

LEGISLATIVE FINANCE-HOUSE / SENATE FINANCE COMM. FILES 8879

SB 240 cont. - SB 253 641 232

is discretionary and is negotiated by WSAB with the Secretary of State's office.

C. Who Can Use Public Notice Advertising and With What Frequency

As stated above the Secretary of State must broadcast on radio and television notice of the proposed constitutional amendments and laws authorizing state debts that are to be submitted to the people by state wide ballot. Any other state or local official who is required by law to publish any official notice in a newspaper has the discretion to supplement the notice by radio and/or television if in his judgment the public interest would thereby be served.

Examples of such public officers would be city officials, school district officials, county officials, irrigation district officials, sewer district officials, and any other officials of political subdivisions of the state.

The number of announcements that the official may advertise on broadcasting facilities is discretionary with the official.

D. Which Stations May be Used

The public official may select any radio and/or television station he finds in his judgment will best serve the public interest. There is a requirement that the stations utilized be situated within the county of origin of the broadcast notice.

E. What Kind of Materials Are Best Suited

Notices of elections, meetings, hearings and other functions of state and local government can be effectively served by the use of radio and/or television. It would appear that long legal descriptions of property might confuse more than help and that general descriptions are better. Notices or a concise summary or description may be broadcast at such times and with such frequency as is determined suitable when the public interest is served thereby.

Approaches that have been used in the past by the Secretary of State in the case of constitutional amendments for state wide ballot have included such films as

one opening with a picture of the state capitol, than to the state legislature in process, a depiction of the State Voters' Pamphlet, a picture of the proposed constitutional amendment itself, and closing with a picture of the great seal of the State of Washington. The audio portion announced that on the ballot there would be a constitutional amendment to the state constitution, setting forth that it took a two-thirds vote of the legislature to place the matter on the ballot, then stating a brief description of the proposed constitutional amendment itself and closed with urging the voters to vote on election day.

F. Applicable Rates

Rates charged for public notice advertising will be the same as if the order was from any commercial advertiser whose advertising is directed to promoting its business within the same area as that which the notice is placed. Earned frequency discounts would be entirely proper.

G. Mandatory Contents and Sponsor Identification

The state law requires that the time, place and nature of such notice only be read or shown with no reference to any person by name than a candidate for political office and that such broadcast shall be made only by duly employed personnel of the station from which said broadcast emanates.

Of course FCC regulations require that the sponsor be identified in the announcement. The announcement need not say "paid for" as part of the identification. The following identification was approved by the FCC in the case of advertising by the Secretary of State of the State of Washington: "This has been an official announcement as provided by law by the Secretary of State, John Doe." Note, that in an election year for a political candidate, the title of his office should be used in the sponsor identification, but his name may not be used.

H. Illustration of Typical Legal Notice Address

NOTICE OF REZONE HEARING

This notice is to advise you of a public hearing to be held in Edmonds, Washington, before the Edmonds Planning Commission. The meeting will be held on Tuesday, April 13, 1968, at 8 o'clock P.M. in the Civic Center at a public hearing. It will afford persons interested in a proposed re-zoning and the general public an

opportunity to be heard for or against a proposal to re-zone property located in the "Five Corners" area on the northeast intersection of Main Street and Fifth Street S.E. The property is legally referred to as the Plat of Morning Side Addition. The proposed re-zoning is from single family residential zoning to commercial zoning. This notice of this public hearing reminds you that such hearing will be held on Tuesday, April 13, 1968, at 8 o'clock P.M. in the Edmonds Civic Center. This notice is an official announcement as provided by law by the City of Edmonds, Irene Jones, City Clerk.

I. Record Retention and Affidavits of Performance

The state law requires that the broadcaster retain an exact copy or transcription of the text of the announcement for a period of six months after the last announcement.

Proof of publication must be supplied by affidavit of performance, signed by the (1) manager, (2) assistant manager or (3) program director.

J. Applicable State Statutes

The applicable state statutes are set forth as follows. They are relatively simple in form and you should be able to find the answers to most of your questions, if not previously supplied, by reviewing those statutes:

RCW 65.16.130 Publication of official notices by radio or television - Restrictions. Any official of the state or any of its political subdivisions who is required by law to publish any notice required by law may supplement publication thereof by radio or television broadcast or both when, in his judgment, the public interest will be served thereby: Provided, That the time, place and nature of such notice only be read or shown with no reference to any person by name then a candidate for political office, and that such broadcasts shall be made only by duly employed personnel of the station from which such broadcasts emanate, and that notices by political subdivisions may be made only by stations situated within the county of origin of the legal notice.

RCW 65.16.140 Broadcaster to retain copy of transcription. Each radio or television station broadcasting any legal notice or notice of event shall for a period of six months subsequent to such broadcast retain at its office a copy or transcription of the text of the notice

as actually broadcast which shall be available for public inspection.

RCW 65.16.150 Proof of publication by radio or television. Proof of publication of legal notice or notice of event by radio or television broadcast shall be by affidavit of the manager, an assistant manager or a program director of the station broadcasting the same.

RCW 29.27.072 Notice of constitutional amendments and laws authorizing state debts - Publication in newspapers and on radio and television. The secretary of state shall cause notice of the proposed constitutional amendments and laws authorizing state debts that are to be submitted to the people to be published at least four times during the four weeks next preceding the election in every legal newspaper in the state and shall supplement publication thereof by radio and television broadcast as provided in RCW 65.16.130, 65.16.140, and 65.16.150.

RCW 29.27.074 Contents. The notice provided for in RCW 29.27.072 shall set forth the following information:

- (1) A legal identification of the state measure to be voted upon.
- (2) The official ballot title of such state measure.
- (3) A brief statement explaining the constitutional provision or state law as it presently exists.
- (4) A brief statement explaining the effect of the state measure should it be approved.
- (5) The total number of votes cast for and against the measure in both the state senate and house of representatives.

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Education
 Title: Notice requirements for the
adoption, amendment or repeal of regulations BRU: _____
 Sponsor: Adams Components: _____
 Requestor: Adams

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Mary Hakala Phone: 465-2800
 Division: Commissioner's Office Date: 4/24/90
 Approved by Commissioner: William G. Demmert Date: 4/24/90
 Agency: Education

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

This fiscal note did not accompany the bill into committee.

page 1 of 1

S

B

L

H

R

SENATE COMMITTEE REPORT

FURTHER

5/4/89

DATE TURNED INTO OFFICE 2/27/90

Mr. President:

Finance

Committee considered SB 243

loans under the Commercial Fishing Loan Act and to limited entry permits pledged as security for those loans; efd

and recommended

- replace with CS SB 243 (Finance)) same title
- or adopt CS) new title
- attached amendment(s) and technical title change (HB only)
- letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

- FISCAL NOTE(S) ^{DCREP} zero fiscal impact appropriation no FN
- new updated previous
- same as previous fiscal note(s) published _____

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]

[Signature]

[Signature]

[Signature]

[Signature] no rec

[Signature] DO-PASS *[Signature]* (NO PASS)

Chair: signature and recommendation

Committee Backup attached

740 SFC 2-27-90

STATE OF ALASKA
1990 LEGISLATIVE SESSION

BILL VERSION: CSSB 243 (Resources)
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revisor Date: 5/4/89
Title: An Act relating to loans under
the Commercial Fishing Loan Act
Sponsor: Zharoff
Requestor: Resources

Agency Affected: Commerce & Economic Dev.
BRU: Investments
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Martin J. Richard, Director Phone: 465-2510
 Division: Investments Date: 7/2/89
 Approved by Commissioner: Larry Marciliev Date: 19/12
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)
 3868D-1/120789c

Changes in CSSB 243 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 2/27/90

Original sponsor(s): SEN. ZHAROFF

IN THE SENATE

BY THE FINANCE COMMITTEE

CS FOR SENATE BILL NO. 243 (Finance)

IN THE LEGISLATURE OF THE STATE OF ALASKA

SIXTEENTH LEGISLATURE - SECOND SESSION

A BILL

For an Act entitled: "An Act relating to loans under the Commercial Fishing Loan Act and to limited entry permits pledged as security for those loans; and providing for an effective date."

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

* Section 1. AS 16.10.335(a) is amended to read:

(a) If the debtor defaults upon a note for which a limited entry permit has been pledged as security under AS 16.10.333 or 16.10.338, the commissioner shall provide the debtor, by both certified and first class mail sent to the debtor's last known address on file with the commissioner, with a notice of default that includes

(1) a description of the security given for the note including the number assigned to the pledged permit by the commission;

(2) the date upon which the default occurred;

(3) the amount of the debtor's outstanding principal and interest [ARREARAGES] as of the date of the default notice, the total amount remaining on the note less unearned interest, and the amount of daily interest;

(4) a statement that the debtor may, within 15 days after the postmark date of the notice, request a hearing to submit evidence showing the debtor has not defaulted;

(5) a statement that the note may be reinstated if it is brought current within 120 [60] days after the postmark date of the notice;

(6) a statement that, under AS 16.10.310(a)(4), the debtor may reinstate the note by submitting to the commissioner a plan of repayment if the commissioner accepts the debtor's plan of repayment [NOTE MAY BE PAID IN FULL LESS UNEARNED INTEREST WITHIN 120 DAYS AFTER THE POSTMARK DATE OF THE NOTICE];

(7) the place where reinstatement of the note or payment in full may be made; and

(8) a notice in at least 10-point bold type stating: "IMPORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

* Sec. 2. AS 16.10.335(d) is repealed and reenacted to read:

(d) If requested by the debtor, the commissioner may waive any of the time limits in (a) of this section if the debtor shows good cause.

* Sec. 3. AS 16.10.335(e) is amended to read:

(e) Except as otherwise provided in (c) and (d) of this section, if the debtor fails [UPON THE DEBTOR'S FAILURE] to reinstate or satisfy the note within the time specified in (a)(5) [(a)(6)] of this section, the debtor's interest in the permit is terminated by operation of law without further notice. [ANY ENTRY PERMIT CARDS ISSUED TO THE DEBTOR UNDER THE PERMIT MUST BE CANCELLED IMMEDIATELY UPON RECEIPT BY THE COMMISSION OF A CERTIFICATE OF TERMINATION CONTAINING A COPY OF THE NOTICE REQUIRED BY (a) OF THIS SECTION ISSUED BY THE COMMISSIONER.]

* Sec. 4. AS 16.10.335 is amended by adding a new subsection to read:

(f) Notwithstanding (a) of this section, when a debtor files bankruptcy, the debtor's interest in the limited entry permit is terminated by operation of law without further notice as of the date

that the automatic stay issued in the bankruptcy is no longer in effect, unless the debtor has reaffirmed the debt.

* Sec. 5. AS 16.10.338 is amended by adding a new subsection to read:

(b) If a limited entry permit is pledged for security for a loan made under AS 16.10.310(a)(1)(B) for the repair, restoration, upgrading, construction, or purchase of a vessel and the borrower thereafter fails to make a payment or defaults, the commissioner shall, in addition to the notice provided under AS 16.10.335(a), notify the borrower that subject to the commissioner's acceptance the borrower may sell the vessel, apply the sales proceeds to the debt, and renegotiate payment of the balance due on the loan to avoid the immediate loss of the limited entry permit that has been pledged for security for the loan.

* Sec. 6. AS 16.10.350 is amended by adding a new subsection to read:

(b) The commissioner shall annually submit a report to the legislature detailing the number and nature of reinstatements authorized by AS 16.10.335(a)(5).

* Sec. 7. AS 16.10 is amended by adding a new section to read:

Sec. 16.10.353. WAIVER OF CONFIDENTIALITY. (a) The commissioner may release information about a borrower's loan to any individual when release of the information has been authorized by the borrower.

(b) A person obtaining a loan under AS 16.10.300 - 16.10.370 after the effective date of this Act may, by signing a form prepared for the purpose, designate the names of persons and organizations to whom a copy of the notice required by AS 16.10.335 must be sent

* Sec. 8. AS 16.43.960 is amended by adding a new subsection to read:

(j) The commission shall immediately cancel a limited entry permit card issued to a debtor under a loan made under AS 16.10.300 - 16.10.370 when the commission receives a certificate of loan

termination containing a copy of the

(1) notice required by AS 16.10.335(a); or

(2) notice that the automatic stay issued if the debtor has filed bankruptcy is no longer in effect.

* Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

2/27/96
ADOPTED

AMENDMENT

IN THE SENATE

BY FRANK

TO: CS SB 243 (RESOURCES)

PAGE 3, AFTER LINE 12

AS 16.10.350 is amended by a new subsection to read:

(b) The commissioner shall annually submit a report to the legislature detailing the number and nature of reinstatements authorized under AS 16.10.335.

The following bill sections are renumbered accordingly.

To: Lynn
Lynn 403

From: Vicki 405
Lip Row 412

Re: CS SB 243 (Finance)

Please run final for above re: bill reported out of
370 this date, incorporating this amendment, and
return to me ASAP

Thank!



SENATOR FRED F. ZHAROFF

ALASKA STATE LEGISLATURE

P. O. BOX 405, KODIAK, ALASKA 99815 (907) 488-5259

DURING SESSION:

P. O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474 • 465-3844 (Labor and Commerce Committee)

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

SB 243

FEB 13 1990

MEMORANDUM

TO: Senator Rick Uehling
Co-Chairman
Senate Finance Committee

FROM: Senator Fred F. Zharoff

DATE: February 13, 1990

RE: CS For Senate Bill 243 -- "An Act relating to loans under the Commercial Fishing Loan Act and to limited entry permits pledged as security for those loans; and providing for an effective date."

I respectfully request the Senate Finance Committee to either schedule CSSB 243 for a hearing at the earliest opportunity or to waive the referral. CSSB 243 amends the statutes governing the state's Commercial Fishing Loan Program, managed by the Division of Investments in the Department of Commerce and Economic Development.

The bill carries a zero fiscal note.

CSSB 243 solves some of the problems commercial fishermen have experienced with the program by allowing the division to respond to problem loans on a more flexible, case by case basis. The bill is supported by the Department of Commerce. The concerns the department had with the bill were eliminated with the adoption of the Resources committee substitute.

By allowing the Division of Investments more flexibility -- in the form of less rigid deadlines and more notification to borrowers -- the state will provide Alaska fishermen who get behind in their payments an opportunity to put their financial affairs back in order. In its 1988 audit of the "Commercial Fisheries Loan Programs' Procedures", the Division of Legislative Audit recommended that such legislation be considered.

The following backup information is attached:

1. Fiscal note.
2. Sectional analysis.
3. Resolution from the Bristol Bay Native Convention.

4. Excerpt from the Division of Legislative Audit's "Special Report on the Department of Commerce and Economic Development Commercial Fisheries Loan Programs' Procedures", released March 14, 1988.
5. Letter from Commerce Commissioner Larry Mercurieff, responding to a series of questions about the loan program, dated Dec. 2, 1988.
6. Letter from Ms. Paula Cullenberg, cooperative extension agent for the Bristol Bay Marine Advisory Program, dated Jan. 27, 1989.
7. Commercial Fishing Loan Act statutes.



SENATOR FRED F. ZHAROFF
ALASKA STATE LEGISLATURE

P.O. BOX 405, KODIAK, ALASKA 99615 (907) 486-5259

DURING SESSION:

P.O. BOX V, JUNEAU, ALASKA 99811 • (907) 465-3473 • 465-3474

2

DISTRICT N

ALASKA PENINSULA • ALEUTIAN CHAIN • BRISTOL BAY • KODIAK ISLAND • LAKE CLARK/LAKE ILIAMNA • PRIBILOF ISLANDS • SHUMAGIN ISLANDS

SECTIONAL ANALYSIS

CS For Senate Bill 243 - "An Act relating to loans under the Commercial Fishing Loan Act and to limited entry permits pledged as security for those loans; and providing for an effective date."

SECTION 1 Amendment to 16.10.335(a).

(3) Clarifies existing language by changing "arrearages" to "the debtor's outstanding principal and interest".

(5) Provides debtors with 120 days, rather than 60 days, to bring their loans current. This gives the debtors an opportunity to bring their loans current right up until the day the limited entry permit is repossessed. The extension will help rural fishermen, in particular, who do not start trying to solve their loan problems until the 60 day time limit has passed and, under current law, the only recourse they have is to pay the note in full.

(6) New paragraph. Provides the debtor with the option of submitting a new plan of repayment. The plan is subject to the commissioner's approval.

(7) Clarifies existing language.

SECTION 2 Repeal and reenact 16.10.335(d).

Allows the commissioner of the Department of Commerce to waive any of the time limits in the previous section for good cause. Good cause would be left to the discretion of the commissioner.

SECTION 3 Amendment to 16.10.335(e).

Makes existing statute consistent with other amendments.

SECTION 4 Amendment to 16.10.335. New subsection (f).

(f) Eliminates the existing conflict between state statutes -- which require a demand be issued in all cases -- and the superseding federal bankruptcy statutes which prohibit enforcement action -- such as issuing a demand -- after a debtor files bankruptcy.

SECTION 5 Amendment to 16.10.338. New subsection (b).

- (b) In the case of a missed payment or default on a boat loan where a limited entry permit has been pledged as collateral, the commissioner of commerce shall notify the borrower that he has the option of selling the vessel and renegotiating the balance due. Selling the vessel is a possibility under present law, but official notification is needed in order to encourage people to do it. The department also does not now have authority to renegotiate the remaining payments.

SECTION 6 Amendment to 16.30. New section, 16.10.353. WAIVER OF CONFIDENTIALITY.

- (a) Makes clear that information about a borrower's loan can be released at any time to any individual authorized by the borrower.
- (b) Establishes a form on which the borrower can designate individuals (attorney, accountant, business consultant, trusted friend, etc.) and organizations (native non-profit association, business development center, etc.) that will automatically receive copies of any default notice the Division of Investments mails out. This would enable individuals and organizations trusted by the borrower to find out when a loan is in trouble. They would then be able to assist the borrower in correcting the situation.

SECTION 7 Amendment to 16.43.960. New subsection (j).

Makes the Commercial Fisheries Entry Commission statutes in Title 16 consistent with the amendment in Section 5.

SECTION 8

Immediate effective date.

BRISTOL BAY NATIVE CONVENTION
Resolution 86-22

- WHEREAS: commercial fishing within the Bristol Bay watershed has had poor harvest records for some of the Bristol Bay Fishermen; and
- WHEREAS: the 1986 projected harvest forecast for Bristol Bay is also low; and
- WHEREAS: fishermen from Bristol Bay have no other alternative source of income; and
- WHEREAS: many fishermen have obtained from the State of Alaska loans to purchase new boats and permits to enhance their fishing efforts; and
- WHEREAS: many fishermen put up their commercial fishing entry permit as collateral to obtain their state loans; and
- WHEREAS: many of these commercial fishing entry permits are now at risk due to poor salmon harvests; and
- WHEREAS: the State set up the loan program to help local fishermen become more self sufficient, efficient and competitive and not to take boats and permits from the local residents.

NOW THEREFORE BE IT RESOLVED that the Bristol Bay Native Convention and delegates assembled requests the State Loan Program and Governor of the State of Alaska see and implement ways so that local fishermen do not lose their boats and permits.

CERTIFICATION

I hereby certify that the foregoing is a full, true and correct copy of the resolution adopted by the delegates to the 1986 Bristol Bay Native Convention, February 23, 24, 25, & 26, Dillingham, Alaska, at which a quorum was present.

WITNESS My hand and seal this 26th day of February, 1986.

John P. Johnson
Chairman, Bristol Bay Native Convention

WITNESSED:

H. Diller Am. K.
Chairperson, Resolutions Committee

Excerpt from:

"A Special Report on the Dept. of Commerce and Economic Development
Commercial Fisheries Loan Programs' Procedures", March 14, 1988.

4

PUBLIC POLICY CONSIDERATIONS

Though no conclusive evidence exists that correlates a reduction of permit flow out of rural areas with the degree of lenient lending practices, the Legislature may want to consider additional forms of subsidization specifically for those rural areas that have become economically distressed due to an outflow of fishing permits. Action such as HB 509 which increases the maximum loan terms on permit loans to 30 years should ease the debt service burden for those finding it difficult to afford purchasing a fishing permit.

It should be noted, however, that the inherent quality of state lending programs creates a two-edged sword. On the one hand, the fiduciary responsibility of protecting the public's assets must be maintained; while at the same time, the socioeconomic aspects of meeting the public need must be considered. Policy decisions are necessary to establish at what point an appropriate balance occurs. If legislative or executive policy is willing to accept a higher risk situation and deems that increased emphasis should be placed on the societal aspects, such direction needs to be expressed. As a result, however, increased delinquencies, foreclosures, and losses may occur.

Consideration may also be given to changing the Commercial Fishing Loan Act to require all repossessed permits be returned to CFEC, who in turn could make the permits available to persons who meet the standards for initial issuance (AS 16.43.250). Areas where commercial fishing provides the primary economic base which can be determined to be economically distressed could be so designated. Applicants residing within these areas who meet CFEC criteria could be chosen, perhaps on a lottery based system, to be given the right of first refusal on the purchase of an available limited entry permit. (Currently, the Commercial Fishing Loan Act requires CFRLP to offer CFEC a right of first refusal at a price equal to the amount outstanding on the foreclosed note plus any costs CFRLP directly incurred in administering the loan. This provision is related to the CFEC's inactive buy-back program under AS 16.43.310 which, in the opinion of the Attorney General, offends the constitutional prohibition against dedication of funds.)

*

Consideration may be given to amending the Commercial Fishing Loan Act (AS 16.10.335) to provide more flexibility to CFRLP in allowing borrowers in default who have pledged permits as security, greater opportunities to bring their loans current. Presently, the law establishes a definite timetable in foreclosing on defaulted loans of this nature. DCED feels they have less workout capability in these cases in order to avoid repossession of the permits.

Though we did not review the effectiveness of CFRLP's rural outreach programs, we are aware of efforts made by DCED in disseminating loan information throughout the State by utilizing other state agency offices located in the rural areas. Outreach efforts currently used to inform rural Alaska about the commercial fishing loan programs may wish to be reviewed to determine if enhancements could be made to improve program access in rural areas.

STATE OF ALASKA

DEPARTMENT OF COMMERCE & ECONOMIC DEVELOPMENT

OFFICE OF THE COMMISSIONER

5
STEVE COWPER, GOVERNOR

P. O. BOX D
JUNEAU, ALASKA 99811-0800
PHONE: (907) 465-2500

December 2, 1988

The Honorable Fred F. Zharoff
Senator
Alaska State Legislature
P.O. Box 405
Kodiak, AK 99615

Dear Fred,

Thank you for your letter of October 24. I understand your concern over the loss of limited entry permits in the Bristol Bay area and appreciate the opportunity to work with you on this issue.

The Division of Investments has put together the following information which I hope adequately answers your questions:

1. How many loans have been given to Bristol Bay drift or set net permit holders? What is the dollar value of these loans?

Information on paid off loans is not retained in our data base. Attachment A contains information on outstanding loans as of November 16, 1988.

2. How many loans were for boats, and how many for permits?

See Attachment A

3. How many of these loans were to Bristol Bay residents (by gear type, and loan type and dollar value?)

See Attachment B

4. How many of the loans used permits as collateral?

See Attachment B

5. How many Bristol Bay permits have been foreclosed on?

Nine (9) Bristol Bay drift gill net permits have been repossessed. This represented nine different loans, of which three borrowers repurchased their permits.

Three (3) Bristol Bay set net permits have been repossessed. This represented two different loans, of which one borrower repurchased the two permits securing the loan.

6. What happened to those permits? Were they auctioned off? How many were purchased by state residents, out-of-state residents, or Bristol Bay residents?

Of the 12 repossessed permits, five have been repurchased by the borrowers. Five permits were advertised for sale throughout the state and were sold to state residents, one of which was a Bristol Bay resident. We presently have two repossessed Bristol Bay permits on hold.

7. Does the state have any procedures for foreclosing on a loan that expand on what is specified in statute? If so, what are they?

Our division's policy is that a demand is generally issued when the loan becomes 90 days delinquent. A demand may be issued sooner if the loan is in default for any other violation of the loan documents which places our collateral in jeopardy. An example of this would be lack of insurance, or nonrenewal of a vessel document with the Coast Guard.

We must follow procedures set out by the statutes and courts when actually foreclosing. These procedures vary depending on whether they involve a vessel, real estate, or a limited entry permit.

Permit Foreclosure

The procedures for foreclosing on a permit statutorily require that when we issue a final demand for payment, the borrower is allowed 60 days to bring the loan current and a total of 120 days to pay the loan in full. If the borrower does not fulfill either of these requirements, the permit automatically becomes the property of the state on the 121st day. The state is then required to advertise and sell the permit to satisfy the loan. However, the borrower may repurchase the permit at any time before an offer is accepted.

