaska 99503*. You may also return your ballot to your personnel office for delivery to Mail Stop 0203.

1. \_\_\_\_\_ Maximum Annuity Contribution (6.13%):  
Under this alternative, the entire current contribution of 6.13% will go to your annuity account. If you wish to purchase insurance benefits, your taxable income will decline by the amount of your insurance costs.
2. \_\_\_\_\_ Middle Annuity Contribution (4.25%):  
Under this alternative, 4.25% of your earnings will go to your annuity account. The balance, 1.88% of your earnings, will be available for purchasing insurance benefits or take-home pay. You will experience an increase (decrease) in your taxable income depending on whether your insurance purchases are smaller (greater) than 1.88% of your earnings.
3. \_\_\_\_\_ Low Annuity Contribution (2.37%):  
Under this alternative, 2.37% of your earnings will go to your annuity account. The balance, 3.76% of your earnings, will be available for purchasing insurance benefits or take-home pay. You will experience an increase (decrease) in your taxable income depending on whether your insurance purchases are smaller (greater) than 3.76% of your earnings.

EXAMPLE:

Assumptions: Annual Salary = \$35,000; Annual Insurance Purchases = \$800.

Under the *existing* SBS program, your total annual SBS contribution is allocated as follows:

Total Contribution (\$35,000 X .0613)	=	\$2,146
Insurance Purchases	=	<u>\$800</u>
Employee's Annuity Contribution	=	<u>\$1,346</u>

Under the 3 *revised* alternatives described above, the annual allocation would be as follows:

	Employee Annuity Contribution		Available for Insurance or Wages		Insurance Purchases	Pre-tax Change in Annual Wages
	Percent	Amount	Percent	Amount		
1. High Annuity	6.13%	\$2,146	0.0%	\$0	\$800	-\$800
2. Middle Annuity	4.25%	\$1,488	1.88%	\$658	\$800	-\$142
3. Low Annuity	2.37%	\$830	3.76%	\$1,316	\$800	\$516

# STATE OF ALASKA

## DEPARTMENT OF ADMINISTRATION

### DIVISION OF RETIREMENT & BENEFITS

PLEASE REPLY TO:

P.O. BOX CR [ ] 701 East Tudor Road, Suite 240  
JUNEAU, ALASKA 99811-0203 Anchorage, AK 99503  
PHONE: (907) 465-4460 Phone: (907) 563-5885

Ms. Martha Stewart, Committee Assistant  
House Finance Committee  
Alaska State Legislature  
P.O. Box V  
Juneau, AK 99811

Dear Ms. Stewart:

Re: HCS SSHB 252 (State Affairs)

The purpose of this letter is to provide you with an update on the employee survey we conducted regarding HCS SSHB 252 (State Affairs). This survey was undertaken to determine employee opinion as to what portion of the employee's contribution, a total of 6.13% of gross wages, should be allocated directly to the employee's annuity account. I have enclosed a copy of the cover letter and survey form sent to all active employees.

Enclosed also is a copy of the March 18 letter to Representative Fran Ulmer which contains the initial results of the survey. We have since received another 764 surveys, an additional 5% of the total sent out, since the first count. Following are the results of the second count:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	665	87%
Middle Annuity (4.25%)	74	10%
Low Annuity (2.37%)	25	3%

When the first and the second counts are combined, there is a total of 33% responding and the results are as follows:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	3910	84%
Middle Annuity (4.25%)	612	14%
Low Annuity (2.37%)	117	2%

I hope this information assists you in preparing for the Finance Committee hearing on this bill. If I can be of further assistance, please contact me.

Sincerely,



Michael B. Coughlin  
Deputy Director

Public Employees Retirement System  
Teachers Retirement System  
Judicial Retirement System  
Elected Public Officers Retirement System  
National Guard Retirement System  
Territorial Retirement System  
Retirees' Voluntary Dental-Vision-Audio Plan  
Supplemental Benefits System  
Group Health/Life Insurance Benefits  
Deferred Compensation Plan  
Public Employers Social Security Contributions

STEVE COWPER, GOVERNOR

April 4, 1988

MBC/cam/II  
Enclosures

STEVE COWPER, GOVERNO

## DEPARTMENT OF ADMINISTRATION

OFFICE OF THE COMMISSIONER

P.O. BOX C  
JUNEAU, ALASKA 99811-0200  
PHONE: (907) 465-2200

March 18, 1988

Honorable Fran Ulmer  
Chairman  
House State Affairs Committee  
P.O. Box V  
Juneau, Alaska 99811

Dear Representative Ulmer:

The purpose of this letter is to provide you with a status report on the outcome of the survey we conducted regarding the Supplemental Benefits System pertaining to SSHB 252.

We mailed 13,923 surveys to SBS participants. We received 3875 surveys - 28% - as of the March 15 deadline. The results as of this date are as follows:

Alternative	Count	Percentage
Maximum Annuity (6.13%)	3245	84%
Middle Annuity (4.25%)	538	14%
Low Annuity (2.37%)	92	2%

Even if you combine the total ballots submitted for the Low and Middle Annuity Options, less than 16% of the respondents favored an annuity level below the 6.13% level. Since the results of the survey show an overwhelming preference for the high annuity contribution, we would recommend the 6.13% level be used for both the Employer and Employee contribution rates for the annuity.

The state and the employees (as evidenced by the comments they provided on the ballot and in separate correspondence) clearly disagree on the proposed language included in SSHB 252 which would require that SBS employer and employee contributions be lowered by any mandatory payments to the Social Security System including Medicare payments.

While I understand the Committee's desire for a less controversial solution, there are two pieces of information

March 18, 1988

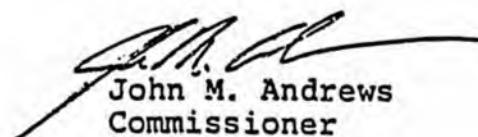
I feel it is only prudent to share with you regarding this matter:

1. Current Social Security Requirements The state and the employee are already required to pay Medicare premiums for all employees hired after April 1, 1986. This requirement costs the State \$625,000 and costs the employee \$625,000. This cost will continue to escalate as the turnover in the workforce produces more and more employees subject to this participation.
2. Proposed Changes to the Social Security Requirements We expect Congress to consider, but not necessarily pass this year a provision to require Medicare premiums for all employees regardless of their hire date. In addition, they will probably once again consider a provision to compel full participation in the Social Security System. While we do not expect these provisions to pass affecting FY 89, it is likely that the provisions may pass within the next 2-5 years.

The attached copy of SSHB 252 is highlighted to indicate those sections which should be removed from the bill if the Committee wishes to introduce Committee Substitute to remove the pertinent language which would require the lowering of the employee/employer annuity contributions by any mandatory social security payments.

I hope this information will be of assistance.

Sincerely,

  
John M. Andrews  
Commissioner

Attachments

JMA/MH/lc

## Appendix A

The Division of Retirement and Benefits has also conducted 25 employee meetings in Juneau, Anchorage, and Fairbanks, including special meetings for Juneau personnel staff, Local 71, Inlandboatmens Union, and legislative staff to discuss the bill in detail. Approximately 1250 employees or about 10% of the current work force have attended these meetings. In addition to the informational letter and survey form, written comments on SSHB 252 and its provisions were solicited from those attending the employee meetings.

Mandatory Participation in the Federal Social Security Program showed general opposition. There is also opposition to using the SBS contributions to offset the mandatory social security amounts. Some of the comments are as follows:

- \* "I think it is a must to clarify this issue (mandatory social security participation in Medicare) as all state employees may be in the same boat if Congress passes the current legislation which will no longer exempt employees hired prior to 4/1/86 from contributing to this program."
- \* "I prefer the SBS. All my monies are in annuities. Please do all you can to keep things this way."
- \* "I want things the way they are. Fight to keep it that way."
- \* "If the state was still part of the Federal Social Security System the state's costs would be 7.51%."
- \* "In other words, leave SBS alone, don't let (SBS) pay for other taxes."
- \* "I would also like to object to the language in the bill that states that all present and future social security monies due the Federal Government will come out of the SBS monies. I believe the SBS monies should be sacred."
- \* "Pay the 2.9% Medicare for employees hired after April, 1986 (avoid two-tier benefits to employees)."

SBS is a supplemental retirement system and it should be funded to the greatest extent possible: Some of the comments are as follows:

- \* "I feel very strongly that the main thrust of the SBS program be toward retirement. Not only would I like the entire 6.13% placed into my annuity account but I would like to have both the employer and employee percentages raised to 7.51%."
- \* "Increase mandatory contributions by state and employee to match the social security rate."
- \* "Although more "cash" each month would be nice, it is a ridiculous thought. The whole idea of SBS was to take the place of social security and give us better benefits when we are no longer working."
- \* "I would like to urge the decision-makers to remember that, inasmuch as SBS is our substitute for social security, its primary purpose is to provide retirement benefits. I will buy my insurance with after-tax dollars and protect my retirement account. I only hope that the people responsible for finally deciding this will permit me to do that."

Support and concern for the nonannuity benefits--Some of the comments are as follows:

- \* "Find the overall average percent of insurance and deduct from 6.13% balance to annuity."
- \* "Please note I have chosen the lowest deduction, not because I would not prefer to be putting more into retirement, but because I can't afford to. Since we have had no cost of living adjustment, the money has to come from somewhere to meet expenses."
- \* "I would like to keep my insurance benefits."

HB

260

# HOUSE COMMITTEE REPORT

Date referred: 4/30/87

FURTHER REFERRALS:

DATE: 5-12-87

The Finance Committee has considered HB 260

"An Act establishing an excise tax on the sale of smokeless tobacco; and providing for an effective date."

**RECOMMENDS:**

- replace with CS HB 260 (FIN)  the same title
- attached amendment(s)  a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the \_\_\_\_\_ Committee

**ADOPTS:**  \_\_\_\_\_ letter of intent

**ATTACHES NEW FISCAL NOTE(S):**

- fiscal impact  same as previous fiscal note published 2-81
- zero fiscal note  same as previous zero fiscal note published \_\_\_\_\_
- zero with analysis

**SIGNING DO PASS:**

Al Adams

Pat Harris

Peter Jones

Al Swartz

Mark Dyer

Steve Pugh

David

Ray Waller

Tay Browne

Michael Davis

Ronald L. Larson

**SIGNING OTHER RECOMMENDATIONS:**

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Robert P. Adams  
Chairman's signature

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: CSHB 260 (FIN)

Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: 5/11/87

Title: An act establishing an excise tax on the sale of smokeless tobacco.

Sponsor: Ellis, Gruenberg, Pourchot, etc

Requestor: \_\_\_\_\_

Agency Affected: Department of Revenue

BRU: Division of Audit

Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	15.0	-	-	-	-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	15.0	-	-	-	-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	Will range from 625.0 to 1 million each year				

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	15.0	-	-	-	-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	15.0	-	-	-	-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis.

Prepared By: Steven E. Kettel *Steve Kettel*

Division: Division of Audit

Phone: 465-2320

Date: May 12, 1987

Approved by Commissioner: *H. Malone*

Agency: \_\_\_\_\_

Date: 5/12/87

Distribution (by Agency preparing fiscal note):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

Senate Secretary

page \_\_\_\_\_ of \_\_\_\_\_

CSHB 260 (FIN)  
Fiscal Note Analysis

Section 1

AS 43.50.300 imposes a 25% excise tax on tobacco products manufactured or transported into the state. The amount of the tax liability is measured by the wholesale price. The tax is intended to be levied against the person manufacturing, bringing or transporting the tobacco product into the state. It may be somewhat unclear, however, whether the incidence of the tax falls on the manufacturer, distributor, or retailer unless this section is read in conjunction with other sections. We recommend the second sentence read "The tax is levied on the distributor". The definition of distributor in AS 43.50.390 duplicates the language in AS 43.50.300 thereby rendering .300 unnecessary.

AS 43.50.310(a) exempts from the tax any "facility" operated by "uniformed services". While the incidence of tax may not necessarily directly fall upon the facility when the tobacco product is obtained from a distributor, it is our understanding that the intent of the provision is to effect a pass through of the exemption from the facility to prior distributors.

AS 43.50.310(b) provides that the tax does not apply if federal law otherwise precludes the tax. This provision effectively exempts tobacco products from the statute where the taxation would violate federal law, i.e. an unconstitutional or discriminatory tax on interstate commerce, for example.

AS 43.50.320 requires that a distributor must be licensed unless already licensed under the cigarette tax provisions. Thus, there is no duplicative licensing. The license is effective for one year and may be renewed each year at a cost of \$50. A license is not generally assignable or transferable except in certain specified circumstances.

The department can refuse to issue a license if it has "reasonable cause" to believe the application is false or misleading and is not made in good faith. The bill does not define reasonable cause nor establish a procedure for an applicant to attempt to refute the finding of the department. Therefore, an applicant is not entitled to a hearing on the refusal to grant a license. Further, a license may be suspended or revoked if there is any violation of statutory or regulatory provisions. There is no statutory right to protest a license revocation or suspension.

AS 43.50.330 requires that returns be filed each month by a licensee reporting the sales of tobacco products for the prior month. The tax, less one percent allowed to the licensee for administrative expense, is due with the filing of the return.

AS 43.50.340 provides that a licensee must keep and preserve for three years accurate records as required by the department.

AS 43.50.350 provides that the tax goes into the general fund and must be separately accounted for by the commissioner of administration. The funds are not dedicated but it is envisioned the legislature may use the annual balance to make appropriations for health care and other health related areas.

AS 43.50.360 requires the department to submit to the legislature an annual report on the first day of each regular session.

AS 43.50.370 allows the department to adopt regulations to carry out the provisions of the statute.

AS 43.50.390 defines the terms "distributor", "licensee", "tax", "tobacco product" and "wholesale price". The term tobacco products excludes cigarettes. The wholesale price is the "established price" for which a manufacturer sells a tobacco product to a distributor which may not necessarily be the actual price.

## Section 2

AS 43.50.170 is amended to limit the definitions pertaining to the cigarette tax to those provisions and to make them inapplicable to the tobacco products provisions. A drafting revision is also made to make references to gender neutral.