Vessel Foreclosure

If a borrower does not satisfy a final demand, the case is forwarded to the Attorney General's Office for the preparation of the legal documents which must be filed with the court. A hearing is set to approve the order arresting the vessel, and the borrower has the opportunity to convince the judge that the vessel should not be arrested. If the order arresting the vessel is issued, the U.S. Marshall will arrest the vessel, and an outcry auction is held after the required advertising has been completed by the marshal.

Real Estate Foreclosure

If a borrower does not satisfy a final demand, the case is forwarded to the Attorney General's Office. The Attorney General's Office prepares the appropriate legal documents and a sale date is established; the sale is held.

8. What is the state's rationale for using a permit as collateral versus selling off the vessel itself?

When deciding what collateral to foreclose against, the division considers many factors. The state legally has the ability to foreclose on any of the collateral held; however, one of the major considerations is the value of the collateral and whether foreclosure of one piece of collateral would satisfy the loan. If the value of a vessel is insufficient to pay the loan in full, then we would foreclose on the permit first to prevent the borrower from losing both vessel and permit. As you are aware, when the state sells a permit and obtains more for the permit than is due on the loan, the excess is returned to the borrower. This is not the case with any other type of foreclosure.

9. What changes would you suggest be made in statute to allow a borrower to rectify a default situation and resume regular payments?

We would recommend that the division be given more discretion to work with borrowers in cases that involve limited entry permits. In most other types of foreclosures, the borrower has the opportunity to bring the loan current up until the actual foreclosure. The statute governing permit foreclosures, however, only allows the borrower 60 days from the date of the demand to bring the loan current. After the 60th day the borrower can no longer bring the loan current but instead must pay the loan in full within 120 days. This limits the Division's ability to work with a borrower who fails to contact us until after the 60th day. Although we believe that the 120-day time frame is reasonable, consideration could be given to extending the period during which the borrower can bring the loan current.

10. Would a direct payment method be feasible, where the processors deduct the loan payment from what they owe the fishermen and send it directly to the state?

Cannery assignments have been utilized in the past and are still used from time to time in certain cases. They are not always reliable, however, because fishermen can choose to sell their product to buyers not covered by the assignment, and we have had little success at enforcing collection in cases where the cannery failed to comply with the terms of the assignment.

December 2, 1988

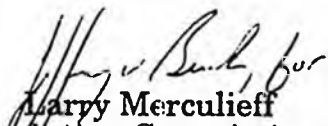
It should also be kept in mind that one of the factors involved in the creation of the Commercial Fishing loan program a number of years ago was to free fishermen from their dependence on the canneries. Also, relying on the cannery to handle the borrowers' financial obligations could make it more difficult for them to learn the financial responsibility and planning that goes along with obtaining a loan.

As stated in John William's letter of September 24th, the Department is currently holding off on the sale of all limited entry permits that have been repossessed until after the upcoming legislative session. I am sure you are aware that the selling price of the Bristol Bay drift gill net permits has been rapidly escalating. We are concerned about the state's liability in holding these permits should the market decline before their sale.

For those borrowers who are having difficulty meeting their loan obligations due to poor budget management, the Small Business Assistance Centers, (SBAC's) and the Small Business Development Centers (SBDC's) may be helpful. Gary Selk, with the SBAC in Anchorage, currently offers an outreach program in the Bristol Bay area to assist borrowers with their budgetary problems on a case-by-case basis; he can be contacted for further information. Also, the SBDC's associated with the university could potentially offer similar services, although I do not know if a program is currently in place.

I hope that this information is helpful. Please let me know if there is any other information that I can provide you.

Sincerely,


Larry Mercurieff
Acting Commissioner

LM/GW/mm0375t

120288a

cc: Senator John Binkley
Representative Mike Davis
Representative Adelheid Herrmann
Paula Cullenberg, Marine Advisory Program
Deborah Tennyson, BBNA
George Nelson, Sr.
Jerry Liboff

Attachment A

Original Purpose of Commercial Fishing Loans
Secured by Bristol Bay Permits
Based on Loans Outstanding as of November 16, 1988

<u>Purpose of Loan</u>	<u># of Loans</u>	<u>Original Loan Amounts</u>
Purchase of Permit	218	\$17,960.4
Purchase of Vessel	70	\$ 4,310.6
Vessel Upgrade	3	\$ 95.6
Vessel Construction	75	\$ 4,965.3
Purchase of Gear	1	\$ 25.0
Purchase of Permit and Vessel	8	\$ 955.2
Purchase of Permit and Gear	7	\$ 165.2
Purchase of Permit, Vessel & Gear	1	\$ 44.2
Purchase of Vessel and Gear	<u>8</u>	<u>\$ 512.8</u>
	391	\$29,034.3

Prepared by: Division of Investments
December 2, 1988

Attachment B

Original Purpose of Commercial Fishing Loans
Secured by Bristol Bay Permits
To Bristol Bay Residents
Based on Loans Outstanding as of November 16, 1988

<u>Purpose of Loan</u>	<u># of Loans</u>	<u>Original Loan Amounts</u>
Purchase of Permit	46	\$ 3,841.8
Purchase of Vessel	46	\$ 2,672.3
Vessel Upgrade	1	\$ 22.0
Vessel Construction	49	\$ 3,022.0
Purchase of Gear	1	\$ 25.0
Purchase of Permit and Vessel	1	\$ 106.0
Purchase of Vessel and Gear	<u>5</u>	<u>\$ 208.6</u>
	149	\$ 9,897.7

Note: As of 11/16/88, 75 loans are currently outstanding to Bristol Bay residents for which permits were not used as collateral to secure the loans. The total original amounts of these loans is \$5,640.3. Loan files have not been researched to identify the purpose of the loans; however, it would be fair to assume that the purchase of permits was not the purpose of any of these loans.

Prepared by: Division of Investments
December 2, 1988

6

RECEIVED FEB 4 1989



COOPERATIVE EXTENSION SERVICE, UNIVERSITY OF ALASKA, USDA & SEA GRANT COOPERATION

Marine Advisory Program, P. O. Box 1549, Dillingham, Alaska 99576

January 27, 1989

Karl Ohls, Legislative Assistant
Senator Fred Zharoff
Alaska State Legislature
Pouch V
Juneau, Ak 99811

Dear Karl,

Here are some thoughts on potential improvements to the State Fisheries Loan Program after discussions with you, Debby Tennyson, and Jerry Liboff.

First, it seems that the Legislature needs to give the State some idea of what they intend the loan program to be. Is the loan program designed to give low interest loans to fishermen who are unable to qualify for loans elsewhere? Is it also intended to help resident fishermen purchase limited entry permits? If both of these questions are true, it seems logical that the State should expect a higher percentage of people that are not very experienced with finances and therefore may run into trouble making their loan payments. If the State's response to financial difficulties is to repossess a permit and auction it off to the general public (in or out of the State), then they have defeated their purpose and in fact, may have caused a financially inexperienced person to now lose their livelihood.

If the State's goals are to help resident fishermen become permit holders and improve their earnings in the fishery, then the loan program needs to be adjusted in a number of ways. It should be very clear to the loan personnel that taking a permit is the last resort. By using the permit as collateral the State is protecting itself, but calling in that collateral should be a final, drastic measure. The following are some ideas that may help accomplish this:

Statutory changes -

1. As Commerce suggested, change the statute to provide more flexibility by loan personnel for the foreclosure process.

Rationale: more flexibility would prevent automatic foreclosure and allow loan personnel more discretion in working with fishermen.

2. Include in the language that loan personnel must give the fishermen the choice to foreclose on either the boat or the permit first. If the fishermen chooses the boat, and the foreclosure does not pay off the loan, the remaining balance should be refinanced. After an established time period (year or two), if there has been no payment, the permit would be foreclosed on.

Rationale: If the State's goal is to keep state residents fishing, then every effort must be made before the permit is taken. Once the boat is foreclosed on, it is likely that a fishermen, faced with the loss of the permit, will continue payments. It is much easier for a fishermen with a permit and no boat to continue fishing, than visa versa. Continued fishing means continued income and payment of the loan. A fishermen with a boat but no permit is not likely to make any income.

Many fishermen have no other collateral than the boat itself and their fishing permit. There needs to be a middle ground in the process before the State seizes a permit that is worth 5-6 times the outstanding debt. The likelihood that a fishermen losing his permit will ever be able to purchase another is slim.

3. If a permit must be foreclosed on, the State should create a set of criteria determining which state residents would benefit the most economically by having that permit. A lottery would be used to choose a fishermen meeting that criteria. That individual would be given right of first refusal to purchase that permit at fair market value. If he refuses, the offer will go to the next from the lottery.

Rationale: Even though the State cannot offer the permit to only state residents, by following a set of criteria, they may be able to ensure that those most economically affected would be most likely to purchase it. I believe that the State has the authority to do that under permit buy-back provisions in the law.

Regulatory changes:

1. Establish and fund an outreach program. The goal of outreach is to publicize the program, ensure that those getting loans understand them and can afford them and to provide assistance to fishermen having trouble making their payments. Perhaps for high-risk fishermen (defined as those having no other source of income in their family), a more in-depth analysis of their financial strength would be in order.

Another important aspect of outreach is to assist a fishermen who is having trouble meeting his payment schedule. Perhaps when a borrower requests his second extension, he should be required to work with a financial counselor in detail to assess the problem and work out a solution. This counselor's time could be compensated by the fisherman as an addition to his loan amount.

This outreach could possibly be provided by a contracted individual familiar with the fishing industry, as opposed to a State employee.

2. As Jerry Liboff suggested, perhaps borrowers should be given the chance to agree on their loan application, that the State can seek assistance from outside sources if the loan becomes overdue. Perhaps the fisherman could name someone or some entity that should be notified if they are having trouble meeting their payments.

These ideas *may* sound overly burdensome to the State. However, if the Fisheries Loan Program is more than a source of low interest loans to Alaskan fishermen, special effort must be made to prevent loss of permits. The State must be careful to loan money to fishermen who are serious about improving their economic situation, but it must also be able to respond to financial problems with flexibility and discretion.

I think that most fishermen would support the use of their permits as collateral on loans. I believe that the State should realize that often these fishermen have no choice but to use their permits and should bend over backward to prevent the foreclosure on a fishermen's livelihood.

I hope some of these suggestions are helpful, Karl. I look forward to a draft of your legislation.

Sincerely,

Paula Cullenberg

Paula Cullenberg
Marine Advisory Program, Bristol Bay

cc: Representative George Jacko
Senator John Binkley
Representative Mike Davis
Commissioner Larry Merculieff

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: SB 243
PUBLISH DATE: 5/4/89

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Economic Dev.
Title: An Act relating to loans under BRU: Investments
the Commercial Fishing Loan Act
Sponsor: Zharoff Components: _____
Requester: Resources

EXPENDITURES / REVENUES : (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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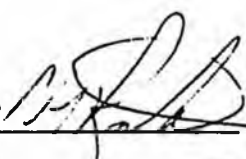
FUNDING: (Thousands of dollars)

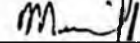
GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULLTIME	0	0	0	0	0	0
PARTTIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Prepared by: Martin J. Richard, Director  Phone: 465-2510
Division: Investments Date: 4/17/89

Approved by Commissioner: Larry Merculieff  Phone: 465-2500
Agency: Department of Commerce & Economic Development Date: 4/18/89

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

page _____ of _____

3868D-1/041789a

S B

L H B

HOUSE COMMITTEE REPORT

File

(11)

Date Referred: April 10, 1990

FURTHER REFERRALS:

Date of Committee Action: 5/6/90

The FINANCE Committee considered:

CSSB 243(FINANCE)

CS SB NO. 243 (Fin)

COMM FISHING LOAN ACT/LIMITED ENTRY COMM

"An Act relating to loans under the Commercial Fishing Loan Act and to limited entry permits pledged as security for those loans; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with HCS CSSB 243(RES) the same title
- have 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):
(Dept)

APPROVES PREVIOUS: _____ (Date/Dept)

- fiscal impact _____
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) 2/28/90/CSED
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not Pass No Rec Amend

<u>[Signature]</u> Hoffman	<u>[Signature]</u> Larson		+	
<u>[Signature]</u> Storchhammer	<u>[Signature]</u> Brown		+	
<u>[Signature]</u> Kapinen	<u>[Signature]</u> Barnes		+	
<u>[Signature]</u> Wimmer	<u>[Signature]</u> Phillips		✓	
	<u>[Signature]</u> Regan		✓	

[Signature] Larson
CO Chairman's Signature [Signature] Hoffman

FISCAL NOTE

REQUEST:

Revision Date: 5/4/89
 Title: An Act relating to loans under
the Commercial Fishing Loan Act
 Sponsor: Zharoff
 Requestor: Resources

Agency Affected: Commerce & Economic Dev.
 BRU: Investments
 Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 91	FY 92	FY 93	FY 94	FY 95	FY 96
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
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REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Prepared by: Martin J. Richard, Director Phone: 465-2510
 Division: Investments Date: 2/21/89
 Approved by Commissioner: Larry Merculieff Date: 19/12
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):

Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Changes in CSSB 243 (Fin)
 have no fiscal impact.
 This fiscal note is
 appropriate. 2/27/90 LMR

Original sponsor(s): SEN. ZHAROFF

1 IN THE SENATE BY THE RESOURCES COMMITTEE
2 HOUSE CS FOR CS FOR SENATE BILL NO. 243 (Resources)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - SECOND SESSION

5 A BILL

6 For an Act entitled: "An Act relating to loans under the Commercial Fish-
7 ing Loan Act and to limited entry permits pledged as
8 security for those loans; and providing for an effec-
9 tive date."

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

11 * Section 1. AS 16.10.335(a) is amended to read:

12 (a) If the debtor defaults upon a note for which a limited entry
13 permit has been pledged as security under AS 16.10.333 or 16.10.338,
14 the commissioner shall provide the debtor, by both certified and first
15 class mail sent to the debtor's last known address on file with the
16 commissioner, with a notice of default that includes

17 (1) a description of the security given for the note in-
18 cluding the number assigned to the pledged permit by the commission;

19 (2) the date upon which the default occurred;

20 (3) the amount of the debtor's outstanding principal and
21 interest [ARREARAGES] as of the date of the default notice, the total
22 amount remaining on the note less unearned interest, and the amount of
23 daily interest;

24 (4) a statement that the debtor may, within 15 days after
25 the postmark date of the notice, request a hearing to submit evidence
26 showing the debtor has not defaulted;

27 (5) a statement that the note may be reinstated if it is
28 brought current within 120 [60] days after the postmark date of the
29 notice;

1 (6) a statement that, under AS 16.10.310(a)(4), the debtor
2 may reinstate the note by submitting to the commissioner a plan of
3 repayment if the commissioner accepts the debtor's plan of repayment
4 [NOTE MAY BE PAID IN FULL LESS UNEARNED INTEREST WITHIN 120 DAYS AFTER
5 THE POSTMARK DATE OF THE NOTICE];

6 (7) the place where reinstatement of the note or payment in
7 full may be made; and

8 (8) a notice in at least 10-point bold type stating: "IM-
9 PORTANT: YOUR FAILURE TO REINSTATE OR PAY THIS NOTE IN FULL BY THE
10 DATE SPECIFIED WILL RESULT IN A FORFEITURE OF ALL RIGHTS TO THE PERMIT
11 AND THE POSSIBILITY OF LEGAL ACTION BEING INSTITUTED AGAINST YOU."

12 * Sec. 2. AS 16.10.335(d) is repealed and reenacted to read:

13 (d) If requested by the debtor, the commissioner may waive any
14 of the time limits in (a) of this section if the debtor shows good
15 cause.

16 * Sec. 3. AS 16.10.335(e) is amended to read:

17 (e) Except as otherwise provided in (c) and (d) of this section,
18 if the debtor fails [UPON THE DEBTOR'S FAILURE] to reinstate or sat-
19 isfy the note within the time specified in (a)(5) [(a)(6)] of this
20 section, the debtor's interest in the permit is terminated by opera-
21 tion of law without further notice. [ANY ENTRY PERMIT CARDS ISSUED TO
22 THE DEBTOR UNDER THE PERMIT MUST BE CANCELLED IMMEDIATELY UPON RECEIPT
23 BY THE COMMISSION OF A CERTIFICATE OF TERMINATION CONTAINING A COPY OF
24 THE NOTICE REQUIRED BY (a) OF THIS SECTION ISSUED BY THE COMMISSION-
25 ER.]

26 * Sec. 4. AS 16.10.335 is amended by adding a new subsection to read:

27 (f) Notwithstanding (a) of this section, when a debtor files
28 bankruptcy, the debtor's interest in the limited entry permit is
29 terminated by operation of law without further notice as of the date

1 that the automatic stay issued in the bankruptcy is no longer in
2 effect, unless the debtor has reaffirmed the debt.

3 * Sec. 5. AS 16.10.338 is amended by adding a new subsection to read:

4 (b) If a limited entry permit is pledged for security for a loan
5 made under AS 16.10.310(a)(1)(B) for the repair, restoration, upgrad-
6 ing, construction, or purchase of a vessel and the borrower thereafter
7 fails to make a payment or defaults, the commissioner shall, in addi-
8 tion to the notice provided under AS 16.10.335(a), notify the borrower
9 that subject to the commissioner's acceptance the borrower may sell
10 the vessel, apply the sales proceeds to the debt, and renegotiate pay-
11 ment of the balance due on the loan to avoid the immediate loss of the
12 limited entry permit that has been pledged for security for the loan.

13 * Sec. 6. AS 16.10.350 is amended by adding a new subsection to read:

14 (b) The commissioner shall annually submit a report to the
15 legislature detailing the number and nature of reinstatements author-
16 ized by AS 16.10.335(a)(5).

17 * Sec. 7. AS 16.10 is amended by adding a new section to read:

18 Sec. 16.10.353. WAIVER OF CONFIDENTIALITY. (a) The commis-
19 sioner may release information about a borrower's loan to any indi-
20 vidual when release of the information has been authorized by the
21 borrower.

22 (b) A person obtaining a loan under AS 16.10.300 - 16.10.370
23 after the effective date of this Act may, by signing a form prepared
24 for the purpose, designate the names of persons and organizations to
25 whom a copy of the notice required by AS 16.10.335 must be sent.

26 * Sec. 8. AS 16.43.960 is amended by adding a new subsection to read:

27 (j) The commission shall immediately cancel a limited entry
28 permit card issued to a debtor under a loan made under AS 16.10.300 -
29 16.10.370 when the commission receives a certificate of loan

1 termination containing a copy of the
2 (1) , notice required by AS 16.10.335(a); or
3 (2) notice that, if the debtor has filed bankruptcy, the
4 automatic stay issued is no longer in effect and the debtor has not
5 reaffirmed the debt.
6 * Sec. 9. This Act takes effect immediately under AS 01.10.070(c).

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SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE Received 3/30/89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 3/31/89

3/30/89
Mr. President:

FINANCE

Committee considered

SB 247

special appropriation to the Office of the Governor for oil spill
expenditures; efd

and recommended:

replace with CS SB 247 (Finance) ~~same title~~

attached amendment(s) and

~~new title~~

Finance letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero
 appropriation; no FN attached

fiscal impact
 Gov. FN introduced w/ bill

^{720,000,000}
MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature] ZIMMERMAN
[Signature] DUNNIN
[Signature] PEARCE
[Signature] FISCHER
[Signature] DENNING
[Signature] TRANK

Committee backup attached

Senator Binkley subsequently changed his vote to "no rec"
Chair: [Signature] signature and recommendation
[Signature] CO-CHAIR
08 PASS



Official Business

Alaska State Legislature

Senate

Committee on Finance

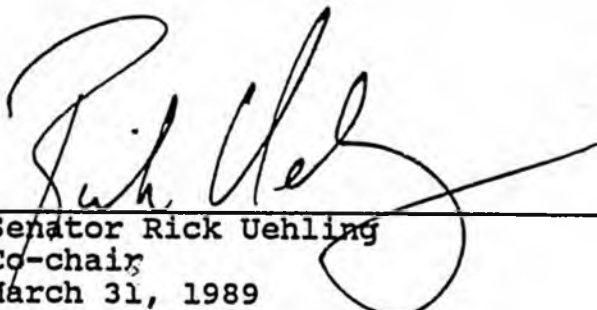
Pouch V
State Capitol
Juneau, Alaska 99811

LETTER OF INTENT

FOR

CS FOR SENATE BILL NO. 247 (FINANCE)

The Department of Law will pursue the recovery of all costs incurred in responding to the Valdez Exxon oil spill, and every attempt will be made to expend program receipts received from Exxon or other sources prior to the expenditure of general fund appropriations.



Senator Rick Uehling
Co-chair
March 31, 1989

Please return in final ASAP
Nicki (4935)
Cap Rm 413

g011395E
Utermohle/
Cramer

Original sponsor: Rules/Governor

<u>Funding Information</u>	
General Fund	\$20,000,000
Other Funds	-0-
	<u>\$20,000,000</u>

1 IN THE SENATE BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 247 (*Finance*)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the oil and
7 hazardous substance release response fund for oil
8 spill expenditures and making a transfer of excess
9 funds to the general fund; and providing for an
10 effective date."

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

12 * Section 1. The sum of ^{RU: 10,000,000}~~\$5,000,000~~ is appropriated from the general
13 fund to the oil and hazardous substance release response fund (AS 46.08.-
14 010) for expenditures necessitated by the state response to the oil spill
15 from the Exxon Valdez. _{DP: Moved}

16 * Sec. 2. The sum of ^{RU: 10,000,000}~~\$15,000,000~~ is appropriated from general fund
17 program receipts to the oil and hazardous substance release response fund
18 (AS 46.08.010) for expenditures necessitated by the state response to the
19 oil spill from the Exxon Valdez. _{DP: Moved}

20 * Sec. 3. The balance of the oil and hazardous substance release re-
21 sponse fund (AS 46.08.010) on ^{JD: June 30, 1989}~~July 1, 1989~~, that exceeds ^{2,000,000}~~\$5,000,000~~ is
22 transferred to the general fund. _{JD: Moved}

23 * Sec. 4. This Act takes effect immediately under with AS 01.10.070(c).

3/31/89
(Mehling)
A G Doug Bailey

AMENDMENT

OFFERED IN THE SENATE

BY: _____

TO: SB 247

Page 1, lines 6 and 7:

Delete "Office of the Governor" and substitute the following:

"oil and hazardous substance release response fund."

Page 1, line 11:

Delete "Office of the Governor" and substitute the following:

"oil and hazardous substance release response fund (AS 46.08.010)."

Page 1, lines 13 and 14:

Delete all of sec. 2.

Page 1, line 15:

Change "Sec. 3" to read "Sec.2."

S B

L H 7

HOUSE COMMITTEE REPORT

(11)
Date Referred: April 3, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/3/89

The FINANCE Committee considered:

CSSB 247 (FIN)

CS FOR SENATE BILL NO. 247 (Finance)

[APPROP: OIL SPILL EXPENDITURES]

"An Act making special appropriations to the oil and hazardous substance release response fund for oil spill expenditures and making a transfer of excess funds to the general fund; and providing for an effective date."