## Fiscal Costs

\$15.0 contractual - to provide necessary funds for tax return form revisions, new forms, spreadsheet software for preparing annual report to legislature, and costs attendant for drafting and public noticing regulations to address reporting requirements.

Prepared by:  
Department of Revenue  
Division of Audit  
May 12, 1987

Original sponsors: Ellis, Gruenberg,  
Pourchot, et al.

1 IN THE HOUSE

BY THE FINANCE COMMITTEE

2 CS FOR HOUSE BILL NO. 260 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing a tax on certain tobacco prod-  
7 ucts; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43 is amended by adding new sections to read:

10 ARTICLE 3. EXCISE TAX ON CERTAIN TOBACCO PRODUCTS.

11 Sec. 43.50.300. EXCISE TAX LEVIED. An excise tax is levied on  
12 tobacco products in the state at the rate of 25 percent of the  
13 wholesale price of the tobacco products. The tax is levied when a  
14 person

15 (1) brings, or causes to be brought, a tobacco product into  
16 the state from outside the state for sale;

17 (2) makes, manufactures, or fabricates a tobacco product in  
18 the state for sale in the state; or

19 (3) ships or transports a tobacco product to a retailer in  
20 the state for sale by the retailer.

21 Sec. 43.50.310. EXEMPTIONS. (a) A facility operated by one of  
22 the uniformed services of the United States is exempt from the tax.  
23 In this subsection, "uniformed services" has the meaning given in 5  
24 U.S.C. 2101.

25 (b) The tax does not apply to a tobacco product if the United  
26 States Constitution or other federal laws prohibit the levying of the  
27 tax on the product by the state.

28 Sec. 43.50.320. LICENSING. (a) Except as provided in (g) of  
29 this section, a person must be licensed by the department if the



1 person engages in business as a distributor for a tobacco product that  
2 is subject to the tax.

3 (b) The department, upon application and payment of a fee of  
4 \$50, shall issue a license for one year to a person who applies for a  
5 license under (a) of this section.

6 (c) The department may refuse to issue a license under this  
7 section if there is reasonable cause to believe the information sub-  
8 mitted in the application is false or misleading and is not made in  
9 good faith.

10 (d) A license issued under this section must include the name  
11 and address of the licensee, the type of business to be conducted, and  
12 the year for which the license is issued.

13 (e) The department may renew a license issued under this section  
14 for a fee of \$50.

15 (f) The department may suspend or revoke a license issued under  
16 this section if the licensee violates a provision of AS 43.50.300 -  
17 43.50.390 or a regulation adopted under AS 43.50.370.

18 (g) A license required by this section is in addition to any  
19 other license required by law, except that a person who is licensed  
20 under AS 43.50.010 - 43.50.180 is exempt from the licensing require-  
21 ments of this section.

22 (h) A license issued under this section is not assignable or  
23 transferable, except that in the case of death, bankruptcy, receiver-  
24 ship, or incompetency of the licensee, or if the business of the  
25 licensee is transferred to another by operation of law, the department  
26 may extend the license for a limited time to the executor, administra-  
27 tor, trustee, receiver, or the transferee.

28 Sec. 43.50.330. RETURNS. (a) On or before the last day of each  
29 calendar month, a licensee shall file a return with the department.

1 The return must state the number or amount of tobacco products sold by  
2 the licensee during the preceding calendar month, the selling price of  
3 the tobacco products, and the amount of tax imposed on the tobacco  
4 products.

5 (b) The licensee shall remit with the return the tax due under  
6 AS 43.50.300 for the month covered by the return, after deducting one  
7 percent of the tax due, which the licensee shall retain to cover the  
8 expense of accounting and filing the return.

9 Sec. 43.50.340. RECORDS. A licensee shall keep a complete and  
10 accurate record of all tobacco products of the licensee subject to the  
11 tax, including purchase prices, sales prices, the names and addresses  
12 of the sellers and the purchasers, the dates of delivery, the quan-  
13 tities of tobacco products, and the trade names and brands. State-  
14 ments and records required by this section must be in the form pre-  
15 scribed by the department, preserved for three years, and available  
16 for inspection upon demand by the department.

17 Sec. 43.50.350. DISPOSITION OF PROCEEDS. The tax collected by  
18 the department shall be deposited in the general fund. The commis-  
19 sioner of administration shall separately account for the taxes that  
20 are deposited in the general fund under this section. The annual  
21 estimated balance in the account may be used by the legislature to  
22 make appropriations for health care, health research, health pro-  
23 motion, and health education programs.

24 Sec. 43.50.360. ANNUAL REPORT. The department shall submit to  
25 the legislature by the first day of each regular legislative session a  
26 report indicating the amount of the tax collected during the fiscal  
27 year that ended on the June 30 preceding the session.

28 Sec. 43.50.370. REGULATIONS. The department shall adopt under  
29 the Administrative Procedure Act (AS 44.62) reasonable regulations

1 that it considers necessary to carry out the provisions of AS 43.50.-  
2 300 - 43.50.390.

3 Sec. 43.50.390. DEFINITIONS. In AS 43.50.300 - 43.50.390

4 (1) "distributor" means a person who

5 (A) brings, or causes to be brought, a tobacco product  
6 into the state from outside the state for sale;

7 (B) makes, manufactures, or fabricates a tobacco  
8 product in the state for sale in the state; or

9 (C) ships or transports a tobacco product to a retail-  
10 er in the state for sale by the retailer;

11 (2) "licensee" means a distributor who is

12 (A) licensed under AS 43.50.320; or

13 (B) exempted by AS 43.50.320(g) from licensing under  
14 AS 43.50.320;

15 (3) "the tax" means the tax levied by AS 43.50.300;

16 (4) "tobacco product" means

17 (A) a cigar;

18 (B) a cheroot;

19 (C) a stogie;

20 (D) a perique;

21 (E) snuff and snuff flour;

22 (F) smoking tobacco, including granulated, plug-cut,  
23 crimp-cut, ready-rubbed, and any form of tobacco suitable for  
24 smoking in a pipe or cigarette;

25 (G) chewing tobacco, including cavendish, twist, plug,  
26 scrap, and tobacco suitable for chewing; or

27 (H) an article or product made of tobacco or a tobacco  
28 substitute, but not including a cigarette as defined in AS 43.-  
29 50.170;

1 (5) "wholesale price" means the established price for which  
2 a manufacturer sells a tobacco product to a distributor, after deduc-  
3 tion of a discount or other reduction received by the distributor for  
4 quantity or cash.

5 \* Sec. 2. AS 43.50.170 is amended to read:

6 Sec. 43.50.170. DEFINITIONS. In AS 43.50.010 - 43.50.190 [THIS  
7 CHAPTER], unless the context otherwise requires,

8 (1) "buyer" means a person who imports or acquires ciga-  
9 rettes for the person's [HIS] own consumption from any source other  
10 than a manufacturer, distributor, direct-buying retailer, or retailer;

11 (2) "cigarette" means a roll for smoking of any size or  
12 shape, made wholly or partly of tobacco, whether the tobacco is fla-  
13 vored, adulterated, or mixed with another ingredient, if the wrapper  
14 or cover of the roll is made of paper or a material other than tobac-  
15 co;

16 (3) "department" means the Department of Revenue;

17 (4) "direct-buying retailer" means a person who is engaged  
18 in the sale of cigarettes at retail in this state, and who brings or  
19 causes to be brought cigarettes into the state;

20 (5) "distributor" means a person who brings cigarettes, or  
21 has cigarettes brought into the state, and who sells or distributes at  
22 least 75 per cent of the cigarettes to others for resale in the state;

23 (6) "licensee" means a person licensed under AS 43.50.010 -  
24 43.50.180;

25 (7) "manufacturer" means a person who makes, fashions, or  
26 produces cigarettes for sale to distributors or other persons;

27 (8) "person" includes an individual, company, partnership,  
28 joint venture, joint agreement, association, mutual or otherwise,  
29 corporation, estate, trust, business trust, receiver or trustee,

1 syndicate, or political subdivision of this state, or combination  
2 acting as a unit;

3 (9) "place of business" means a place where cigarettes are  
4 sold, or where cigarettes are brought or kept for the purpose of sale  
5 or consumption, including a vessel, vehicle, airplane, or train;

6 (10) "retailer" means a person in the state who is engaged  
7 in the business of selling cigarettes at retail;

8 (11) "sale" includes a sale, barter, exchange, and every  
9 other manner of transferring the ownership of personal property.

10 \* Sec. 3. This Act takes effect September 1, 1987.

STATE OF ALASKA 1987 LEGISLATIVE SESSION  
FISCAL NOTE

Bill Version: CS HB26A  
Publish Date: \_\_\_\_\_

REQUEST \_\_\_\_\_

Revision Date: \_\_\_\_\_  
Title: An act establishing an excise tax on the sale of smokeless tobacco.  
Sponsor: Ellis, Gruenberg, Pourchot, etc  
Requestor: \_\_\_\_\_

Agency Affected: Department of Revenue  
BRU: Division of Audit  
Components: \_\_\_\_\_

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
<b>OPERATING</b>						
PERSONAL SERVICES	-	-	-	-	-	-
TRAVEL	-	-	-	-	-	-
CONTRACTUAL	-	15.0	15.0-	15.0-	15.0-	15.0-
SUPPLIES	-	-	-	-	-	-
EQUIPMENT	-	-	-	-	-	-
LANDS & STRUCTURES	-	-	-	-	-	-
GRANTS, CLAIMS	-	-	-	-	-	-
MISCELLANEOUS	-	-	-	-	-	-
<b>TOTAL OPERATING</b>	-	15.0-	15.0-	15.0-	15.0-	15.0-
<b>CAPITAL</b>	-	-	-	-	-	-
<b>REVENUE</b>	-	425.0-	425.0-	425.0-	425.0-	425.0-

FUNDING: (Thousands of Dollars)

GENERAL FUND	-	15.0-	15.0-	15.0-	15.0-	15.0-
FEDERAL FUNDS	-	-	-	-	-	-
OTHER	-	-	-	-	-	-
<b>TOTAL</b>	-	15.0-	15.0-	15.0-	15.0-	15.0-

POSITIONS:

FULL-TIME	-	-	-	-	-	-
PART-TIME	-	-	-	-	-	-
TEMPORARY	-	-	-	-	-	-

ANALYSIS: See attached analysis

Prepared By: Steven E. Kettel  
Division: Division of Audit  
Approved by Commissioner: [Signature]  
Agency: \_\_\_\_\_

Phone: 465-2320  
Date: April 20, 1987

Date: 4/22/87

Distribution (by Agency preparing fiscal note):  
Legislative Finance  
Legislative Sponsor  
Requestor  
Office of Management and Budget  
Impacted Agency(ies)  
Senate Secretary

page \_\_\_\_\_ of \_\_\_\_\_

**RECEIVED**  
APR 23 1987  
LEGISLATIVE FINANCE

HB 260

Fiscal Note  
HB 260

Analysis:

The bill provides for a one-cent tax on each one-tenth ounce of smokeless tobacco. Smokeless tobacco would include chewing tobacco and snuff. Currently the state levies a tobacco tax on cigarettes at 16¢ per pack. All but 5¢ of this tax are deposited in the general fund.

Chewing tobacco is generally sold in 1 and 1.2 ounce cans or three ounce packets, HB 260 would require a tax of ten and twelve cents per can, and thirty cents per packet. New product types, such as Skoal Bandit pouches are not sold by weight and may present a problem to distributors in determining the correct amount of tax.

Fiscal Note:

A polling of Alaska tobacco product distributors indicates that approximately 3.4 to 8.0 percent of their sales are for non-cigarette products, including smokeless, cigar and pipe tobacco. A tax levy in the amount suggested in HB 260, applied against all non-cigarette products would raise approximately \$425,000. We recommend expanding HB 260 to include pipe tobacco and cigars.

Department costs of 15.0 include new report and claim forms and regulation hearings.

Recommended changes:

1. Change title of bill to:

An act establishing an additional excise tax on the sale of all non-cigarette types tobacco products and change the Article Title to Excise Tax on Non-Cigarette Type Tobacco Products.

2. Sec 43.50.300(a) - EXCISE TAX LEVIED. A tax of \$.01 is levied on the sale of each .1 ounce of non-cigarette type [smokeless] tobacco products customarily sold by weight or volume, and a tax of eight mills is levied on each cigar imported or acquired in this state.

(b) - The tax levied by this section shall be administered and collected in the same manner as the tax levied by AS 43.50.010 - 43.50.180.

(c) - The tax imposed under (a) of this section does not apply to non-cigarette type tobacco products imported or acquired in the state by an exchange, commissary, or ship's stores operated by one of the uniformed services of the United States as defined in 5 U.S.C. 2101.

3. Sec 43.50.320 add another sentence to read: In order to sell, purchase, possess or acquire non-cigarette type tobacco products as a manufacturer, distributor, direct buying retailer, vending machine operator, or buyer, a person must obtain a license and is subject to the licensing provisions of AS 43.50.010 - 43.50.100 and is further subject to the tax return reporting requirements of AS 43.50.080.

Recommended changes:

1. Change title of bill to:

An act establishing an additional excise tax on the sale of all non-cigarette types tobacco products and change the Article Title to Excise Tax on Non-Cigarette Type Tobacco Products.

2. Sec 43.50.300(a) - EXCISE TAX LEVIED. A tax of \$.01 is levied on the sale of each .1 ounce of non-cigarette type [smokeless] tobacco products customarily sold by weight or volume, and a tax of eight mills is levied on each cigar imported or acquired in this state.

(b) - The tax levied by this section shall be administered and collected in the same manner as the tax levied by AS 43.50.010 - 43.50.180.

(c) - The tax imposed under (a) of this section does not apply to non-cigarette type tobacco products imported or acquired in the state by an exchange, commissary, or ship's stores operated by one of the uniformed services of the United States as defined in 5 U.S.C. 2101.

3. Sec 43.50.320 add another sentence to read: In order to sell, purchase, possess or acquire non-cigarette type tobacco products as a manufacturer, distributor, direct buying retailer, vending machine operator, or buyer, a person must obtain a license and is subject to the licensing provisions of AS 43.50.010 - 43.50.100 and is further subject to the tax return reporting requirements of AS 43.50.080.