RECOMMENDATIONS:

- [] be replaced with HCS CSSB247 (Fin) [] the same title
- [] a new title
- [] have attached amendment(s)
- [] do pass
- [] do not pass
- [] no recommendation
- [] individual recommendations
- [] additional referral to the _____ Committee

ADOPTS: House Finance letter of intent

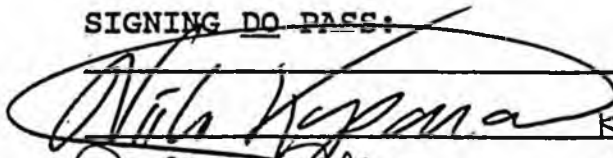
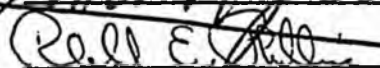
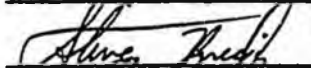



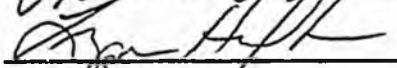
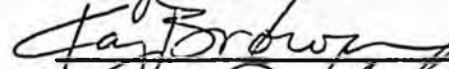
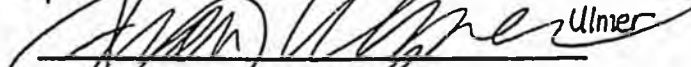

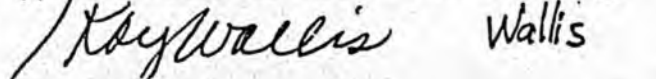
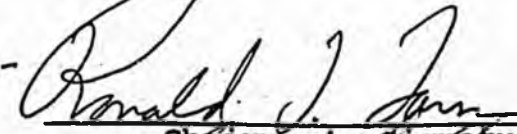
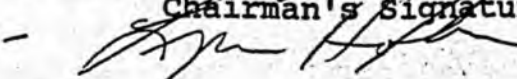
ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Date/Dept)

- [] fiscal impact _____ [] fiscal note(s) _____
- [] zero fiscal note _____ [] zero fiscal note(s) _____
- [] zero with analysis _____ [] zero fn/analysis _____

SIGNING DO PASS:

SIGNING:
(Check approp. column)

Do Not
Pass No Rec Amend

	Kapanen			
	Phillips			
	Rieger			
	Swackhammer			
	Shultz			
	Larson			
	Hoffman			
	Brown			
	Ulmer			
	Barnes			
	Wallis			
co- 	Chairman's Signature			
co- 				



Alaska State Legislature

HOUSE OF REPRESENTATIVES

Committee on Finance

Official Business

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

HOUSE FINANCE COMMITTEE
LETTER OF INTENT
FOR
HCS CS SB 247. (FINANCE)

IT IS THE INTENT OF THE LEGISLATURE THAT:

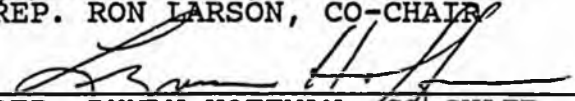
A) ANY FUNDS EXPENDED FROM THE OIL AND HAZARDOUS SUBSTANCE RELEASE RESPONSE FUND WHICH PAY FOR THE REGULAR SALARIES OF STATE AGENCY PERSONNEL SHALL RESULT IN AN EQUIVALENT LAPSE OF MONEYS TO THE GENERAL FUND FROM THAT AGENCY;

B) ANY OTHER AGENCY OPERATIONS FUNDED BY THE APPROPRIATIONS MADE IN HCS CS SB 247 (FINANCE), IF NOT OFFSET BY AN EQUIVALENT LAPSE, SHALL NOT BE PART OF THE "ADJUSTED BASE" CALCULATION IN CONSIDERATION OF THE FY 90 AND THE FY 91 BUDGETS; AND

C) THE DEPARTMENT OF LAW WILL PURSUE THE RECOVERY OF ALL COSTS INCURRED IN RESPONDING TO THE VALDEZ EXXON OIL SPILL, AND EVERY ATTEMPT WILL BE MADE TO EXPEND PROGRAM RECEIPTS RECEIVED FROM EXXON OR OTHER SOURCES PRIOR TO THE EXPENDITURE OF GENERAL FUND APPROPRIATIONS.



REP. RON LARSON, CO-CHAIR



REP. LYMAN HOFFMAN, CO-CHAIR
HOUSE FINANCE COMMITTEE
APRIL 4, 1989

Original sponsor: Rules/Governor

Funding Information

General Fund	\$20,000,000
Other Funds	-0-
	<u>\$20,000,000</u>

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 HOUSE CS FOR CS FOR SENATE BILL NO. 247 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making special appropriations to the oil and
7 hazardous substance release response fund for oil
8 spill expenditures and making a transfer of excess
9 funds to the general fund; and providing for an
10 effective date."

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

12 * Section 1. The sum of \$10,000,000 is appropriated from the general
13 fund to the oil and hazardous substance release response fund (AS 46.08.-
14 010) for expenditures necessitated by the state response to the oil spill
15 from the Exxon Valdez.

16 * Sec. 2. The sum of \$10,000,000 is appropriated, subject to the con-
17 ditions of sec. 3 of this Act, from the general fund or general fund pro-
18 gram receipts to the oil and hazardous substance release response fund
19 (AS 46.08.010) for expenditures necessitated by the state response to the
20 oil spill from the Exxon Valdez.

21 * Sec. 3. The appropriation made by sec. 2 of this Act is contingent
22 upon compliance with AS 37.07.080(h) as if the funds appropriated were
23 other program receipts not specifically appropriated by the full legisla-
24 ture.

25 * Sec. 4. The unexpended and unobligated balance of the appropriations
26 made by this Act that exceeds \$2,000,000 on January 31, 1990, is trans-
27 ferred to the general fund.

28 * Sec. 5. This Act takes effect immediately under AS 01.10.070(c).

LETTER OF INTENT

To: HCS CSSB 247 (FIAI)

It is the intent of the legislature that:

- a) any funds expended from the oil and hazardous substance release response fund which pay for the regular salaries of state agency personnel shall result in an equivalent lapse of moneys to the general fund from that agency; and
- b) any other agency operations funded by the appropriations in HCS CSSB 247, ^(FIAI) if not offset by an equivalent lapse, shall not be part of the "adjusted base" calculation in consideration of the FY '90 ~~or~~ ^{and the} FY '91 budgets.

House CS for CS SB 247 () work draft go1139sH

AMENDMENT #1

by BROWN

Delete:

page 1, lines 25-27

Insert new section 4:

The unexpended and unobligated balance of the appropriations made by this act in excess of \$2,000,000 on January 31, 1990 is transferred to the general fund.

A

31



Official Business

Alaska State Legislature

Senate

Committee on Finance

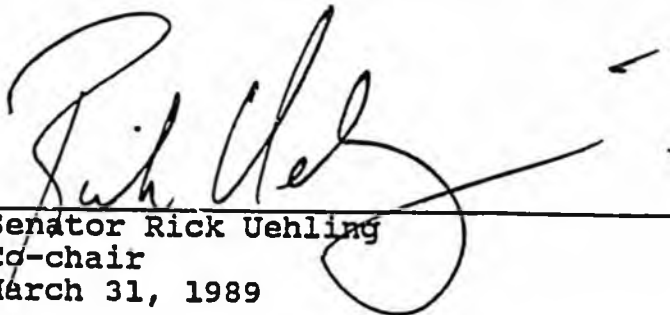
Pouch V
State Capitol
Juneau, Alaska 99811

LETTER OF INTENT

FOR

CS FOR SENATE BILL NO. 247 (FINANCE)

The Department of Law will pursue the recovery of all costs incurred in responding to the Valdez Exxon oil spill, and every attempt will be made to expend program receipts received from Exxon or other sources prior to the expenditure of general fund appropriations.



Senator Rick Uehling
Co-chair
March 31, 1989

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SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE Waived 4/3/89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 5/3/89

3/31/89

Mr. President:

FINANCE

Committee considered

SB 253

state and municipal taxation of alcoholic beverages, cigarettes, and tobacco products; efd

and recommended:

replace with CS SB 253 (FIN) same title

attached amendment(s) and

new title

_____ letter of intent adopted

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero

appropriation no FN attached

fiscal impact ^{DOR} 5508.5 Revenue

Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

James [unclear] No Rec
Paul [unclear] No Rec
[unclear] No Rec
[unclear] No Rec
[unclear] (No Rec)

Committee backup attached

Chair: signature and recommendation

John [unclear] DO-PASS

240 SFC 5-3-89

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 253 (Finance)
PUBLISH DATE: _____

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Increase in tax on alcoholic
beverages - Equalize + 8%
Sponsor: Finance
Requestor: Finance Committee

Agency Affected: Revenue
BRU: Income & Excise Audit
Components: Operating

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	5.0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	5.0	0	0	0	0	0
CAPITAL						
	0	0	0	0	0	0
REVENUE						
	5508.5	5508.5	5508.5	5508.5	5508.5	5508.5

FUNDING: (Thousands of Dollars)

GENERAL FUND	5.0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	5.0	0	0	0	0	0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: See attached.

Prepared By: Steven E. Kettel
Division: Income and Excise Audit

Phone: (907) 465-2320
Date: April 25, 1989

Approved by Commissioner: Hugh Malone
Agency: Department of Revenue

Date: April 25, 1989

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

RECEIVED
APR 27 1989

Prepared by:
Steven E. Kettel
Income and Excise Audit Division
April 25 1989

CSSB 253
ANALYSIS:

The estimates which have been used for purposes of this fiscal note is conservatively the least amount of revenue which can be expected, given an anticipated drop in consumption.

Our estimates assume that as the tax rates on alcohol increase, consumption will decrease proportionately as follows:

All figures in gallons:

	<u>1988 Consumption</u>	(Approx 6¢/drink) <u>SB 253</u>	<u>10¢/drink</u>	<u>15¢/drink</u>
Beer	12,839,437	12,599,821	12,289,503	11,934,614
Wine	1,432,635	1,355,431	1,283,270	1,198,215
Liquor	1,098,357	1,078,357	899,596	739,836
Tax Revenues	\$11,862,342	\$17,370,885	\$26,441,111	\$36,166,296
Increase		5,508,543	14,578,769	24,303,954

Although there are several regional and national studies which have tried to accurately measure the effect that tax increases have on consumption, similar studies have not been conducted with Alaska specifically in mind. We believe the method chosen presents a very conservative estimate of the increase in tax revenues for this proposal. We believe our method presents the minimum tax revenues that would be generated if the tax hike proposal is adopted. Assuming that consumption remained static, tax revenue increases would approximate \$5.9 million under the present SB 253, \$17.7 million at the 10¢ per drink scenario and \$32.3 million at 15¢ per drink.

DEPARTMENT POSITION

The Department does not oppose this legislation at this time.

Cheroweth
5/3/89

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 253 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to taxation of alcoholic beverages,
7 and imposing additional reporting requirements on
8 sales and shipments of alcoholic beverages; and
9 providing for an effective date."

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

11 * Section 1. AS 43.60.010(a) is amended to read:

12 (a) Every brewer, distiller, bottler, jobber, retailer, whole-
13 saler, or manufacturer who sells alcoholic beverages in the state or
14 who consigns shipments of alcoholic beverages into the state, whether
15 or not the alcoholic beverages are brewed, distilled, bottled, or
16 manufactured in the state, shall pay [ON ALL MALT BEVERAGES (ALCOHOLIC
17 CONTENT OF ONE PERCENT OR MORE BY VOLUME), WINES, AND HARD OR DIS-
18 TILLED ALCOHOLIC BEVERAGES,] the following taxes:

19 (1) malt beverages at the rate of 65 [35] cents a gallon or
20 fraction of a gallon;

21 (2) wine or other alcoholic beverages of 21 percent alcohol
22 by volume or less, at the rate of \$2.00 [85 CENTS] a gallon or frac-
23 tion of a gallon; and

24 (3) other alcoholic beverages having a content of more than
25 21 percent alcohol by volume at the rate of \$6.00 [\$5.60] a gallon or
26 fraction of a gallon.

27 * Sec. 2. AS 43.60.010 is amended by adding a new subsection to read:

28 (c) The tax imposed by (a) of this section applies to

29 (1) malt beverages having an alcoholic content of one

1 percent or more by volume;

2 (2) wine; and

3 (3) hard or distilled alcoholic beverages.

4 * Sec. 3. AS 43.60 is amended by adding a new section to read:

5 Sec. 43.60.025. ADDITIONAL REPORTING REQUIREMENTS ON SALES OF
6 ALCOHOLIC BEVERAGES. (a) In addition to the report required under
7 AS 43.60.020(a), a primary source of supply may not sell or ship
8 alcoholic beverages into the state unless the sale or shipment in-
9 cludes an invoice from the primary source of supply to a wholesaler
10 licensed under AS 04.11.160. The invoice must include an account of
11 the alcoholic beverages sold or shipped and the names and addresses of
12 the primary source of supply and the wholesaler.

13 (b) On or before the 10th day of each month, wholesalers and
14 primary sources of supply shall mail to the Department of Revenue,
15 postage prepaid, a copy of the invoices covering sales and shipments
16 during the preceding month.

17 (c) In this section

18 (1) "primary source of supply" means the distiller, pro-
19 ducer, or owner of the alcoholic beverage at the time it became a
20 marketable product, and the bottler, prime importer, trademark owner,
21 brand owner, or a person who is authorized in writing to act as the
22 exclusive agent of a distiller, producer, owner, or bottler;

23 (2) "wholesaler" means a person licensed under AS 04.-
24 11.160.

25 * Sec. 4. This Act takes effect July 1, 1989.

6-1068D
Chenoweth
4/13/89

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 253 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act relating to taxation of alcoholic beverages;
7 and providing for an effective date."

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

9 * Section 1. AS 43.60.010(a) is amended to read:

10 (a) Every brewer, distiller, bottler, jobber, retailer, whole-
11 saler, or manufacturer who sells alcoholic beverages in the state or
12 who consigns shipments of alcoholic beverages into the state, whether
13 or not the alcoholic beverages are brewed, distilled, bottled, or
14 manufactured in the state, shall pay [ON ALL MALT BEVERAGES (ALCOHOLIC
15 CONTENT OF ONE PERCENT OR MORE BY VOLUME), WINES, AND HARD OR DIS-
16 TILLED ALCOHOLIC BEVERAGES,] the following taxes:

17 (1) malt beverages at the rate of 65 [35] cents a gallon or
18 fraction of a gallon;

19 (2) wine or other alcoholic beverages of 21 percent alcohol
20 by volume or less, at the rate of \$2.00 [85 CENTS] a gallon or frac-
21 tion of a gallon; and

22 (3) other alcoholic beverages having a content of more than
23 21 percent alcohol by volume at the rate of \$6.00 [\$5.60] a gallon or
24 fraction of a gallon.

25 * Sec. 2. AS 43.60.010 is amended by adding a new subsection to read:

26 (c) The tax imposed by (a) of this section applies to

27 (1) malt beverages having an alcoholic content of one
28 percent or more by volume;

29 (2) wine; and

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(3) hard or distilled alcoholic beverages.

* Sec. 3. This Act takes effect July 1, 1989.

6-1068D ✓
Chenoweth
4/5/89

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 253 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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12 who consigns shipments of alcoholic beverages into the state, whether
13 or not the alcoholic beverages are brewed, distilled, bottled, or
14 manufactured in the state, shall pay [ON ALL MALT BEVERAGES (ALCOHOLIC
15 CONTENT OF ONE PERCENT OR MORE BY VOLUME), WINES, AND HARD OR DIS-
16 TILLED ALCOHOLIC BEVERAGES,] the following taxes:

17 (1) malt beverages at the rate of 65 [35] cents a gallon or
18 fraction of a gallon;

19 (2) wine or other alcoholic beverages of 21 percent alcohol
20 by volume or less, at the rate of \$2.00 [85 CENTS] a gallon or frac-
21 tion of a gallon; and

22 (3) other alcoholic beverages having a content of more than
23 21 percent alcohol by volume at the rate of \$6.00 [\$5.60] a gallon.

24 * Sec. 2. AS 43.60.010 is amended by adding a new subsection to read:

25 (c) The tax imposed by (a) of this section applies to

26 (1) malt beverages having an alcoholic content of one
27 percent or more by volume;

28 (2) wine; and

29 (3) hard or distilled alcoholic beverages.

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* Sec. 3. This Act takes effect July 1, 1989.

6-1068M ✓
Chenoweth
4/5/89

154

Original sponsor: Finance Committee

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2 CS FOR SENATE BILL NO. 253 (Finance)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

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13 or not the alcoholic beverages are brewed, distilled, bottled, or
14 manufactured in the state, shall pay [ON ALL MALT BEVERAGES (ALCOHOLIC
15 CONTENT OF ONE PERCENT OR MORE BY VOLUME), WINES, AND HARD OR DIS-
16 TILLED ALCOHOLIC BEVERAGES,] the following taxes:

17 (1) malt beverages at the rate of \$1.60 [35 CENTS] a gallon
18 or fraction of a gallon;

19 (2) wine or other alcoholic beverages of 21 percent alcohol
20 by volume or less, at the rate of \$4.80 [85 CENTS] a gallon or frac-
21 tion of a gallon; and

22 (3) other alcoholic beverages having a content of more than
23 21 percent alcohol by volume at the rate of \$15.30 [\$5.60] a gallon.

24 * Sec. 2. AS 43.60.010 is amended by adding a new subsection to read:

25 (c) The tax imposed by (a) of this section applies to

26 (1) malt beverages having an alcoholic content of one
27 percent or more by volume;

28 (2) wine; and

29 (3) hard or distilled alcoholic beverages.

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* Sec. 3. This Act takes effect July 1, 1989.

SB 253

Included in 5/3/89
CB (Fin)
DRAFT

WORK DRAFT

WORK DRAFT

WORK DRAFT

25 * Sec. 2. AS 43.60 is amended by adding a new section to read:

26 Sec. 43.60.025. ADDITIONAL REPORTING REQUIREMENTS ON SALES OF
27 ALCOHOLIC BEVERAGES. (a) In addition to the report required under
28 AS 43.60.020(a), a primary source of supply may not sell or ship
29 alcoholic beverages into the state unless the sale or shipment
1 includes an invoice from the primary source of supply to a wholesaler
2 licensed under AS 04.11.160. The invoice must include an account of
3 the alcoholic beverages sold or shipped and the names and addresses of
4 the primary source of supply and the wholesaler.

5 (b) On or before the 10th day of each month, wholesalers and
6 primary sources of supply shall mail to the Department of Revenue,
7 postage prepaid, a copy of the invoices covering sales and shipments
8 during the preceding month.

9 (c) In this section

10 (1) "primary source of supply" means the distiller, pro-
11 ducer, or owner of the alcoholic beverage at the time it became a
12 marketable product, and the bottler, prime importer, trademark owner,
13 brand owner, or a person who is authorized in writing to act as the
14 exclusive agent of a distiller, producer, owner, or bottler;

15 (2) "wholesaler" means a person licensed under AS 04.-
16 11.160.

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SB 253

WORK DRAFT

WORK DRAFT

WORK DRAFT

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4 the primary source of supply and the wholesaler.

5 (b) On or before the 10th day of each month, wholesalers and
6 primary sources of supply shall mail to the Department of Revenue,
7 postage prepaid, a copy of the invoices covering sales and shipments
8 during the preceding month.

9 (c) In this section

10 (1) "primary source of supply" means the distiller, pro-
11 ducer, or owner of the alcoholic beverage at the time it became a
12 marketable product, and the bottler, prime importer, trademark owner,
13 brand owner, or a person who is authorized in writing to act as the
14 exclusive agent of a distiller, producer, owner, or bottler;

15 (2) "wholesaler" means a person licensed under AS 04.-
16 11.160.

The Taxes of Sin

Do Smokers and Drinkers Pay Their Way?

Willard G. Manning, PhD; Emmett B. Keeler, PhD; Joseph P. Newhouse, PhD;
Elizabeth M. Sloss, PhD; Jeffrey Wasserman, PhD

We estimate the lifetime, discounted costs that smokers and drinkers impose on others through collectively financed health insurance, pensions, disability insurance, group life insurance, fires, motor-vehicle accidents, and the criminal justice system. Although nonsmokers subsidize smokers' medical care and group life insurance, smokers subsidize nonsmokers' pensions and nursing-home payments. On balance, smokers probably pay their way at the current level of excise taxes on cigarettes; but one may, nonetheless, wish to raise those taxes to reduce the number of adolescent smokers. In contrast, drinkers do not pay their way: current excise taxes on alcohol cover only about half the costs imposed on others.

(JAMA. 1989;261:1604-1609)

POOR health habits, such as smoking and heavy drinking, carry costs not only for smokers and heavy drinkers, but for everyone else as well. Concern about these costs has prompted not only health-promotion efforts, but also proposals to increase both federal and state excise taxes on cigarettes and alcohol. For such taxes to be at an economically efficient level, they must at least cover the costs to others that arise from smoking and heavy drinking. We term the costs to others *external costs*, in contrast to those borne by the smoker or heavy drinker, which we term *internal costs*.

Some external costs are obvious, for example, the damage caused by drunk driving and passive smoking; others are more subtle, for example, the higher medical costs of smokers that are financed by health insurance premiums and payroll taxes. Such premiums and payroll taxes are the same for smokers and nonsmokers (unlike individual life insurance premiums). As a result, nonsmokers may subsidize smoking.

Our purpose in this article is to quantify external costs. Earlier estimates of the costs of smoking and drinking^{1,2} (Of-

fice of Technology Assessment, unpublished data, 1985) are not suitable for analysis of taxes because they do not always distinguish between internal and external costs, nor do they calculate the lifetime costs of poor health habits.

METHODS

External Costs and Their Estimation

We illustrate our conceptual framework in terms of smoking, but the same principles apply to our analyses of drinking.

Table 1 illustrates the division between the internal and external costs of smoking. In the case of alcohol abuse, we also consider the costs of motor-vehicle accidents and criminal justice.

One goal of an economically efficient tax on smoking or tobacco is to have the smoker bear the costs that he imposes on others when deciding whether or how much to smoke. Costs imposed on other family members, however, are difficult to classify as internal or external because it is not clear whether those costs would, in any event, be taken into account by the smoker. If they would be, then they are internal costs. Although our base-case estimates classify such costs as internal, we show the effect of treating certain costs borne by other family members as external.

A simple example that considers only medical costs may clarify the division between internal and external cost. Suppose a worker has a group health insurance policy that pays 75% of his medical bills, and suppose that smoking a pack of cigarettes per day raises medical bills by \$6000. The amount the worker pays, \$1500 ($0.25 \times 6000 = 1500$), is a component of internal costs. Because

the smoker does not pay higher premiums that reflect his or her higher costs, the remainder of the cost, \$4500, is a component of external costs.

To estimate external costs, we should not contrast the medical and other expenses of smokers to nonsmokers, because nonsmokers differ from smokers in other ways that affect the various components of cost such as medical expenses. For example, according to the 1983 National Health Interview Survey (NHIS), those who never smoke are 1.5 times more likely than current smokers to have more than a high school education. Rather, we contrast smokers to a hypothetical group of "nonsmoking smokers," people who are like smokers in age, sex, education, drinking habits, and several other ways described herein, except that they have never smoked.³ To test how sensitive our estimates are to differences between smoking and not smoking, however, we also contrast medical and other costs of smokers to those of actual nonsmokers.

Our methods estimate lifetime costs by tracking expenditures for two hypothetical cohorts of men and women from age 20 years to death. One cohort smokes; the other does not. We develop life tables for each cohort showing the probability of surviving to each age from age 20 years. These tables come from applying estimates of the relative risk of smoking to the 1980 life tables of the US population.⁴ Relative risk was estimated by applying the 1984 Centers for Disease Control health risk appraisal program⁵ to the ever smokers in our sample twice—once with their actual smoking status and once with their smoking status changed to "never smoked."

In judging any policy that has long-term effects, it is important to discount future costs, thereby making costs that occur at different times commensurate. A dollar received today is worth more than a dollar received 15 years from now (even without inflation). A current dollar can be invested and earn interest so that at the end of 15 years it will be worth more than \$2 (at 5%). Because the proper rate of discount is controversial, we have computed results for rates that span the range between 0% and 10%.

The expected net external costs per pack are the sum of the immediate costs

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From The University of Michigan, Ann Arbor (Dr Manning); The RAND Corporation, Santa Monica, Calif (Drs Manning, Keeler, Newhouse, Sloss, and Wasserman); the Division of Health Policy Research and Education, Harvard University, Cambridge, Mass (Dr Newhouse); and Systemetrics/McGraw-Hill, Santa Barbara, Calif (Dr Wasserman).

The opinions and conclusions expressed herein are solely those of the authors and should not be construed as representing the policies or opinions of The RAND Corporation or any agency of the US Government or any of the individuals named herein.

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... pack and the cumulating life expectancy costs per pack. We assume that the costs of fires, motor-vehicle accidents, and criminal justice are immediate; ie, each cigarette or ounce of ethanol has a certain probability of causing such costs in the immediate period after purchase, but once the cigarette is smoked or the alcohol consumed, the probability drops quickly to zero. For such costs, we divide estimated national annual costs by the annual packs (or excess ounces). The cumulative net lifetime external costs are given by the following:

$$\sum_{t=20}^{95} \delta^{t-20} \times P(A|H)_t \times C(H)_t$$

$$- \sum_{t=20}^{95} \delta^{t-20} \times P(A|NH)_t \times C(NH)_t$$

where δ indicates the annual discount factor ($1/(1+r)$) if r is the discount rate; $P(A|H)_t$, the probability of surviving from age 20 years to at least age t years, conditional on smoking; $C(H)_t$, the annual costs minus taxes and premiums for smokers of age t ; $P(A|NH)_t$, the probability of surviving from age 20 years to at least age t years, conditional on not smoking; and $C(NH)_t$, the annual costs minus taxes and premiums for smokers of age t years if they had never smoked.