# Alaska State Legislature

REPRESENTATIVE  
PAT POURCHOT

HOUSE FINANCE COMMITTEE  
COMMITTEE ON OIL AND GAS



ANCHORAGE  
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JUNEAU  
POUCH V  
STATE CAPITOL  
JUNEAU, AK 99811  
(907) 465-3712

## House of Representatives

### MEMORANDUM

DATE: May 11, 1987

TO: House Finance Committee Members

FROM: Representative Pat Pourchot, Vice Chair  
House Finance Committee *Pat*

SUBJECT: CS for HB 260 (Finance) "An Act establishing a tax on certain tobacco products; and providing for an effective date."

CS HB 260 (Fin) would establish a 25% excise tax on the wholesale price for various tobacco products and would result in an estimated increase in state revenue of \$600,000 to \$1 million annually. The tax would be levied at the distributor level to minimize the impact on small businesses. A license would be required to sell any tobacco product; however, if a business already had a license to sell cigarettes, another license would not be required to sell other tobacco products.

Changes to CS HB 260 (HESS) are as follows:

#### SECTION 1.

Sec. 43.50.300. EXCISE TAX LEVIED: Clarifies language relating to the point in the marketing process at which the excise tax is levied on tobacco products covered by this bill.

Sec. 43.50.310. EXEMPTIONS. (b) Adds language to eliminate potential conflict with federal law relating to interstate commerce.

Sec. 43.50.390. DEFINITIONS: Adds definition of "distributor"; deletes definition of "sale" under this section.

Secs. 43.50.320; 43.59.340 and 43.50.360 contain minor changes to clarify existing language.

SECTIONS 2 and 3. No changes.

STATE OF ALASKA  
THE LEGISLATURE

POUCH Y STATE CAPITOL  
JUNEAU, ALASKA 99811  
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

April 29, 1987

SUBJECT: Sectional analysis of CSHB 260 (HESS)  
TO: Representative Johnny Ellis  
FROM: Theresa L. Bannister *TB*  
Legislative Counsel

You have requested a sectional analysis of the above described bill.

As a preliminary matter, note that a sectional analysis or summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

Section 1 establishes a tax on certain tobacco products, excluding cigarettes.

Sec. 43.50.300 sets the tax at 25% of the wholesale price of the product and levies the tax at the time of the first intra-state sale of the product in the state.

Sec. 43.50.310 exempts sales at certain U.S. facilities from the tax.

Sec. 43.50.320 sets up licensing procedures for persons making the sales that are subject to the tax.

Sec. 43.50.320(a) prohibits a person from selling a tobacco product in the state without being licensed under AS 43.50.320, if the sale is subject to the tax, unless exempted under AS 43.50.320(g).

Sec. 43.50.320(b) authorizes the Department of Revenue to issue a license for one year to a person who applies and pays the \$50 fee.

Sec. 43.50.320(c) authorizes the department to refuse to issue a license under certain circumstances.

Sec. 43.50.320(d) lists the information that a license must include.

Sec. 43.50.320(e) authorizes the department to renew a license for a fee of \$50.

Sec. 43.50.320(f) authorizes the department to suspend or revoke a license under certain circumstances.

Sec. 43.50.320(g) states that the license under sec. 43.50.320 does not supplant any other license. Exempts those persons licensed under the Cigarette Tax Act (AS 43.50.010 - 43.50.180) from the licensing requirements of Sec. 43.50.320.

Sec. 43.50.320(h) prohibits the transfer or assignment of the license, except in certain cases.

Sec. 43.50.330(a) requires a licensee (see sec. 43.50.390 for explanation of the definition of "licensee") to file a monthly return with the department containing certain information regarding the sales that are subject to the tax.

Sec. 43.50.330(b) requires the licensee to remit the tax due with the return, after deducting one percent for collection expenses.

Sec. 43.50.340 requires a licensee to keep certain records of all tobacco products subject to the tax and sold by the licensee.

Sec. 43.50.350 directs that the tax proceeds be deposited in the general fund and separately accounted for. Expresses the intent that future legislatures use these funds for the purposes identified in the section.

Sec. 43.50.360 requires the department to submit an annual report on the tax to the legislature.

Sec. 43.50.370 authorizes the department to adopt regulations for sec. 43.50.300 - 43.50.390.

Sec. 43.50.390 defines certain terms for sec. 43.50.300 - 43.50.390. "Licensee" is defined to include (1) persons licensed under AS 43.50.320 and (2) those persons who make taxable sales but who are exempted from the licensing because they are licensed under the Cigarette Tax Act (AS 43.50.010 - 43.50.180).

Representative Ellis  
Page 3  
April 29, 1987

Sec. 2 makes a technical amendment of the definition section of the Cigarette Tax Act to prevent the definitions in the Cigarette Tax Act from applying to sec. 1 of the bill.

TLB:mkr  
m11/096

STATE OF ALASKA  
DEPARTMENT OF REVENUE  
DIVISION OF AUDIT

M E M O R A N D U M

TO: Royce Weller  
Special Assistant to the Commissioner

FROM: Steven E. Kettel *JK*  
Acting Director of Audit

DATE: April 13, 1987

SUBJECT: Tax levy on smokeless tobacco

Per your request we have attempted to determine the potential revenue increase by adding a tax on smokeless tobacco. In our research we have contacted the major importers of tobacco products in the state, as well as the U.S. Tobacco Institute.

On a nationwide average, states that tax both smokeless and non-smokeless products generate 3.8% of their tax from sources other than cigarettes; including cigars, pipe tobacco, chewing tobacco and snuff. Nationwide statistics do not separate gross sales among the non-cigarette categories. ~~Of interest, Alaska is~~ the national leader in consumption of smokeless products per capita. A polling of Alaska distributors indicates that between 3.4 and 8.0 percent of their sales are for non-cigarette products.

Assuming Alaska's consumption of smokeless products follows the national average, and that the 8 mill cigarette tax was imposed, an additional \$426,600 in tax revenues would be generated.

Table 12—1986  
States Which Tax Both Cigarettes and Other Tobacco Products  
(Fiscal year ending June 30, 1986)

State	Total cigarette and other tobacco taxes		Cigarette taxes		Other tobacco products taxed*	Other tobacco taxes		Percentage of total tobacco taxes from:		
	Gross amount	Net collections	Gross amount	Net collections		Gross amount	Net collections	Cigarettes	Other tobacco products	State
AL	\$ 78,775,323	\$ 72,688,949	\$ 77,175,083	\$ 71,198,564	C	\$ 1,600,240	\$ 1,490,385	98.0	2.0	AL
AZ	52,041,195	50,774,358	51,271,543	50,004,706	C	769,652	769,652	98.5	1.5	AZ
AR	65,634,979	63,266,787	62,155,739	59,787,547	C	3,479,240	3,479,240	94.7	5.3	AR
FL	304,372,888	298,398,897	295,577,556	289,691,519	C	8,795,331	8,707,378	97.1	2.9	FL
GA	93,080,059	90,340,284	91,320,117	88,580,342	C	1,759,942	1,759,942	98.1	1.9	GA
HI	19,671,084	19,571,084	17,703,976	17,703,976	C	1,967,108	1,967,108	90.0	10.0	HI
ID	10,195,060	9,752,346	8,854,269	8,411,555	C	1,340,791	1,340,791	86.8	13.2	ID
IA	73,745,176	72,265,146	72,024,669	70,544,639	C	1,720,507	1,720,507	97.7	2.3	IA
KS	59,631,120	57,805,363	58,286,236	56,514,274	C	1,344,884	1,291,089	97.7	2.3	KS
LA	88,284,788	81,824,902	86,910,227	81,695,614	C	1,374,561	1,292,088	98.4	1.6	LA
MA	175,475,006	173,405,140	175,333,189	173,263,323	C	141,817	141,817	99.9	0.1	MA
MN	105,052,077	101,574,301	101,057,348	97,634,645	C	3,994,729	3,939,656	96.2	3.8	MN
MS	58,727,719	54,196,726	54,070,578	49,539,585	C	4,657,141	4,657,141	92.1	7.9	MS
MT	13,652,749	13,184,430	12,943,445	12,514,498	C	709,304	669,932	94.8	5.2	MT
NV	21,497,435	20,676,568	20,284,792	19,488,156	C	1,212,643	1,188,412	94.4	5.6	NV
ND	12,648,671	12,033,204	12,309,345	11,693,878	C	339,326	339,326	97.3	2.7	ND
OK	78,107,016	75,125,072	71,022,806	68,182,546	C	7,084,210	6,942,526	90.9	9.1	OK
OR	77,093,126	76,396,765	75,011,574	74,345,975	C	2,081,552	2,050,790	97.3	2.7	OR
SC	31,576,379	30,086,026	29,522,340	28,073,068	C	2,054,039	2,012,958	93.5	6.5	SC
TN	82,583,785	80,810,443	79,745,209	77,971,867	C	2,838,575	2,838,576	96.6	3.4	TN
TX	396,303,410	381,580,071	373,506,575	358,783,236	C	22,796,835	22,796,835	94.2	5.7	TX
UT	13,837,864	13,321,091	12,919,309	12,402,536	C	918,555	918,555	93.4	6.6	UT
VT	12,415,043	12,083,216	11,932,304	11,610,132	C	482,739	473,084	96.1	3.9	VT
WA	108,675,620	107,906,976	103,773,418	103,010,625	C	4,902,202	4,896,351	95.5	4.5	WA
WI	130,892,421	125,407,142	126,913,372	121,428,093	C	3,979,049	3,979,049	97.0	3.0	WI
<b>Total</b>	<b>\$2,163,969,991</b>	<b>\$2,095,738,087</b>	<b>\$2,081,625,019</b>	<b>\$2,014,074,899</b>		<b>\$82,344,972</b>	<b>\$81,663,188</b>	<b>96.2</b>	<b>3.8</b>	<b>Total</b>

\*C—Cigars  
S—Smoking tobacco  
Ch—Chewing tobacco  
Cn—Snuff

STATE OF ALASKA  
DEPARTMENT OF REVENUE  
Audit Division

MEMORANDUM

To: Eloise Herrick  
Supervisor, Excise Claims/Tax Unit

From: Brad Whistler *BW*  
Tax Examiner, Excise Claims/Tax Unit

Date: April 23, 1987

Subject: Distribution of Cigarette License by type of business and revenue projections based on taxing tobacco products other than cigarettes by percentage of price of the product.

The following are the distributions of the types of cigarette licenses:  
(From 7/1/86 to present—from Public Services Division of Dept. of Rev.)

<u>Type of license</u>	<u>Number of licenses</u>	<u>Current Fee</u>	<u>Total revenue from license</u>
Manufacturers	5	\$ 5.00	\$ 25.00
Distributors	16	50.00	800.00
Vend. Machine	40	25.00	1000.00
Retailers	71	25.00	1775.00
Buyers	2	25.00	50.00
Total	134		\$3650.00

Based on information from 1986 edition of The Tax Burden on Tobacco published by The Tobacco Institute:

For Alaska the Total Tax as a percentage of the Retail Price of Cigarettes is 36% (the Alaska state tax as a percentage would be 18%)?

Based on manufacture's invoice price of cigarettes the average price per pack is \$0.72.

$$\frac{18.0\%}{121.5\text{¢}} = \frac{?}{72\text{¢}}$$

This implies the Alaska tax would be 10.6% of the manufactures invoice price.  
\$9.6 million state cigarette tax for FY 86-87 - \$90.6 million in cig. sales  
10.6% for manufacturer

Based on national average of 3.8% of tax from non-cigarette tobacco taxes, the average cigarette tax would be 96.2% of total tobacco tax collected. From this we estimate the non-cigarette sales from the manufacturer to be \$3.6 million.

Taxing at 13.8% manufactures invoice price would be \$500,000 in revenues  
Taxing at 20.0% " " " " " " \$720,000 " "

Of the 5 states taxing at the manufactures invoice price the average is approximately 20.0%.

The average tax rate for the 10 states taxing on the wholesale price of the tobacco products the average is 29.0%. Excluding the State of Washington which has a 64.9% tax on the wholesale price the average is 25.5%.

If you assume a 20% mark up on the tobacco products by the distributors, the revenue raised at a 25.5% tax on the wholesale price of the tobacco products would be \$1.095 million.