The external costs come from collectively financed programs, including health insurance, pensions, sick leave, disability insurance, and group life insurance. These programs are financed by taxes and premiums that do not differentiate between smokers and nonsmokers. Because smokers have shorter life expectancies, they will pay less of the taxes and premiums that finance these programs. To simplify the calculation of how much smokers and nonsmokers pay annually to finance these programs, we assume that each pays the same proportion of earnings, where the proportion is just enough to finance these programs.⁸ The discounted, expected lifetime costs per pack are calculated by dividing the lifetime costs by the expected number of packs smoked in a lifetime.

In estimating the external costs of smoking and drinking, we relied on self-reported consumption. Because people underreport their consumption, we have corrected for the difference between actual and reported use. The reported number of packs per day was multiplied by 1.5, and reported alcohol consumption was multiplied by 2.5.¹⁴ Our figures for pension income have been corrected for a 21% rate of underreporting.⁹

Our estimates are based on data from a number of sources. The primary source for those under age 60 years is The RAND Corporation's Health In-

Table 1.—Costs of Smoking

Type	Internal	External
Premature death	Smoker and family*	Coworkers and others*
Pain and suffering	Smoker and family*	Coworkers and others*
Medical costs	Copayments	Insurance reimbursements
Sick leave	Uncovered sick loss†	Covered sick loss†
Disability	Foregone income not replaced by disability insurance	Disability insurance
Group life insurance	Negligible	Death benefit
Pension	Defined-contribution plans	Social Security and defined-benefit plans
Wages	Foregone disposable income	Taxes on earnings
Other costs	Property loss due to fires paid by person	Insured property loss due to fires
Tobacco products	Cigarette purchases	...‡

*Premature mortality and suffering among family members and coworkers is caused by passive smoking. We classify costs borne by other family members as internal costs.

†By covered, we mean subject to some kind of insurance or income-replacement plan.

‡Excise taxes on cigarettes could be considered negative external costs. If they are so defined, the object of our exercise would be to determine if external costs were zero, rather than equal to the current excise tax.

Table 2.—External Costs per Pack of Cigarettes*

External Costs	Discount Rate		
	0%	5%	10%
Costs per pack, \$			
Medical care†	0.38	0.26	0.18
Sick leave	0.01	0.01	0.01
Group life insurance	0.11	0.05	0.02
Nursing home	-0.26	-0.03	0.00
Retirement pension‡	-1.82	-0.24	-0.02
Fires	0.02	0.02	-0.02
Taxes on earnings to finance above programs, \$	-0.65	-0.09	-0.02
Total net costs per pack, \$§	-0.91	0.15	0.24
Life expectancy at age 20 y per pack, min	-137	-28	-6

*The number of packs of cigarettes are corrected for underreporting. Costs (in 1986 dollars) per pack are calculated by dividing by the discounted number of packs smoked.

†Includes all but maternity, well, and dental care.

‡Includes disability insurance.

§The sum of costs minus taxes on earnings, eg, costs at 5% equals $0.15 = 0.26 - 0.01 + 0.05 - 0.03 - 0.24 + 0.02 - (-0.09)$.

... Experiment (HIE), because of its detailed information regarding habits and the medical reasons for the utilization of medical care.^{10,11} Because persons aged 62 years or older at the time of enrollment were excluded from the HIE sample of 5809 persons, we used data regarding persons greater than age 59 years from a 1983 supplement to the NHIS. It included information regarding health habits, health care use, and work loss in a sample of 22 418 persons. In addition, we compared the 1983 NHIS results for nonelderly persons with those from the HIE. We have inflated all cost data to 1986 dollars using the consumer price index.

We estimated differences in spending for medical care services between those with and without each habit. Such differences, of course, may or may not be caused by the habit. We addressed this ambiguity in two ways. First, we controlled for the confounding characteristics described in the next section. Second, although our base-case estimates include all medical services except maternity services and well care, we examined their sensitivity to considering only costs that arise from diagnoses

thought to be directly related to smoking and excessive drinking, such as cancer of the lung and cirrhosis of the liver.

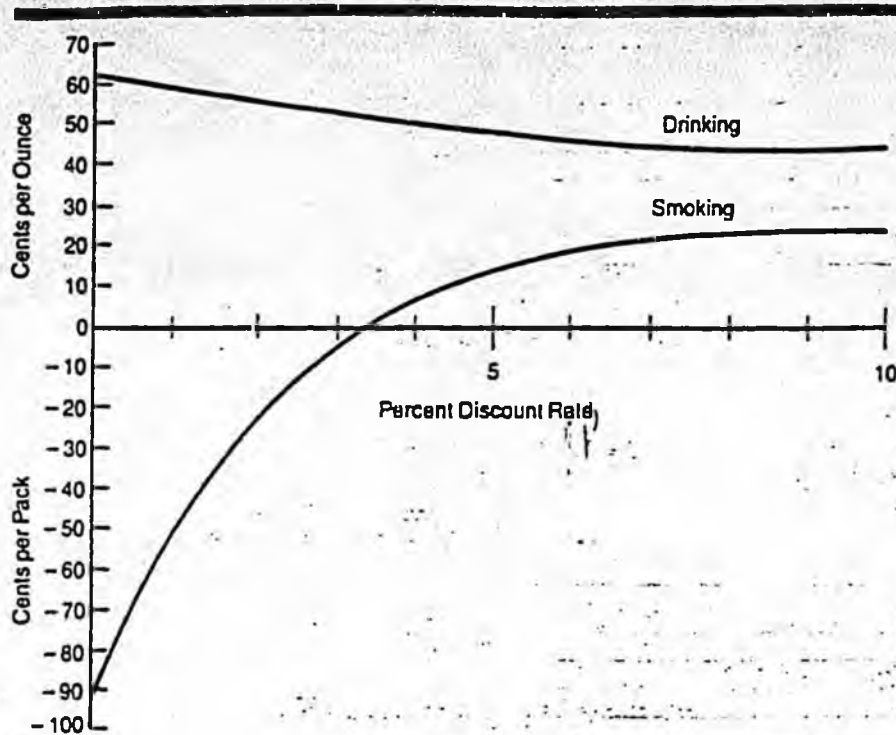
In addition to medical expense, we estimated the difference in days lost from work between persons with and without each habit, controlling for the confounding variables described herein. The collectively financed cost of days lost from work was computed by multiplying the daily wage by 0.38, the employers' average share of the cost of work loss through covered sick leave.¹²

When estimating the cost of drinking, we controlled for smoking status, and conversely. Had we not done so, we would have attributed some of the costs of smoking to drinking if smokers tend to drink heavily. We classified persons as former cigarette smokers, current cigarette smokers, current pipe or cigar smokers, and never smokers based on their responses to a smoking history questionnaire filled out at the time of enrollment in the study. We classified persons as abstainers, former drinkers, and current drinkers based on responses to the same questionnaire. We collapsed information regarding the current drinkers' consumption of beer,

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External costs of poor health habits at alternative discount rates.

Table 3.—Sensitivity of External Costs (in 1986 Dollars) per Pack to Assumptions at 5% Discount Rate

External Costs	Base Case*	All Data From National Health Interview Survey	Comparison With Never Smoker	Lower Bound†	Total Costs‡
Costs per pack, \$					
Medical care	0.26	0.26	0.30	0.15	0.36
Sick leave	0.01	0.05	0.04	0.01	0.03
Group life insurance	0.05	0.05	0.06	0.05	0.05
Nursing home	-0.03	-0.03	-0.02	-0.03	-0.03
Retirement pensions§	-0.24	-0.24	-0.20	-0.38	-0.24
Fires	0.02	0.02	0.02	0.02	0.02
Taxes on earnings per pack, \$	-0.09	-0.09	-0.09	-0.05	-0.93¶
Total net costs per pack, \$¶	0.15	0.20	0.28	-0.15	7**

*Effect of changing current and former smokers to never smokers, with other characteristics held constant.

†Narrow definition of medical effects, with no effects of smoking on early retirement.

‡Includes internal costs.

§Includes disability insurance.

¶Value shown is nonsmoking smokers' differential; never smokers actually pay \$0.51 cents more earnings tax than smokers per pack because of higher earning rates, but it is implausible that their higher earning rates are causally related to smoking, and we have assumed they are not.

**Earnings, not taxes on earnings.

¶Sum of costs minus taxes on earnings.

**Loss of life and pain and suffering by smoker and family not included; see text.

wine, and spirits into a single variable—monthly consumption of ethanol in ounces. Within the category of current drinkers, *heavy drinkers* include those who report an average of two or more drinks daily (five or more actual drinks daily, with allowance for underreporting). Because light drinking may not be harmful, we calculate the cost per ounce in excess of two reported drinks per day.¹⁴ Thus, the drinking analogue of nonsmoking smokers are "controlled" heavy drinkers; ie, we estimate the effect of hypothetically reducing the consumption of those with more than two reported drinks per day to two reported drinks per day.

Our base-case analysis also controlled for health insurance coverage, age, sex, race, education, the use of seat belts, family income, exercise, self-assessed measures of physical, mental, and general health, and family size. We included education and seat belt use to measure attitudes that may differ between those with varying health habits—attitudes that may affect work loss and use of medical services independently of smoking and drinking.

Pensions and Other Costs

In addition to the costs of medical care and work loss, we calculated the other

components of cost shown in Table 1. Data regarding pension and disability payments by age, sex, and education status come from the *Current Population Survey*. That survey is also the source of earnings data, which we use to calculate taxes to finance the programs. Our estimate of annual property loss from fires that are associated with cigarette smoking is \$340 million (in 1986 dollars).¹⁵ Because of fire insurance, we have assumed these costs are entirely external, but our estimates are not sensitive to this assumption.

Our estimates of certain annual external costs of alcohol abuse are as follows: property damage from motor-vehicle accidents, \$3.6 billion, and from fires, \$507 million; criminal justice, \$3.1 billion; and social programs, \$54 million.¹⁶

It is extremely difficult, and to some distasteful, to place a dollar value on the innocent lives lost due to fires, passive smoking, or drunk driving. Nevertheless, it is often necessary, implicitly or explicitly, to place a value on lives lost when judging the merits of alternative policies, for example, policies leading to air pollution control or increased automobile safety. For this analysis, we include an explicit value for the lost lives to avoid the systematic undercounting of the costs to society that would occur if we included only the differences in use of medical care, sick leave, etc.

To define a value for innocent lives lost because of fires, passive smoking, and drunk driving, we used a method based on the willingness to pay for a small change in the probability of surviving.¹⁷ This yields a value of \$1.66 million per life (around \$10 per hour, using years of life expectancy discounted at 5%), considerably more than the value of lost earnings. We believe earnings are an inappropriate measure of the value of life, in part, because they attribute a relatively low value to those who are out of the labor force.¹⁸

RESULTS

Smoking

External Costs per Pack of Cigarettes.—If costs are not discounted, each pack of cigarettes increases medical costs by \$0.38, but saves \$1.82 in public and private pensions due to a 137-minute reduction in life expectancy. Overall, there is a net savings of \$0.91 per pack in undiscounted costs (Table 2).

Results change markedly if costs are discounted at 5%, largely because pension costs change from -\$1.82 (at 0%) to -\$0.24 (at 5%) per pack. Pensions are received late in life, so discounting dramatically decreases the differential between smokers and nonsmoking smokers. Using a 5% discount rate, the

total and discount rate assumptions. Total pack external costs: Section: subsections below effect. For peats: discount result we use old pe costs erred pack, \$0.15. To to di smok: smok: rather: 3, col: insen: terna: figure costs: betw except smoki differe retire: smoki: medic: noses health (Table scribed nonsm manne smoke: effects that th nonsm as amo not aff column tions 1 - \$0.15 per pac Final gives to portion person. the cos sufferin appears table. (Other ma es o: do not

total external costs per pack are \$0.15, and they rise to \$0.24 per pack at a 10% discount rate. The main reason these results are so much lower than, for example, the estimate from the Office of Technology Assessment of \$2.17 per pack (unpublished data, 1985) is our exclusion of changes in lifetime earnings from smoking, which are internal costs.

Sensitivity of Costs to Assumptions.—Clearly, the magnitude of any subsidy from nonsmokers to smokers is sensitive to the discount rate, especially below 5% (Figure). Table 3 shows the effect of varying other assumptions. For comparison, the first column repeats the results from Table 2 for a 5% discount rate. To test how sensitive the results are to the data source selected, we used NHIS data for young as well as old persons (Table 3, column 2). Medical costs per pack do not change, but covered sick leave costs rise to \$0.05 per pack, and the total net costs rise from \$0.15 to \$0.20 per pack.