1751c 1-75  
**States Tax Rates on Other Tobacco Products**  
 November 1, 1986

State	Product and rate of tax
	<b>Cigars, relating to:</b>
	(a) 3% each or less, \$1.50 per thousand.
	(b) More than 3% and not more than 5 cents each, \$3.00 per thousand.
	(c) More than 5 and not more than 8 cents each, \$4.50 per thousand.
	(d) More than 8 and not more than 10 cents each, \$7.50 per thousand.
	(e) More than 10 and not more than 20 cents each, \$15 per thousand.
	(f) More than 20 cents each, \$20.25 per thousand.
	Little cigars: 2 cents for each 10 or fraction thereof
	<b>Smoking Tobacco:</b>
	(a) 1/2 ounce or less, 2 cents.
	(b) Over 1/2 ounce, not exceeding 1 ounce, 6 cents.
	(c) Over 1 ounce, not exceeding 2 ounces, 8 cents.
	(d) Over 2 ounces, not exceeding 4 ounces, 11 cents.
	(e) 3 cents additional tax for each ounce or fraction part thereof over 4 ounces
	<b>Chewing Tobacco:</b> 1/2 cent of each ounce or fraction thereof
	<b>Snuff:</b>
	(a) 1/2 ounce or less, 1 cent.
	(b) Over 1/2 ounce not exceeding 1 1/2 ounces, 1 cent.
	(c) Over 1 1/2 ounces, not exceeding 2 1/2 ounces, 2 cents.
	(d) Over 2 1/2 ounces, not exceeding 3 ounces, 2 1/2 cents.
	(e) Over 3 ounces, not exceeding 5 ounces (cans, packages, gutlets), 3 cents.
	(f) Over 5 ounces, not exceeding 5 ounces (glasses, tumblers, bottles), 3 1/2 cents.
	(g) Over 5 ounces, not exceeding 6 ounces, 4 cents.
	(h) One cent additional tax for each ounce or fraction part thereof over 6 ounces.
	<b>Cigars relating to:</b>
	(a) 5 cents each or less, 2 cents for each 3 cigars.
	(b) More than 5 cents, 2 cents each
	Little cigars: 4 cents for each 20 or fraction thereof
	Smoking and chewing tobacco and snuff: 2 cents per ounce or major fraction thereof.
	Plug tobacco: 1/2 cent per ounce or fraction thereof
	All other products except snuff: 9% of manufacturers' invoice price
	All other products: 20 percent of manufacturers' price.
	Smoking tobacco, chewing tobacco, and snuff: 25 percent of wholesale price
	Little cigars weighing not more than 3 pounds per 1,000: 2 mills each
	All other cigars: 13 percent of wholesale price
	All other products: 40 percent of wholesale price
	All other products: 35 percent of wholesale sales price
	All other products: 15 percent of wholesale sales price
	All other products: 10 percent of original invoice price from the manufacturer to the wholesaler.
	Cigars with a list price of \$120 per thousand or less, tax is 8% of net invoice price.
	Cigars with a list price of over \$120 per thousand, tax is 20% of net invoice price
	Smoking tobacco: 33% of net invoice price
	Chewing tobacco and snuff: 45 percent of wholesale sales price
	Cigars and smoking tobacco: 12 percent of wholesale sales price
	Chewing tobacco and snuff: 25 percent of wholesale price
	All other products: 25 percent of wholesale price
	All other products: 15 percent of manufacturers' list price
	All other products: 12.5 percent of wholesale price
	All other products: 30 percent of wholesale price
	All other products: 25 percent of product value
	All other products: 11 percent of wholesale price.
	Cigars, cheroots, stogies, etc., weighing more than 3 pounds per thousand, relating to:
	(a) 4 cents each or less, \$10 per thousand.
	(b) More than 4 cents each, \$30 per thousand.
	Little cigars: 8 mills each.
	Smoking tobacco: 40 percent of factory list price.
	Chewing tobacco and snuff: 30 percent of factory list price
	All other products: 35 percent of wholesale sales price.
	Cigars, cheroots, stogies, etc., relating to:
	(a) 5 cents each or less, \$11 per thousand.
	(b) More than 5 cents, \$20 per thousand.
	Little cigars: 2 cents for each 8 or fraction thereof
	Smoking tobacco: 36 percent of manufacturers' price
	Snuff and chewing tobacco: 3 percent of manufacturers' price.
	All other products: 8 percent of wholesale price
	Tax on cigars and tobacco is based on weight per 1,000 and retail selling price.
	(1) Cigars weighing not more than 3 pounds per 1,000: 1 cent for each 10 cigars.
	(2) Cigars weighing more than 3 pounds per 1,000 and relating to not more than 33 cents each, \$7.50 per 1,000.
	(3) Cigars of all description weighing more than 3 pounds per 1,000 and relating to over 33 cents each, containing no substantial amount of non-tobacco ingredients, \$11.00 per 1,000.
	(4) Cigars of all description weighing more than 3 pounds per 1,000 and relating to over 33 cents each, containing a substantial amount of non-tobacco ingredients, \$15.00 per 1,000.
	(5) Chewing, pipe or smoking tobacco, and snuff, 25 percent of the factory list price exclusive of any trade discount, special discount or deal.
	All other products: 35 percent of manufacturers' selling price delivered into state
	All other products: 20 percent of distributors' price.
	All other products: 84.9 percent of wholesale price.
	All other products: 20 percent of wholesale price.

The following states tax little cigars, the same as cigarettes according to definition, CA, CT, IA, MN, and TN

C—Cigars  
 S—Smoking tobacco  
 Ch—Chewing tobacco  
 Sn—Snuff

# Municipality of Anchorage



P.O. BOX 196650  
ANCHORAGE, ALASKA 99519-6650  
(907) 264-4111

TONY KNOWLES,  
MAYOR

A handwritten signature in dark ink, appearing to read 'Tony Knowles', is written over a set of horizontal lines.

## MUNICIPAL HEALTH & HUMAN SERVICES COMMISSION

April 29, 1987

House Finance Committee Members  
Alaska State Legislature  
P.O. Box V  
Juneau, Alaska 99811

Dear House Finance Committee Members:

The Anchorage Municipal Health and Human Services Commission is charged with reviewing and making recommendations on "legislation which affects the health and social well-being of the residents" of Anchorage (Anchorage Municipal Code 4.60.060). In accordance with this responsibility, the Municipality of Anchorage's Health and Human Services Commission voted on April 22, 1987, to recommend approval of HB-260. It is the Commission's opinion that the use of chewing tobacco, pipe tobacco and cigars is hazardous to health and that the State of Alaska should tax these types of tobacco and that furthermore, a separate accounting of the proceeds from such a tax should be provided in order to fund health care, health research, health education, and health promotion programs. Since the State of Alaska already taxes cigarette tobacco, it makes sense that it should also tax other tobacco products at a similar rate to that of cigarettes. It is our understanding that these types of tobacco are currently taxed in 28 other states.

Although the original bill does not include it, the Health and Human Services Commission recommends that the tax be extended to pipe tobacco and cigars as well as chewing tobacco and that the tax be increased from one cent to 1.5 cents per .1 ounce.

The Health and Human Services Commission is in the process of developing a comprehensive plan for health and human services which will establish priorities among services. The Commission's support for this legislation does not reflect any prioritization of services and needs.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Gari B. Andreini', is written in a cursive style.

Gari B. Andreini, Chairman  
Municipal Health & Human Services Commission

cc: James Barnett, Commission Liaison, Anchorage Assembly  
Chip Dennerlein, Intergovernmental Affairs, MOA  
John F. Franklin, Commissioner of Public Safety, MOA  
Jewel Jones, Director, Dept. of Health and Human Services, MOA  
Tony Knowles, Mayor  
Larry Baker, Chair, Anchorage Assembly

JS9/dPD12

RESOLUTION FOR THE HEALTH AND HUMAN SERVICES COMMISSION

WHEREAS, the use of chewing tobacco, pipe tobacco and cigars is hazardous to health;

WHEREAS, The State of Alaska taxes cigarette tobacco but does not tax these other types of tobacco;

WHEREAS, these types of tobacco are taxed in 28 states other than Alaska;

WHEREAS, Additional monies are needed for health programs;

~~I move that the Anchorage Health and Human Services Commission support~~ legislation that would:

1. Tax chewing tobacco, pipe tobacco and cigars at a rate similar to that of cigarettes;
2. Provide for separate accounting of the proceeds from such a tax; and
3. Indicate that the proceeds may be used for health care, health research, health education and health promotion programs.

ALASKA AREA SMOKELESS TOBACCO SURVEY RESULTS

Prepared by: Candy Schlife  
August 12, 1986

## SMOKELESS TOBACCO USAGE IN RURAL ALASKA

Candy Schlife, R.D.H.  
Dental Prevention Specialist  
Alaska Area Native Health Service

### INTRODUCTION

The use of smokeless tobacco products is increasing. Sales of smokeless tobacco products have increased about 11 percent each year since 1974 with an estimated 12 million users in the United States in 1985.

A recent national survey indicated that 16 percent of males between 12 and 25 years of age had used some form of smokeless tobacco within the past year. Several studies have reported 25 to 35 percent of adolescent males currently use these products (1).

The primary purpose of this survey was to determine the use of smokeless tobacco in the youth of rural Alaska both Native and non-Native. Amount used, number of years used and awareness of health problems associated with the use of these products was also assessed.

### METHODS

In the spring of 1986, a nine-question survey was distributed by the Indian Health Service Dental Programs in eight rural regions of the state. These surveys were self-administered by students in grades kindergarten through twelve. Data from about 5,000 surveys was compiled and will be reported here. The method of sampling was based upon those school administrators and dental programs who chose to participate in the survey. (Not all schools in all areas were asked to participate due to time and energy restraints). The perceived problem of use of smokeless tobacco products may have influenced some to participate. A random sample method was not used. The school system was chosen to administer the survey, therefore the sample size was limited to only 5 to 18 year-old children. Students attending school out of their region i.e. boarders were obviously not included. Since school attendance was crucial for participation in the survey there was no attempt to survey those students who had dropped out of school.

### RESULTS

The total number of male and female respondents was 2,511 and 2,454 respectively. Of the 4,965 respondents, 34 percent of the males and 36 percent of the females indicated they used smokeless tobacco products. This is contrary to much data that supports substantially higher usage by male vs. female populations. According to a national survey only about two percent of the female population of all ages used smokeless tobacco products (1).

A user was defined as anyone who responded positively to the question, "Do you use smokeless tobacco products?". Our survey indicated that 24 percent of the males age 5-12 years were users and 45 percent of the 13-18 year-old male students were users. The percentage of females who regularly use was 22 percent for ages 5-12 years and 34 percent for ages 13-18. The highest user age group was 16 year-old males: 52.7 percent of this age population used. It is alarming to find that about 17 percent of the five-year old females and 10 percent of five-year old males are using these products and had been doing so for 1.3 - 1.5 years (Tables 2, 3)!

Higher use was seen in Interior and Northern Alaska (Yukon-Kuskokwim Delta Region, Bristol Bay Area, Kotzebue Service Unit, Barrow and Anchorage Service Units). Lower usage was seen in Southeast Alaska, Mt. Edgecumbe and Annette Island Service Units (Table 6). The number of surveys completed from the service units with a higher usage was also indicative of a greater percentage of the population surveyed (Table 5).

According to the survey, 45 percent of the males and 43 percent of the females had tried smokeless tobacco products.

Another item of concern was how much of these products was being used. The average male used 1.4 cans per week and the average female used 1.1 cans per week. National average = 1 can per week.

Copenhagen was the brand selected most often when asked to list brands used. Eighty-four percent of the users chose Copenhagen as the brand or one of the brands used. Copenhagen is U.S. Tobacco's strongest product (2). High use of Copenhagen may indicate a sophisticated and experienced user population. Many home-made versions were also reported.

Respondents were also asked how long they had used these products. The answers ranged from 1.3 years for the five-year old female users to 7.9 years for the eighteen-year old female users. The males length of use varied from 1.0 years in the five-year old males to 6.5 years in eighteen-year old male users. In looking at the average number of years which these products were used, we see that females in general have used these products longer than the males (Tables 3, 4). Use of these products showed a linear progression for both males and females with no particular "target age" or sharp rise in use by an age group. There was a slight increase in use in females from age 8 to 9 and 12 to 13 (Table 4). The average 18 year-old student has used these products for almost seven or eight years. This is compared to a 5 year-old user today who may have 13 to 14 years of use by the time he/she reaches age eighteen.

Scientific evidence is strong that the use of smokeless tobacco can cause cancer in humans, especially oral cancer. The degree it affects depends on many factors such as type of smokeless tobacco product used, frequency, duration, and site of action. Leukoplakia, gingival recession (root caries), staining of teeth and tooth abrasion have also been reported.

Respondents were finally asked if they were aware of any health problems associated with the use of smokeless tobacco products. The majority (60.1 percent) responded positively. Ninety-three percent of those who responded positively to awareness of health problems listed "cancer" as their answer or one of their answers.

A five-year old child probably cannot really comprehend what "cancer" means but this response is an indication that there is some level of awareness. The correlation of awareness of health problems and high usage rate is of concern. It was sad for this surveyor to look at responses of young children who were asking for help in trying to quit their addiction and didn't know what to do.

### DISCUSSION

Once usage has been established, the fact of addiction must be addressed and intervention methods must be used.

It has been reported that the blood nicotine levels are similar to that of cigarette smoking and therefore one might expect a similar addiction in smokeless tobacco users. There is also evidence that nicotine may play a role in coronary artery and peripheral vascular disease, hypertension, peptic ulcers and fetal mortality and morbidity (1).

It has been reported in other articles that the number one factor in getting started with smokeless tobacco products is peer pressure. Pressure from older siblings may also be influential. Parental role models may also be a factor (not documented). The advertising campaigns of tobacco companies have been very effective in getting kids trying and hooked.

The job of educating parents as well as the children about the health problems associated with smokeless tobacco products is an important task of all health care providers. Communities need to be presented with this information and allowed to make a decision as to their perspective of the problem. Once it is perceived as a problem (education and awareness) they can then become part of the solution. There is a much greater chance for health behavior changes made with this approach.

We have a unique opportunity to educate and prevent a known negative health behavior. A multi-disciplinary approach involving Community Health Aides, Public Health Nurses, Health Educators, Dental and Medical Personnel, as well as community members, can play an important role in reducing the high usage rate in the rural population in Alaska.

References:

- 1 U.S. Department of Health and Human Services, The Health Consequences of Using Smokeless Tobacco. A Report of the Advisory Committee to the Surgeon General, April, 1986.
2. Youth Use of Smokeless Tobacco: More Than A Pinch Of Trouble National Program Inspection. January 1986.

Special thanks:

Technical consultation

Dr. David B. Jones and  
Dr. Tom Kovaleski

Assistance in assembly of data

Dr. Horace Whitt

Survey distribution

Dr. Mike Cangemi  
Dr. Tom Johnson  
Dr. Carol Dalton  
Carmel Nelson, R.D.H.  
Dr. Bill Kohn  
Pam Grantham, R.D.H.  
Dr. Elizabeth Barrett  
Dr. Kevin Craig  
Dr. Bob Allen

TABLE 1  
Percent Users by Sex

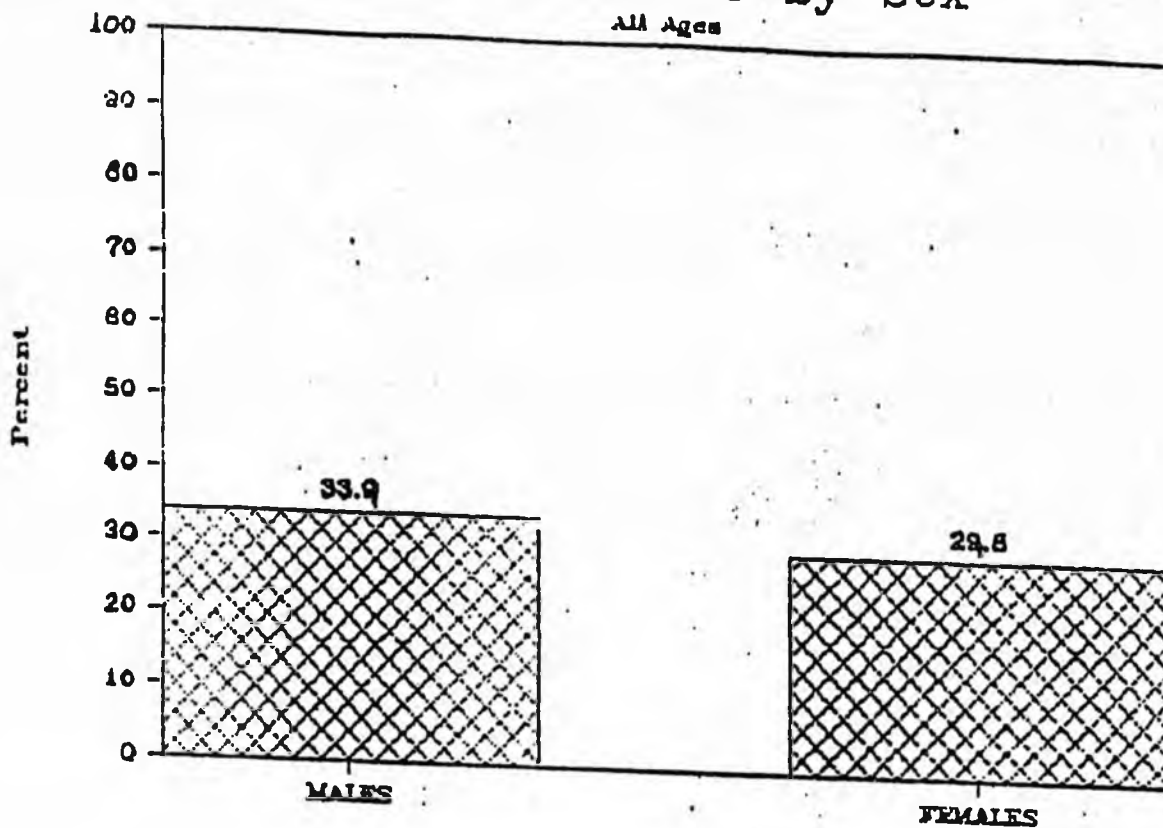


TABLE 2  
Percentage of Smokeless Tobacco Users  
by Sex and Age

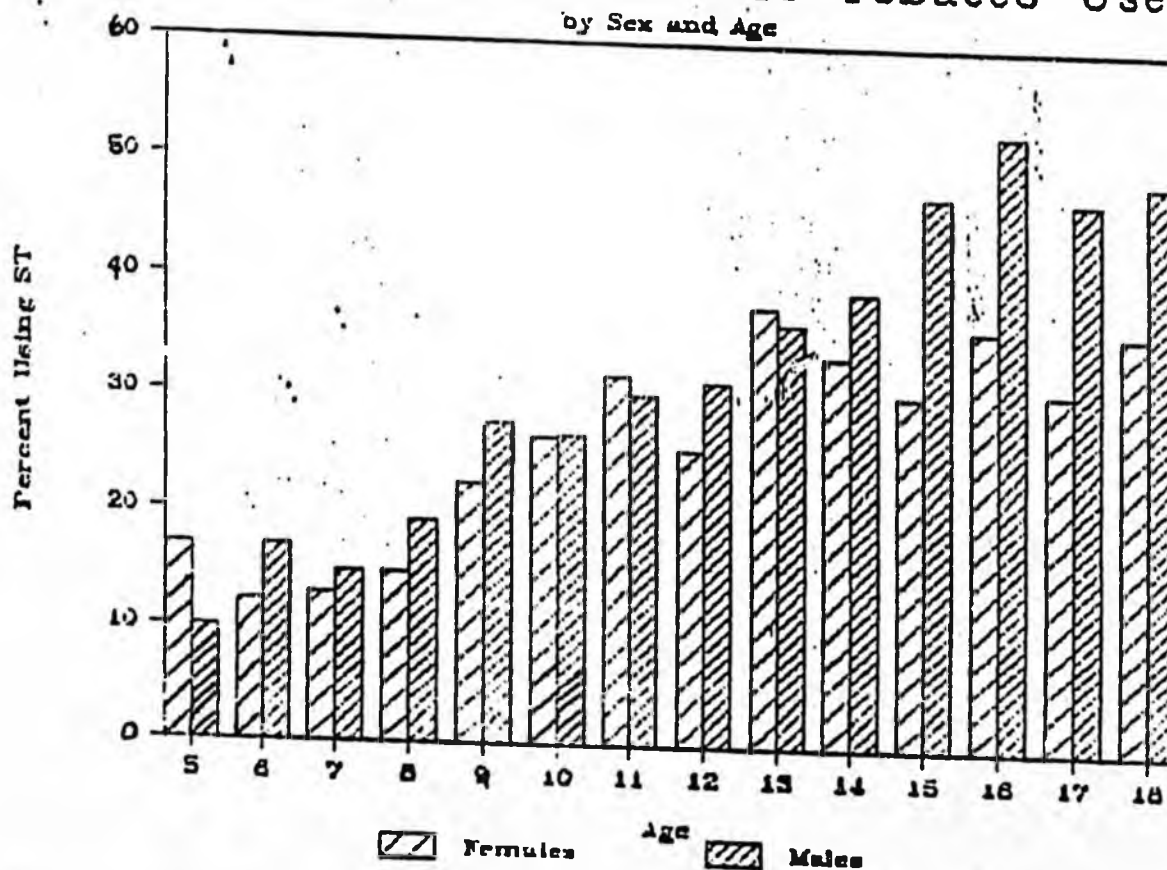


TABLE 3

AGE	SEX	NON-USERS	USERS	TOTAL	%USERS	CANS/WK	YRS USING
5	FEMALE	49	10	59	16.9	0.5	1.3
6	FEMALE	114	16	130	12.3	0.9	1.5
7	FEMALE	140	21	161	13.0	0.9	2.1
8	FEMALE	143	25	168	14.9	1.1	1.9
9	FEMALE	137	40	177	22.6	1.3	2.7
10	FEMALE	150	54	204	26.5	0.9	2.7
11	FEMALE	124	58	182	31.9	1.1	2.4
12	FEMALE	168	58	226	25.7	1.2	3.6
13	FEMALE	138	84	222	37.8	1	3.2
14	FEMALE	146	74	220	33.6	1.3	3.8
15	FEMALE	150	66	216	30.6	1.1	5.2
16	FEMALE	145	83	228	36.4	1.2	5.5
17	FEMALE	121	54	175	30.9	0.9	5.1
18	FEMALE	55	31	86	36.0	0.9	7.9
5	MALE	55	6	61	9.8	1.5	1
6	MALE	123	25	148	16.9	0.9	1.5
7	MALE	156	27	183	14.8	0.9	2
8	MALE	134	32	166	19.3	2.1	1.9
9	MALE	120	46	166	27.7	1.4	2.3
10	MALE	139	51	190	26.8	1.5	3.1
11	MALE	155	47	222	30.2	1.6	3.1
12	MALE	144	66	210	31.4	1.1	3.2
13	MALE	132	76	208	36.5	1.1	4.3
14	MALE	123	80	203	39.4	1.3	4.6
15	MALE	117	106	223	47.5	1.5	4.9
16	MALE	95	106	201	52.7	1.7	5.2
17	MALE	105	94	199	47.2	1.4	5.7
18	MALE	67	64	131	48.9	1.6	6.5

# Average Years Using Smokeless Tobacco by Age and Sex

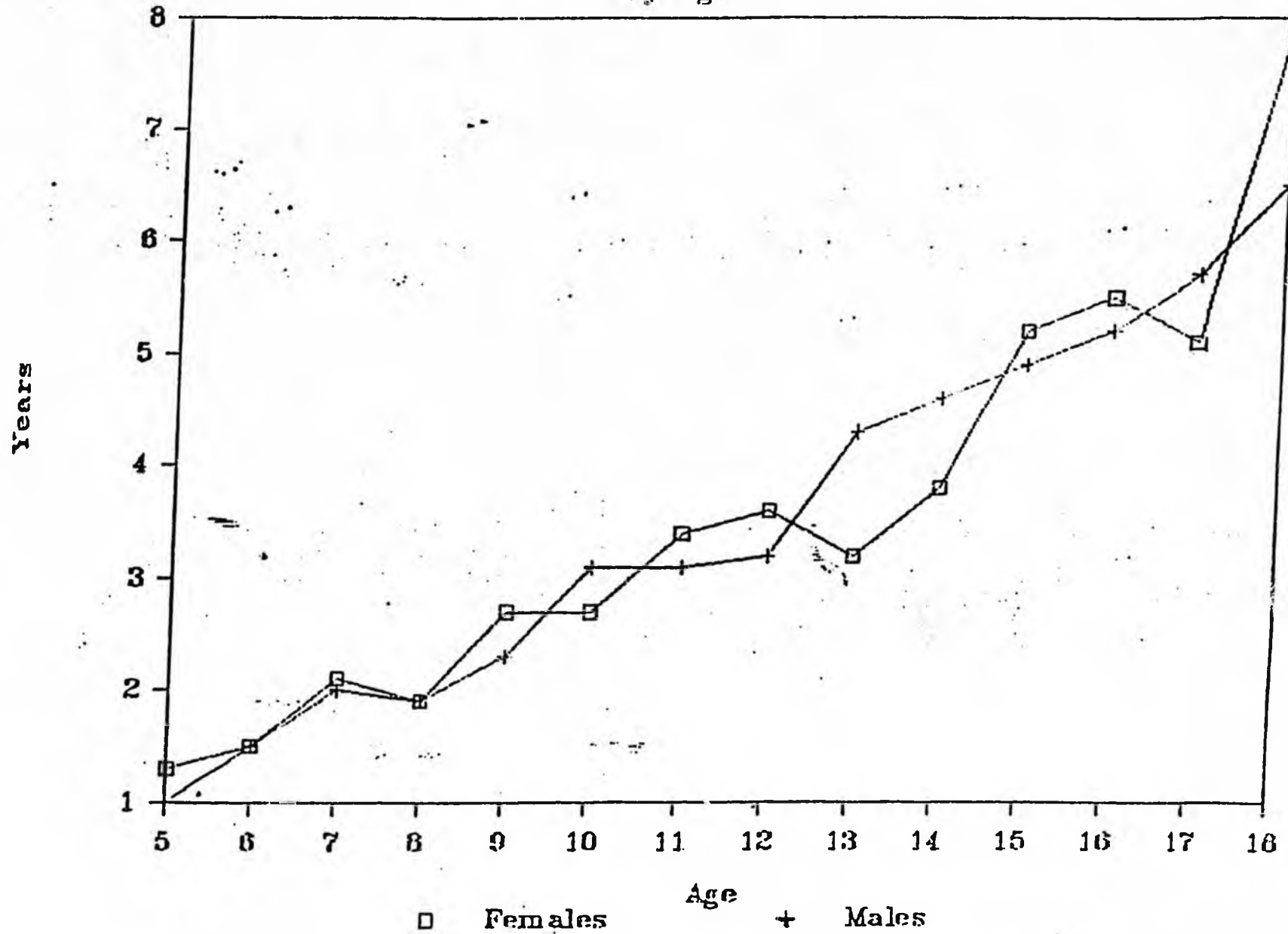
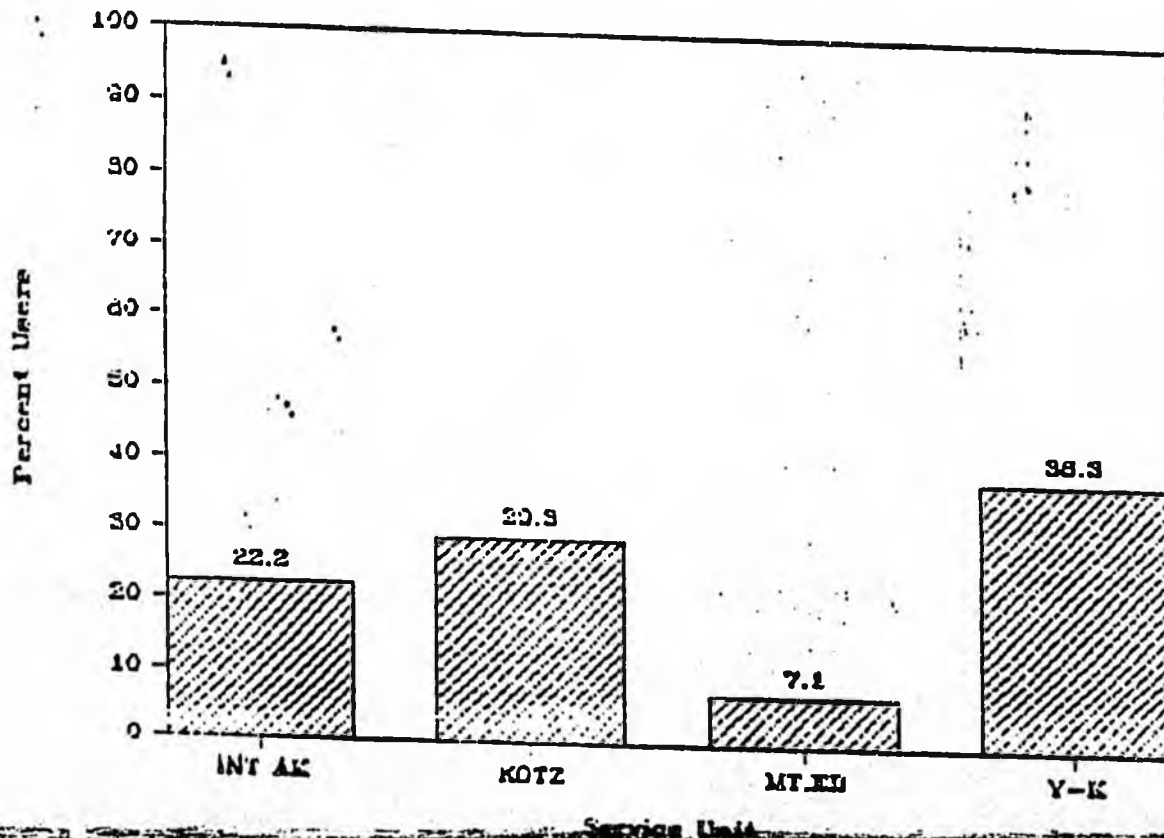
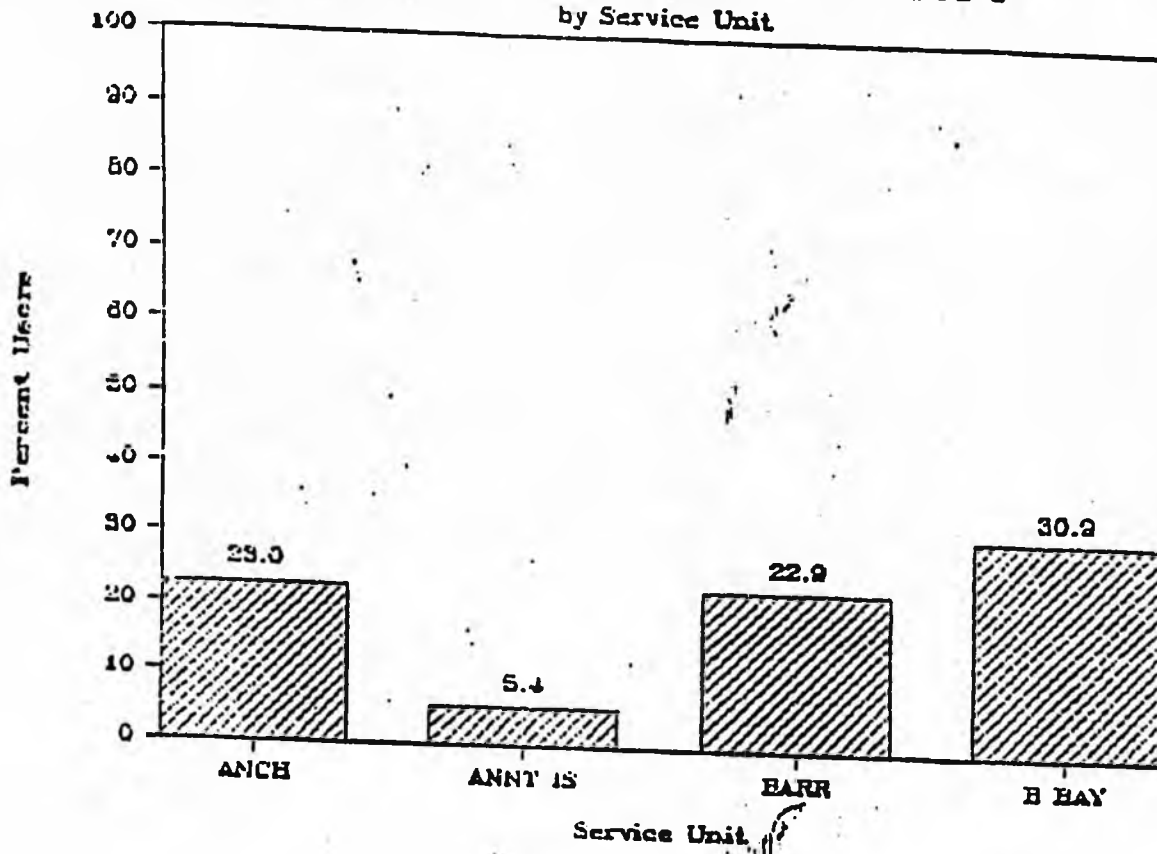


TABLE 5

SERVICE UNIT	NON-USERS	USERS	TOTAL	%USERS
ANCHORAGE	489	146	635	23.0
ANNETTE ISLAND	174	10	184	5.4
BARROW	316	94	410	22.9
BRISTOL BAY	284	127	411	30.9
INTERIOR AK*	448	128	576	22.2
KOTZEBUE	350	145	495	29.3
MT. EDGEUMBE	92	7	99	7.1
YUKON-KUSKOKWIM	1487	925	2412	38.3
TOTAL:	3640	1582	5222	30.3

\* Numbers here represent total users; and non-users. Sex was unintentionally left off on a majority of the surveys for Interior Alaska so these numbers are not included in any data which includes sex as a component of the results.

# Smokeless Tobacco Users by Service Unit



# Is There A Safe Tobacco?

Is there a way to use tobacco without risking your health and your life?

Should you switch from cigarettes to another form of tobacco use?

- Snuff? • Cigars? • Pipes?
- Chewing Tobacco?
- Clove Cigarettes?
- Low-Yield Cigarettes?

Take a look at

## The Facts



AMERICAN  LUNG ASSOCIATION  
The Christmas Seal People™

AMERICAN LUNG ASS'N. OF ALASKA  
605 BARROW ST., SUITE 2  
ANCHORAGE, AK 99501  
(907) 276-LUNG

This publication was made possible in part by your support of Christmas Seals® and other contributions to the American Lung Association.

11-84

### SMOKELESS TOBACCO

As cigarette smoking becomes increasingly unpopular in American life, tobacco companies are trying hard to promote chewing tobacco and snuff.

They aim at two groups:

- Young people who may never have been regular smokers.
- Smokers and ex-smokers who want a substitute for cigarettes.

But how safe are these products?

Chewing tobacco is leaf tobacco chewed by placing a wad—called a "quid" or "chaw"—between the cheek and the teeth, and sucking on it.

Snuff is finely ground tobacco. It is "dipped" by placing a pinch between the lower lip and teeth. Although the practice is rare, it may also be breathed through the nose.

Chewing tobacco and snuff definitely are dangerous health hazards. Because they are not smoked, they increase the risk of disease in certain other parts of the body instead of the lungs.

The dangers of using smokeless tobacco stem from two facts:

- They can lead to nicotine addiction.

- They damage the delicate lining of the mouth and throat.

As a result, they can contribute to serious disease or death from oral cancers, heart disease, or stroke.

Some health problems linked to chewing tobacco and snuff

- Mouth cancer • Throat cancer • Gum disease

Other effects

- Bad breath • Stained teeth • Tooth loss
- Slow healing of mouth wounds • Lowered sense of taste and smell • Excess saliva, need to spit

Smokeless tobacco companies want you to believe chewing tobacco or dipping snuff is the "in" thing to do—that it makes you more attractive.

### CIGARS AND PIPES

Pipe and cigar smokers have death rates that are lower than those of cigarette smokers, but higher than non-smokers. Since they tend to smoke less and usually do not inhale, pipe and cigar smokers have less risk of heart and lung disease. Those who switch from cigarettes to pipes and cigars, however, may inhale more than those who originally smoked cigars and pipes—or smoke more often.

Smoking pipes or cigars is far from safe. Here are the facts:

- Pipe and cigar smoke contain many of the same harmful ingredients as cigarette smoke, often in much higher amounts.
- People who *inhale* pipe or cigar smoke have greater risks of death from lung or heart disease than do cigarette smokers.
- Cigarette smokers who switch to pipes or cigars are likely to inhale the smoke—often unintentionally.
- Little cigars are especially dangerous. People tend to use them like cigarettes—

AMERICAN  LUNG ASSOCIATION OF ALASKA  
*Dedicated to the prevention and control of lung disease*

April 1, 1987

*Deborah Williams, Executive Director*

Representative Max Gruenberg  
Pouch V  
Juneau, Alaska 99811

Dear Representative Gruenberg:

Thank you for your interest in a state tax on chewing tobacco and snuff. Your support of this measure would mean a great deal to the 12,000 contributors to the American Lung Association, and the state as a whole.

Per your request, I am sending an outline of my testimony before the Health and Human Services Subcommittee. The points I raised were:

- 1) Tobacco addiction is the number one preventable cause of death and disability in the United States.
- 2) The rate of cigarette addiction in Alaska is higher than the national average; and there is reason to believe that the rate of snuff and chewing tobacco addiction is also higher in Alaska than the national average; an estimated 40 percent of male and female rural native Alaskans between the ages of 6 and 18 use snuff or chewing tobacco on a regular basis.
- 3) The health costs associated with tobacco addiction are immense: tobacco related diseases such as emphysema, chronic bronchitis, lung cancer, mouth cancer, cancer of the tongue, and cancer of the throat cost the nation \$54 billion annually in lost work, production, and medical costs.
- 4) Lung cancer is the 4th leading cause of death in Alaska; 85% of lung cancer is caused by smoking.
- 5) The health costs associated with the use of snuff and chewing tobacco are rising as their use increases. The most tragic fact is that very young children - 4,5, and 6 year olds are beginning to use these dangerous, addictive substances.
- 6) The use of chewing tobacco often leads to cigarette smoking because of the nicotine addiction associated with each.
- 7) Currently, neither chewing tobacco nor snuff are taxed at the

federal, local, or state levels in Alaska. This simply does not make social economic sense.

8) The benefits of taxing chewing tobacco and snuff are three fold:

- a) a tax will generate much needed revenues for health programs, particularly those dealing with the prevention of tobacco addiction (our best estimate is that a 16 cent tax would raise between \$1/2 and 1 million annually).
- b) a tax will give us a "handle" on the distribution and use of these products.
- c) a tax will serve as a disincentive to the use of these dangerous products, particularly to youth who are most cost sensitive. This will ultimately save the state direct and indirect health care costs.

9) Some of the monies generated from a chewing tobacco tax together with some of the monies generated from the recent cigarette tax increase can best be spent on tobacco addiction prevention studies and programs. At least \$250,000 should be included in the budget for these purposes. Again, this is sound preventative health, which translates into sound economics.

10) The time to act is now: the state needs the revenue; the state needs to know more about the distribution and sale of chewing tobacco and snuff; and the state needs to lower the rates of tobacco addiction, particularly among our youth who are the future of this state.

Please contact me or Nancy Babb if you have any questions. We are anxious to provide whatever additional assistance we can to get this measure through the legislature.

Sincerely,

*Deborah Williams*

Deborah Williams  
Executive Director

DW/lS

*Spending in favor of Bill # 260*

SMOKELESS TOBACCO USE IN RURAL ALASKA

The use of smokeless tobacco products is increasing. Sales of smokeless tobacco products have increased about 11 percent each year since 1974 with an estimated 12 million users in the United States in 1985.

A recent national survey indicated that 16 percent of males between 12 and 25 years of age had used some form of smokeless tobacco within the past year. Several studies have reported 25 to 35 percent of adolescent males currently use these products.

The primary purpose of this survey was to determine that use of smokeless tobacco in the youth of rural Alaska both Native and non-Native. Amount used, number of years used and awareness of health problems associated with the use of these products was also assessed.

Data from our Indian Health Survey that was conducted in 1986 in rural Alaska reported that almost as many Alaskan school-age females are using smokeless tobacco products as school-age males. Data was collected in Spring, 1986 from 4,965 voluntary respondents (convenience sample), both Alaskan Native and non-native, in eight rural regions of Alaska in 92 villages. The nine-question survey was distributed by IHS Dental Program staff. The surveys were self-administered by students in grades K-12. The total number of female and male respondents was 2,454 and 2,511 respectively. It was estimated that 27.5 percent of females and 33.7

percent of males ages 5-18 years use smokeless tobacco products. A user was defined as anyone who responded positively to the question, "Do you use smokeless tobacco products?" For 5 year-olds, 16.9 percent of females and 9.8 percent of males reported using smokeless tobacco products and had been doing so for 1.3 to 1.5 years.

Responses for the number of years using smokeless tobacco products ranged from 1.3 years for 5 year-old females to 7.9 years for 18 year-old females. Use by males ranged from 1.0 years for 5 year-olds to 6.5 years for 18 year-olds. The average 18 year-old student had been using smokeless tobacco for about 7.5 years. It is estimated that a 5 year-old user of today in Alaska may use smokeless tobacco products for up to 13 to 14 years by the time he/she reaches 18 years of age. The recent Inspector General's National survey reported that the mean number of years for using smokeless tobacco by 11-19 year-old users was 3.6 years which is considerably lower than that reported here in Alaska.

On the average, females used 1.1 cans of snuff per week and males used 1.4 cans. It was reported in the Inspector General's Survey that smokeless tobacco users used an average of 2.9 cans per week. One can of snuff per week was reported most often.

Also reported was 43 percent of females and 45 percent of males indicated having tried smokeless tobacco. Sixty percent of respondents indicated that they were aware of health risks associated with smokeless tobacco use and 93 percent of those listed cancer as a possible health problem.

These data indicate that smokeless tobacco use in this population is substantially higher than the general U.S. population of the same age. In addition, use by females is similar to use by males in Alaska. Other IHS surveys report high smokeless tobacco usage rates among American Indian/Alaska Natives.

Considering this data reporting high usage rates for males as well as females in Alaska, and an early age of initiation for use of smokeless tobacco, it is important that we develop and implement primary prevention as well as cessation programs. These programs need to be implemented as early as preschool and kindergarten if intervention for smokeless tobacco use among children are to be effective. Education and intervention need to be implemented to coordinate all forms of tobacco use to prevent kids from switching back and forth between using smokeless tobacco products and cigarettes.

I would urge you that an excise tax be implemented on all smokeless tobacco products including cigars and pipes and that the revenues generated be used in health education/health promotion projects as will be outlined by my other colleagues here present. One such project should be health education in the schools on this topic. We have the ability to prevent a health problem, let's not miss the opportunity!

I would request that these revenue-generated funds from the proposed excise tax on smokeless tobacco products be accounted for and directed to

the Department of Health and Social Services, Division of Public Health, Grants Administration Section. These funds would be spent on activities directly related to health promotion/disease prevention.

Another measure I would also urge is a campaign to inform store workers of the penalty for selling or giving these products to minors. According to Alaska State legislation this is a violation and a penalty of \$300 for anyone over the age of 19 years caught so doing. What about those sellers that are 17 and 18 years old?

As mandatory national legislation has required warning labels on these products and also has banned television and radio media advertising of these products, one other step we can take is to oppose the free give-aways of smokeless tobacco products in printed media advertising. Making these products less accessible is one step in prevention.

Based upon the known health hazards, high usage rates in rural Alaska, and the potential for revenues to increase activities for health education and health promotion, I urge your support for this bill. Thank you.

As reported before the House Health, Education, and Social Services Committee of the Alaska State Legislature on April 23, 1987 by Candy Schlife, Dental Prevention Specialist, Alaska Area Native Health Service.

HOUSE HEALTH, EDUCATION AND SOCIAL SERVICES  
STANDING COMMITTEE  
April 23, 1987  
8:30 a.m.

MEMBERS PRESENT

Rep. Niilo Koponen, Co-Chair  
Rep. Johnny Ellis, Co-Chair  
Rep. Dave Donley  
Rep. Max Gruenberg  
Rep. Alyce Hanley  
Rep. Bill Hudson  
Rep. Randy Phillips

COMMITTEE CALENDAR

- HB 248 -- "An Act relating to adult basic education."  
HB 242 -- "An Act relating to the training of foster parents."  
HB 258 -- "An Act relating to the civil liability of, and liability insurance for, foster parents."  
HB 241 -- "An Act providing for independent investigation of complaints against foster parents."  
HB 260 -- "An Act establishing an excise tax on the sale of smokeless tobacco; and providing for an effective date."

WITNESS REGISTER

Mr. Royce Weller  
Dept. of Revenue  
P.O. Box S  
Juneau, AK 99811  
465-2300  
Position: Favored HB 260.

Kathy Spurgeon  
Rt. 2 Box 102  
Ketchikan, AK 99901  
225-2057  
Position: Favored HB 258.

Deborah Williams  
American Lung Association of Alaska  
P.O. Box 103056  
Anchorage, AK 99510  
276-5864  
Position: Favored HB 260.

Miriam Sumner  
AK Foster Parents Association  
P.O. Box 140651  
Anchorage, AK 99508  
745-7797  
Position: Favored HB 258.

Hal Post  
AK Council on Smoking or Health  
4715 Melvin  
Anchorage, AK  
563-7484  
Position: Favored HB 260.

Rodman Wilson  
Municipality of Anchorage  
825 "L" Street  
Anchorage, AK 99501  
343-6724  
Position: Favored HB 260.

Greg Ray  
American Lung Association  
406 W. Fireweed  
Anchorage, AK 99503  
277-8696  
Position: Favored HB 260.

Anne Morris  
American Lung Association  
2841 DeBarr, #23  
Anchorage, AK  
264-1600  
Position: Favored HB 260.

Candy Schlif  
Alaska Native Health Association  
Box 7-741  
Anchorage, AK  
257-1119  
Position: Favored HB 260.

David Jones  
Alaska Native Health Association  
Box 7-741  
Anchorage, AK  
257-1119  
Position: Favored HB 260.

Deborah Williams  
American Lung Association  
605 Barrow, #2  
Anchorage, AK 99501  
276-5864  
Position: Favored HB 260.

Neal Cooper  
200 W. 34th, #822  
Anchorage, AK 99503  
562-0063  
Position: Opposed HB 260.

Bonnie Rapoport  
1020 Barnette  
Fairbanks, AK 99701  
456-4003  
Position: Favored HB 260.

Jolanda Cook  
1305 21st  
Fairbanks, AK 99701  
452-1575

Myra Munson  
Dept. of Health and Social Services  
P.O. Box H01  
Juneau, AK 99811  
465-3030  
Position: Testified on HB 258.

Lydia Jones  
Rep. Martin's Office  
P.O. Box V  
Juneau, AK 99811  
465-3783  
Position: Favored HB 258.

#### PREVIOUS ACTION

HB 248:	Date	Page	Action
	04/06/87 (H)	746	Read the first time with referral(s)
	04/06/87 (H)	746	HESS, Finance

HB 258:	Date	Page	Action
	04/08/87	(H) 776	Read the first time with referral(s)
	04/08/87	(H) 776	HESS, Judiciary
HB 241:	Date	Page	Action
	04/03/87	(H) 727	Read the first time with referral(s)
	04/03/87	(H) 727	HESS, Finance
HB 242:	Date	Page	Action
	04/03/87	(H) 727	Read the first time with referral(s)
	04/03/87	(H) 727	HESS, Finance
HB 260:	Date	Page	Action
	04/08/87	(H) 777	Read the first time with referral(s)
	04/08/87	(H) 777	HESS, Finance
	04/15/87	(H) 868	Cosponsor added: Navarre

ACTION NARRATIVE  
TAPE ONE SIDE ONE  
NUMBER 000

The meeting of the House Health, Education and Social Services was called to order at 8:35 a.m. Members present were Representatives Ellis, Hudson, Phillips, Hanley, and Donley.

Rep. Ellis announces that there is a memo in front of the members that is from himself and Rep. Koponen to the chair of the House Finance Committee regarding bills that were in the House HESS Committee and are now in Finance. The memo will be sent this afternoon.

Rep. Ellis also announces that there is a proposed committee bill on the subject of optometry. Unless there are objections, it will be introduced tomorrow as a committee bill.

Rep. Ellis further states the resumes of Jack Chenowith and Vince Speranza are before the committee and if there are any objections please let staff know by April 30. Rep. Phillips states that he would like to have committee time to review the resumes and nominations.

Rep. Ellis notes that HB 204 will be before the committee tomorrow.

Rep. Ellis brings HB 260 before the committee.

Number 059

Rep. Ellis comments that he introduced HB 260 because of the social problem of children using smokeless tobacco throughout the state. He was also cognizant of the fiscal problems facing the state and HB 260 has a positive fiscal note of approximately \$500,000. The intent would be to have the money go into health promotion programs.

Rep. Ellis notes that the committee substitute has two changes from the original bill. The CS adds pipe tobacco and cigars to be taxed, and prohibits the tax on military bases which complies with existing federal and state laws.

Rep. Ellis asks Candy Schlif to testify via teleconference.

Number 108

Ms. Schlif says that the Alaska Native Health Services favors HB 260. She states that the use of smokeless tobacco is increasing about 11% each year since 1974. A national survey showed that 16% of the males between 12 and 25 years of age have used some form of smokeless tobacco. A survey that was done in Alaska in 1986 shows that as nearly as many high school females are using smokeless tobacco products as school age males. Between 25%-33% of high school students are using smokeless tobacco. Using smokeless tobacco is also common with very young children. The length of period that the children were using smokeless tobacco ranged from 1.3 years for 3 year olds to 7.9 years for 18 year old females. The use of smokeless tobacco in Alaska is higher than in other states.

Ms. Schlif also reports that 43% of the females and 45% of the males had tried smokeless tobacco products, and many knew the health risks involved. She supports the provision in HB 260 that has the money intended for health promotion.

Ms. Schlif suggests that there be a campaign to inform store workers of the penalty of selling tobacco to minors.

Number 189

Rep. Phillips asks if there is an age limit to which smokeless tobacco products can be sold over the counter.

Ms. Schlif responds that a person must be 16 years of age. Rep. Phillips comments that he does not see how HB 260 will help deter people from buying smokeless tobacco. Ms. Schlif answers that by increasing the cost with the excise tax, it would deter children. Also the funds from the tax could be used to help educate the children. Rep. Phillips states that he thinks it is an enforcement problem rather than a tax collection problem. Rep. Ellis reiterates that

people under 16 years old are most sensitive to price changes and can be deterred.

Number 221

Rep. Hudson asks if smokeless tobacco is habit forming like cigarettes. Ms. Schlif responds, "Yes."

Rep. Ellis asks Mr. David Jones to testify via teleconference.

Number 227

Mr. Jones favors HB 260 because the use of smokeless tobacco is alarmingly high in Alaska. Evidence shows that smokeless tobacco can cause cancer in humans especially in the mouth. Also users of smokeless tobacco can be more susceptible to tumors in the upper digestive track. There are carcinogens in smokeless tobacco. Smokeless tobacco can also cause other mouth diseases, which can lead to cancer later on. Affect on teeth by use of smokeless tobacco are unconfirmed. Mr. Jones urges that the tax money be directed to the Department of Health and Social Services.

Rep. Ellis asks Dr. Anne Morris to testify via teleconference.

Number 304

Dr. Morris supports the proposed changes to HB 260 that would add pipe tobacco and cigars to the bill. Pipe and cigar smokers have higher death rates than nonusers though not as high as cigarette smokers. Pipe and cigar smoke have many of the same harmful chemicals as cigarette smoke, and are potentially carcinogenic. Dr. Morris comments that the public perceptions is that pipes, cigars and smokeless tobacco are safe substitutes to cigarettes and suggests that their use will increase as the ban on cigarettes increases.

Number 358

Rep. Ellis notes for the record that Rep. Koponen has joined the committee.

Rep. Ellis asks Mr. Hal Post to testify via teleconference.

Number 364

Mr. Post supports HB 260 because an excise tax will be a deterrent. He suggests that the amount of the tax be increased to \$0.015 per 0.1 ounce or 18 cents per package so that the state tax per package will be higher than

cigarettes. Mr. Post notes that since there is no federal tax on smokeless tobacco like there is on cigarettes, the smokeless tobacco tax needs to be higher to adequately discourage its use.

Mr. Post supports the proposed committee substitute that would add pipe tobacco and cigars to be taxed. He also supports the reporting requirement, and believes that all Alaskans should know about the use of tobacco in Alaska.

Mr. Post suggests that all sellers of tobacco be required to hang signs telling of the prohibition of selling tobacco to minors.

Number 429

Rep. Ellis notes that Rep. Gruenberg has joined the committee.

Rep. Ellis asks Ms. Bonnie Rapoport to testify via teleconference.

Number 434

Ms. Rapoport reports that she has received a two year health education grant for development of public information and materials on the issue of smokeless tobacco. The demand for the materials has been overwhelming. Ms. Rapoport notes that many children get smokeless tobacco from other people and suggests that the money from the tax be mandated to be used specifically for prevention and education purposes. Ms. Rapoport supports HB 260.

Number 571

Rep. Ellis explains that it is unconstitutional to dedicate funds for a specific purpose. He also mentions that the other ideas that have been suggested in testimony will be incorporated in other legislation.

Number 606

Rep. Hudson asks if people who use chewing tobacco also use drugs. Ms. Rapoport replies that she knows of no statistics that shows any correlation one way or the other. Usually though, the use of one substance leads to use of other substances. Rep. Hudson comments that deterring the use of tobacco also needs to be tied to good nutrition.

Rep. Ellis asks Mr. Rodman Wilson to testify via teleconference.

Number 649

Mr. Wilson comments that one study has shown that two-thirds of the 8 and 9 year olds who use smokeless tobacco go on to use cigarettes later. Mr. Wilson notes that blood pressure is elevated in persons who use smokeless tobacco and it is addictive.

Mr. Wilson suggests that the intent language in HB 260 be stronger by saying that it is the desire of the legislature to use the tax money for health promotion and education purposes. He asks if there is any way constitutionally to funnel some of the money to communities.

Mr. Wilson summarizes by saying that he believes that the use of tobacco and marijuana should be prohibited by anyone under the age of 21, which is the law for alcohol. He also suggests that the selling of tobacco should be limited to certain types of stores or pharmacies.

Rep. Ellis asks Mr. Neal Cooper to testify via teleconference.

Number 740

Mr. Neal Cooper is representing the tobacco merchants in Anchorage.

TAPE ONE SIDE TWO  
NUMBER 000

Mr. Cooper states that his merchant organization deals with a legal substance and do not knowingly sell to any minor. He notes that taxation is to raise revenue not to discourage use of a legal substance. If the committee wants to discourage the use of smokeless tobacco, he suggest that HB 260 be destroyed and another bill created that would abolish the use of smokeless tobacco in Anchorage.

Mr. Cooper agrees that the use of smokeless tobacco is abused by children and will fight to not sell it to any one under age.

Mr. Cooper states that taxation in this time of economic hardship will not do business any favors. A lot of people will purchase the product, "Outside," which will not help business at all.

Rep. Ellis asks Mr. Greg Ray to testify via teleconference.

Number 027

Mr. Ray supports HB 260. He also supports adding pipe tobacco and cigars to the bill. Mr. Ray would like the tax to be one and a half cents for the smokeless tobacco. He urges that the intent language be made stronger. Mr. Ray feels that the exempt language is confusing and should be taken out.

Rep. Ellis asks Ms. Deborah Williams to testify via teleconference.

Number 057

Ms. Williams favors HB 260 and the proposed committee substitute. She notes that every witness today testified to the health problem of tobacco in Alaska. Ms. Williams states that Alaska cannot afford the health costs associated with tobacco and the cost is a social cost. House Bill 260 is not the total answer, but it is an important first step.

Ms. Williams reiterates that increasing the price of tobacco does deter use. With cigarette taxes, a 10% increase in cost a 4% overall drop in consumption, and a 14% drop in consumption by teenagers. Ms. Williams points out that 28 states tax one or more of the alternative forms of tobacco. The bill will also indicate how much tobacco is sold in Alaska.

Ms. Williams reports that last night the Health and Human Services Coalition passed a resolution that endorsed taxing the alternative forms of tobacco. The resolution will be sent to the committee.

Rep. Ellis asks Mr. Royce Weller from the Department of Revenue to testify.

Number 124

Mr. Weller states that the Dept. of Revenue supports HB 260. Mr. Weller suggests three changes to HB 260. The first is to add language that will have the new tax levied in the same manner as the cigarette tax, AS 43.50.010 - 43.50.180. This would make it uniform. The second change is to add language that would prohibit the tax of products on military bases, which is identical to AS 43.40.090(c). The third change would be to require licensing of sellers of non-cigarette type products. The seller of cigarettes are already required to be licensed.

Number 151

Rep. Gruenberg states that those are excellent suggestions and volunteers to work on making the changes to HB 260. He suggests also that perhaps the license fees could be raised.

Number 174

Rep. Gruenberg states that there is an emergency regarding a bill by the administration that will be read across today. Usually the bill would go first to the HESS Committee. The bill says that a borough may collect tax on food stamps and vouchers under the WIC program. Rep. Gruenberg asks if it is okay to waive the HESS committee referral on this bill, and have it go directly to Finance. Rep. Phillips objects.

Number 198

Rep. Gruenberg reports that HB 248, the adult basic education bill is not necessary since the provisions in the bill are already in statute. There is a memo from the committee to the Speaker explaining why the committee will not be passing out HB 248. Rep. Gruenberg moves that the committee accept the memo and the attached letter from Steve Hole from the Dept. of Education and send them both to the Speaker. Seeing no objections, Rep. Ellis so orders.

Rep. Ellis brings HB 258 before the committee and asks Ms. Lydia Jones to testify on behalf of Rep. Martin.

Number 227

Ms. Jones states that foster parents are concerned that when a foster child causes damage to their or a neighbor's property, that the foster parents are responsible. The foster parents handbook states that liability insurance is provided to all foster families through the Division of Risk Management. The insurance is to protect the parents from any legal action. However in a 1986 audit of DFYS, a gray area was discovered in that foster parents may not always be shielded from liability in third party claims. Rep. Martin felt it was time that the foster parents are protected, and the state should share in the responsibility for the children. House Bill 258 would require the state to provide liability insurance against legal action.

Rep. Ellis asks Commissioner Munson to testify.

Number 279

Ms. Munson explains that HB 258 provides three things. First it provides protection to the foster parents from action against the foster parents for acts of the child. Secondly, it also provides protection for foster parents from harm that may come to the child as a result of negligence of the foster parents. Thirdly, it provides compensation for the foster parent for damage to their home or possessions that may result from the misconduct of the foster child.

Ms. Munson notes that the fear that a foster parent may be at risk is very wide spread. However, the Department is not aware of any instance of an action taken against the foster parent where the state has not defended the foster parent or provided the compensation.

Ms. Munson states that in regards to the protection from negligence, the Department would support adding state employees to that provision. This would shift the burden from the foster parent and from the individual who placed the child in the home to the state. However, this would not protect the person from gross negligence. Costs are attached to shifting the burden to the state.

Number 332

The Department opposes the compensation to damages to house or possessions. The state could purchase through Risk Management the home owner's policy for every foster home. There is a question as to whether the policy would cover the risk. Ms. Munson admits that foster children do cause more damage than regular children. The Department is currently trying to compensate foster parents for this kind of damage, but it is a haphazard process and is unsatisfactory. The Division of Risk Management could also act as an insurer rather than buying the policies. However, it is difficult to know how much to fund this since it is hard to know the level of claims.

Number 393

Ms. Munson admits that there are problems in each of the three areas, but some of it is a perception problem in that people feel that they are more at risk than they are comfortable with. They want statutory protection.

Rep. Ellis asks Miriam Sumner to testify via teleconference.

Number 412

Ms. Sumner states that foster parents are partially reimbursed for costs, but those costs do not cover any possible legal action that might occur, or toward damages. Ms. Sumner claims that liability insurance for foster parents is no longer available. She says that purchasing home or car insurance for foster parents is not a viable alternative because the foster child is not viewed as part of the family or as a visitor, so the claims are denied. Ms. Sumner recommends that there be statutory authority so that DFYS can reimburse foster parents. Secondly, she suggests that a line item in the budget be set specifically for this purpose.

Rep. Ellis asks Jolanda Cook to testify via teleconference.

Number 522

Ms. Cook asks if the liability insurance coverage extends only toward the state or to all foster children.

Number 550

Rep. Hudson states that he believes that HB 258 is going in the wrong direction in that the Division of Risk Management can take care of the concerns. Rep. Koponen suggests that a representative from the Division of Risk Management be present at the next hearing of the bill.

Rep. Ellis asks Kathy Spurgeon to testify via teleconference.

Number 574

Ms. Spurgeon reiterates Ms. Sumner's testimony, and she is concerned about the lack of liability insurance.

Number 594

Rep. Ellis states that HB 241 and HB 242 will be heard on Monday.

Number 611

Rep. Ellis adjourns the meeting at 10:00 a.m.

Original sponsors: Ellis, Gruenberg,  
Pourchot, et al.

1 IN THE HOUSE

BY THE HEALTH, EDUCATION AND  
SOCIAL SERVICES COMMITTEE

2

CS FOR HOUSE BILL NO. 260 (HESS)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act establishing a tax on certain tobacco prod-  
7 ucts; and providing for an effective date."

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

9 \* Section 1. AS 43 is amended by adding new sections to read:

10 ARTICLE 3. EXCISE TAX ON CERTAIN TOBACCO PRODUCTS.

11 Sec. 43.50.300. EXCISE TAX LEVIED. A tax of 25 percent of the  
12 wholesale price of a tobacco product is levied on the first sale of  
13 the tobacco product in intrastate commerce in the state.

14 Sec. 43.50.310. EXEMPTION. A sale is exempt from the tax if the  
15 sale is by a facility operated by one of the uniformed services of the  
16 United States. In this section, "uniformed services" has the meaning  
17 given in 5 U.S.C. 2101.

18 Sec. 43.50.320. LICENSING. (a) Except as provided in (g) of  
19 this section, a person may not sell a tobacco product in the state if  
20 the sale is subject to the tax unless the person is licensed by the  
21 department.

22 (b) The department, upon application and payment of a fee of  
23 \$50, shall issue a license for one year to a person who applies for a  
24 license under (a) of this section.

25 (c) The department may refuse to issue a license under this  
26 section if there is reasonable cause to believe the information sub-  
27 mitted in the application is false or misleading and is not made in  
28 good faith.

29 (d) A license issued under this section must include the name

1 and address of the licensee, the type of business to be conducted, and  
2 the year for which the license is issued.

3 (e) The department may renew a license issued under this section  
4 for a fee of \$50.

5 (f) The department may suspend or revoke a license issued under  
6 this section if the person violates a provision of AS 43.50.300 -  
7 43.50.390 or a regulation adopted under AS 43.50.370.

8 (g) A license required by this section is in addition to any  
9 other license required by law, except that a person who is licensed  
10 under AS 43.50.010 - 43.50.180 is exempt from the licensing require-  
11 ments of this section.

12 (h) A license issued under this section is not assignable or  
13 transferable, except that in the case of death, bankruptcy, receiver-  
14 ship, or incompetency of the licensee, or if the business of the  
15 licensee is transferred to another by operation of law, the department  
16 may extend the license for a limited time to the executor, administra-  
17 tor, trustee, receiver, or the transferee.

18 Sec. 43.50.330. RETURNS. (a) On or before the last day of each  
19 calendar month, a licensee shall file a return with the department.  
20 The return must state the number or amount of tobacco products sold by  
21 the licensee during the preceding calendar month, the selling price of  
22 the tobacco products, and the amount of tax imposed on the sale of the  
23 tobacco products.

24 (b) The licensee shall remit with the return the tax due under  
25 AS 43.50.300 for the month covered by the return, after deducting one  
26 percent of the tax due, which the licensee shall retain to cover the  
27 expense of accounting and filing the return.

28 Sec. 43.50.340. RECORDS. A licensee shall keep a complete and  
29 accurate record of all tobacco products subject to the tax and sold by

1 the licensee, including purchase prices, sales prices, the names and  
2 addresses of the sellers and the purchasers, the dates of delivery,  
3 the quantities of tobacco products, and the trade names and brands.  
4 Statements and records required by this section must be in the form  
5 prescribed by the department, preserved for three years, and available  
6 for inspection upon demand by the department.

7 Sec. 43.50.350. DISPOSITION OF PROCEEDS. The tax collected by  
8 the department shall be deposited in the general fund. The commis-  
9 sioner of administration shall separately account for the taxes that  
10 are deposited in the general fund under this section. The annual  
11 estimated balance in the account may be used by the legislature to  
12 make appropriations for health care, health research, health pro-  
13 motion, and health education programs.

14 Sec. 43.50.360. ANNUAL REPORT. The department shall submit to  
15 the legislature by the first day of each regular legislative session a  
16 report indicating the amount of the tax collected during the fiscal  
17 year that ends on the June 30 preceding the session.

18 Sec. 43.50.370. REGULATIONS. The department shall adopt under  
19 the Administrative Procedure Act (AS 44.62) reasonable regulations  
20 that it considers necessary to carry out the provisions of AS 43.50.-  
21 300 - 43.50.390.

22 Sec. 43.50.390. DEFINITIONS. In AS 43.50.300 - 43.50.390

23 (1) "licensee" means a person

24 (A) licensed under AS 43.50.320; or

25 (B) who makes a sale subject to the tax but who is  
26 exempted by AS 43.50.320(g) from licensing under AS 43.50.320;

27 (2) "sale" includes a sale, barter, exchange, or other  
28 manner of transferring the ownership of personal property;

29 (3) "the tax" means the tax levied by AS 43.50.300;

- 1                   (4) "tobacco product" means  
2                   (A) a cigar;  
3                   (B) a cheroot;  
4                   (C) a stogie;  
5                   (D) a perique;  
6                   (E) snuff and snuff flour;  
7                   (F) smoking tobacco, including granulated, plug-cut,  
8                   crimp-cut, ready-rubbed, and any form of tobacco suitable for  
9                   smoking in a pipe or cigarette;  
10                   (G) chewing tobacco, including cavendish, twist, plug,  
11                   scrap, and tobacco suitable for chewing; or  
12                   (H) an article or product made of tobacco or a tobacco  
13                   substitute, but not including a cigarette as defined in AS 43.-  
14                   50.170;

15                   (5) "wholesale price" means the established price for which  
16                   a manufacturer sells a tobacco product to a distributor, after deduc-  
17                   tion of a discount or other reduction received by the distributor for  
18                   quantity or cash.

19 \* Sec. 2. AS 43.50.170 is amended to read:

20                   Sec. 43.50.170. DEFINITIONS. In AS 43.50.010 - 43.50.190 [THIS  
21                   CHAPTER], unless the context otherwise requires,

22                   (1) "buyer" means a person who imports or acquires ciga-  
23                   rettes for the person's [HIS] own consumption from any source other  
24                   than a manufacturer, distributor, direct-buying retailer, or retailer;

25                   (2) "cigarette" means a roll for smoking of any size or  
26                   shape, made wholly or partly of tobacco, whether the tobacco is  
27                   flavored, adulterated, or mixed with another ingredient, if the wrap-  
28                   per or cover of the roll is made of paper or a material other than  
29                   tobacco;

- 1 (3) "department" means the Department of Revenue;
- 2 (4) "direct-buying retailer" means a person who is engaged  
3 in the sale of cigarettes at retail in this state, and who brings or  
4 causes to be brought cigarettes into the state;
- 5 (5) "distributor" means a person who brings cigarettes, or  
6 has cigarettes brought into the state, and who sells or distributes at  
7 least 75 per cent of the cigarettes to others for resale in the state;
- 8 (6) "licensee" means a person licensed under AS 43.50.010 -  
9 43.50.180;
- 10 (7) "manufacturer" means a person who makes, fashions, or  
11 produces cigarettes for sale to distributors or other persons;
- 12 (8) "person" includes an individual, company, partnership,  
13 joint venture, joint agreement, association, mutual or otherwise,  
14 corporation, estate, trust, business trust, receiver or trustee,  
15 syndicate, or political subdivision of this state, or combination  
16 acting as a unit;
- 17 (9) "place of business" means a place where cigarettes are  
18 sold, or where cigarettes are brought or kept for the purpose of sale  
19 or consumption, including a vessel, vehicle, airplane, or train;
- 20 (10) "retailer" means a person in the state who is engaged  
21 in the business of selling cigarettes at retail;
- 22 (11) "sale" includes a sale, barter, exchange, and every  
23 other manner of transferring the ownership of personal property.
- 24 \* Sec. 3. This Act takes effect September 1, 1987.

BY ELLIS, GRUENBERG, POURCHOT,  
BROWN, GOLL, HANLEY, KOPONEN,  
LARSON AND MENARD

1 IN THE HOUSE

2

HOUSE BILL NO. 260

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6 For an Act entitled: "An Act establishing an excise tax on the sale of  
7 smokeless tobacco; and providing for an effective  
8 date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 \* Section 1. AS 43.50 is amended by adding new sections to read:

11 ARTICLE 3. EXCISE TAX ON SMOKELESS TOBACCO.

12 Sec. 43.50.300. EXCISE TAX LEVIED. A tax of \$.01 is levied on  
13 the sale of each .1 ounce of smokeless tobacco.

14 Sec. 43.50.310. EXEMPTIONS. A sale is exempt from the tax if  
15 the sale

16 (1) is casual, isolated, and not made in the ordinary  
17 course of business; or

18 (2) is of goods sold for resale in the ordinary course of  
19 business.

20 Sec. 43.50.320. SELLER TO COLLECT TAX. A seller shall collect  
21 the tax from the purchaser on each sale of smokeless tobacco during  
22 the tax year and remit the tax collected under this section during a  
23 tax year to the department on or before August 1 of the following tax  
24 year.

25 Sec. 43.50.330. ACCOUNTING FOR AND DISPOSITION OF TAX COLLECTED.

26 (a) The taxes collected under AS 43.50.300 - 43.50.390 shall be  
27 deposited in the general fund.

28 (b) The commissioner of administration shall separately account  
29 for the taxes that are deposited in the general fund under (a) of this

1 section. The annual estimated balance in the account may be used by  
2 the legislature to make appropriations for health care, health re-  
3 search, health promotion, and health education programs.

4 Sec. 43.50.340. ANNUAL REPORT. The department shall submit to  
5 the legislature by the first day of each regular legislative session a  
6 report indicating the amount of the taxes collected under AS 43.50.-  
7 300 - 43.50.390 during the tax year that ends on the June 30 preceding  
8 the session.

9 Sec. 43.50.390. DEFINITIONS. In AS 43.50.300 - 43.50.390,  
10 (1) "smokeless tobacco" means chewing tobacco and snuff;  
11 (2) "tax" means the tax levied by AS 43.50.300;  
12 (3) "tax year" means a year beginning July 1 and ending the  
13 following June 30.

14 \* Sec. 2. This Act takes effect July 1, 1987.