To test how sensitive the results are to different assumptions about how smoking affects health, we contrast smokers with actual never smokers, rather than nonsmoking smokers (Table 3, column 3). The results are relatively insensitive to this modification also; external costs rise to \$0.23 per pack. This figure probably overstates the true costs because it treats all the differences between smokers and never smokers, except wages, as causally related to smoking, whereas smokers may have different patterns of medical use and retirement for reasons unrelated to smoking. As another test, we restricted medical costs to those arising from diagnoses thought to be related to poor health habits; medical costs fell \$0.11 (Table 3, column 4). The estimates described herein assumed that a cohort of nonsmoking smokers would retire in a manner similar to people who never smoked. However, we also computed effects on taxes and pensions, assuming that the pattern of retirement among nonsmoking smokers would be the same as among smokers; ie, quitting would not affect age of retirement (Table 3, column 4). Combining these assumptions leads to a lower boundary of -\$0.15 (at a 5% discount rate) on costs per pack.

Finally, the last column in Table 3 gives total costs; that is, it includes the portion of costs that are financed by the person. It does not, however, include the costs of premature mortality and suffering, which is why a question mark appears in the lower right corner of the table.

Other Costs of Smoking.—Our estimates of the costs of smoking in Table 2 do not include the adverse effects of

Table 4.—External Costs of Heavy Drinkers per Excess Ounce*

External Costs	Discount Rate		
	0%	5%	10%
Medical and pension costs per excess ounce, \$			
Medical care†	0.26	0.10	0.05
Sick leave	0.08	0.05	0.04
Group life insurance	0.02	0.02	0.02
Nursing home	-0.01	‡	‡
Retirement pension§	-0.04	0.03	0.02
Taxes on earnings, \$	-0.35	-0.06	-0.02
Net medical and pension costs per excess ounce, \$	0.63	0.26	0.15
Motor-vehicle accidents and criminal justice costs per excess ounce, \$			
Lives of non-drinkers	0.58	0.58	0.58
All other costs‡	0.35	0.35	0.35
Total net costs per excess ounce, \$†	1.56	1.19	1.08
Life expectancy at age 20 y per excess ounce, min	-20	-8	-4

*Costs (in 1986 dollars) per excess ounce are calculated by dividing by the discounted number of excess ounces.

†Excludes maternity, well, and dental care, and medical care costs to others caused by drunk driving.

‡Indicates figure is less than 0.005.

§Includes disability insurance.

¶The \$0.35-cent figure includes certain internal costs, such as the property damage in motor-vehicle accidents paid by the alcoholic driver in deductibles or other copayments and higher premiums but excludes the external costs associated with the effects of alcoholism on spouses and children (eg, the use of insured mental health services) and those associated with the increased risk of alcoholism for these dependents.

‡Sum of costs minus taxes on earnings.

passive smoking on those outside the smoker's family. Passive smoking causes an estimated 2400 lung cancer deaths per year, and it has also been linked to reduced lung function among children of smokers, a higher incidence of respiratory problems for children and others, as well as the displeasure of consuming unwanted cigarette smoke." Most of these costs are within the family and are internal or external costs depending on the extent to which the smoker considers the welfare of others in his family when he smokes. The figures in Table 2 assume that such costs are internal. If, however, we treat the costs of the 2400 deaths as entirely external and use an estimate of willingness to pay for lower mortality of \$1.66 million per life," external costs per pack would rise \$0.14.

Because deaths in smoking-related fires are also almost entirely within the family, we have treated the costs as internal and did not include them in our estimates. However, if we were to treat the costs of such deaths as external, some 1600 people in 1984 (J. Hall, oral communication, Aug 13, 1987), we would increase the external costs of cigarettes by \$0.09 per pack of cigarettes.

The smoker loses 23 discounted minutes of life expectancy (at a 5% discount rate) for each pack smoked (Table 2), which accounts for \$0.93 of discounted wages (many of the lost minutes occur when not working). Using our estimated willingness to pay for lower mortality of \$10 per hour, the 23 minutes is worth approximately \$5. Although we consider the \$5 an internal cost, it may nonetheless be relevant to an economically efficient tax, a point we will come to later.

Heavy Drinking

External Medical and Pension Costs per Excess Ounce of Alcohol.—Using undiscounted values, each excess ounce of alcohol, ie, those consumed in excess of two reported drinks per day, has external medical and pension costs of \$0.63 and causes a loss of 20 minutes of life expectancy (Table 4, column 1). At a 5% discount rate, external medical and pension costs per excess ounce fall to \$0.26. In contrast to smoking, heavy drinking increases all categories of costs (at a 5% discount rate), even pensions, because the large effects of early retirement, which triggers pension and disability payments, outweigh the shorter life of drinkers. At a 10% rate of discount, medical and pension costs fall to \$0.15 per excess ounce.

Before discussing the other costs of drinking shown in Table 4, we describe the sensitivity of our estimates of medical and pension costs to different assumptions (Table 5). For convenience, the first column of Table 5 repeats the results from Table 4 for a 5% discount rate. Medical and pension costs are not sensitive to the source of data (Table 5, column 2), nor do they change much if we compare heavy drinkers with actual abstainers and light drinkers rather than hypothetical controlled drinkers (cutting back to two reported drinks per day among those consuming more than that amount) (Table 5, column 3), nor do they change when drinking is not treated as a cause of disability retirement (Table 5, column 4).

Restricting medical costs to those arising from diagnoses thought to be related to poor health habits makes virtually no difference to our estimates (Table 5, column 4), implying that the

Table 5.—Sensitivity of Medical and Pension Costs (in 1986 Dollars) per Excess Ounce of Ethanol to Assumptions, 5% Discount Rate

Costs	Base Case*	All Data From National Health Interview Survey	Abstainers and Light Drinkers	Lower Bound†	Total Cost‡
Medical and pension costs, \$					
Medical care per excess ounce§	0.10	0.11	0.07	0.11	0.16
Sick leave	0.05		0.10	0.05	0.13
Group life insurance	0.02	0.01	0.04	0.02	0.02
Nursing home			-0.01		
Retirement pension†	0.03	0.05	-0.15	-0.05	0.03
Taxes on earnings, \$	-0.06	-0.06	-0.14¶	-0.03	-0.64**
Net medical and pension costs per excess ounce, \$††	0.26	0.23	0.20	0.15	?
Life expectancy at age 20 y per excess ounce, min	-8	-7	-19	-8	-8

*Effect of changing heavy drinker to controlled drinker, with other characteristics held constant.

†Narrow definition of medical effects, with no effect on early retirement.

‡Includes internal costs.

§Excludes maternity, well, and dental care.

||Indicates figure is less than 0.005.

¶Includes disability insurance.

**We have used the earnings of abstainers and light drinkers to compute taxes. These earnings are considerably higher than for drinkers, even after controlling for education. To the extent that these earnings differences are not caused by drinking, we should use drinkers' earnings; in that case, the -0.14 figure would be -0.03.

††Earnings, not taxes on earnings.

‡‡Sum of costs minus taxes on earnings.

medical costs shown in the first column are largely due to differences in medical use that are related to habits. In contrast, the external costs of smoking are sensitive to the definition of relevant medical costs, suggesting that the broader definition of smoking effects may overstate medical costs and total external costs.

Other External Costs.—Although our estimates include the additional probability that a drinker will be killed in a traffic accident, they do not account for the deaths of innocent bystanders and nondrinking passengers in such accidents. The Department of Transportation estimates that about 7400 of the 22 400 people who died in alcohol-related traffic accidents in 1985 were not drinking.¹ Based on a willingness to pay for a human life of \$1.66 million and the estimated volume of drinking from the 1983 NHIS, the value of the 7400 lost lives is \$0.58 per excess ounce of ethanol (Table 4, bottom). This figure is low because it does not include medical, disability, and suffering costs of surviving nondrinking victims of alcohol-related accidents. On the other hand, the figure is high to the extent that not all drinking-related accidents are caused by alcohol.

In addition, there are annually \$7.2 billion of other costs described previously herein, principally costs of the criminal justice system and property damage in alcohol-related motor-vehicle accidents. These costs add another \$0.35 per excess ounce.

Sensitivity of Results

Although \$0.15 per pack of cigarettes and \$1.19 per excess ounce of alcohol are our best estimates of the external eco-

nomical costs of smoking and heavy drinking, the values are sensitive to four factors: discount rate, value assigned to lives lost in drunk driving-related accidents, amount of underreporting, and treatment of persons who die of causes related to passive smoking and fires.

Discount Rate.—The sensitivity to the discount rate is more pronounced with smoking, where the estimated external costs would be almost \$0.20 lower per pack if we used a 3% rather than a 5% discount. The sensitivity of drinking costs to discounting is much less. For smoking, consumption starts early, but deaths come much later than in the case of drinking. The shorter the time between consumption and death, the less sensitive the estimates are to discounting.

Dollar Value of Life.—Because the assumed value of life is on the low end of estimated values, our estimates of drinking costs are conservative.

Underreporting.—Assuming that the reported level of consumption were closer to the actual level of consumption would raise our estimates of the external cost, because we would inflate the level of reported packs and ounces by a smaller factor when computing costs per pack and ounce. For example, had we assumed respondents reported 60% of their actual alcohol consumption, we would only have multiplied reported ounces by 1.67 (100/60) rather than 2.5 (100/40) to estimate actual ounces, and the estimated cost per excess ounce would be 50% (2.5/1.67 = 1.5) higher. In the case of alcohol, our cost estimate is conservative because the 40% figure we used is at the low end of the estimates found in the literature.⁸

Within-Family Costs.—We ignored

costs of \$0.23 per pack associated with deaths caused by passive smoking and fires because we assumed they were in the family and taken into account by the smoker. Defining these costs as external would more than double our estimated external cost of smoking.

Our estimates are relatively insensitive to other assumptions. Because the external costs of drinking are dominated by costs associated with drunk driving, such costs are relatively insensitive to discounting (Figure). The choice of data used to estimate effects (HIE vs NHIS) has little effect on the results.

Our estimates of the external costs of alcohol were made per excess ounce, but excise taxes apply per ounce, not per excess ounce. Forty percent of total consumption represents ounces in excess of two reported drinks per day (five actual drinks per day, given our estimate of underreporting). To convert our figures per excess ounce to figures per ounce, one should multiply them by 0.4, reducing the estimated cost of \$1.19 per excess ounce to \$0.48 per ounce.

Our estimate of the external cost of smoking, \$0.15 per pack, is well below the current average (state plus federal) excise and sales taxes of \$0.37 per pack (\$0.32 of the \$0.37 are excise taxes).²⁰ However, the \$0.37 tax rate approximately equals the estimated external cost of \$0.38 if we were to treat all lives lost to passive smoking and fires as external costs. By contrast, our estimate of the external cost of alcohol, \$0.48 per ounce, is well above the current average (state plus federal) excise and sales taxes of \$0.23 per ounce.²¹ (The average excise tax is taken across distilled spirits, wine, and beer, where the excise taxes are \$0.25, \$0.03, and \$0.09 per ounce of ethanol, respectively.) Thus, smokers probably pay enough taxes to cover the net costs they impose on others, but heavy drinkers do not.

We noted in the introduction that economically efficient excise taxes should at least cover external costs. By this criterion, taxes on alcohol are too low: whether cigarette taxes are high enough depends on one's appraisal of three other arguments for taxation of cigarettes and alcohol. (Each of these arguments would further strengthen the case for increasing alcohol taxes.)

The first argument takes cognizance of the regret expressed by most smokers and their attempts to quit. Smoking tends to start in adolescence or early adulthood, at a time when individuals are not well informed and may not appreciate the consequences of their actions.²² Cigarettes (and alcohol) are addictive, so it is more difficult to quit than to avoid starting the habit. Because over 85% of smokers begin smoking before age 20 years²³ and some evidence

suggests that the proportion of those under 20 years of age who smoke is sensitive to taxes,²⁴ higher taxes may decrease the number of individuals who become addicted.

Some may see this argument as paternalistic, but it is not, if judged by the tastes of the individual attempting to quit; those tastes arguably determine the economically efficient tax. If the loss in life expectancy of 28 minutes per pack is relevant to economic efficiency because of later regret, an economically efficient tax would be on the order of \$5 per pack, the estimated value of the 28 minutes.

A second and related reason to tax cigarettes is that many adults do not appreciate the risks. Despite the warning labels on cigarettes, 20% to 25% of adult smokers say they do not know the risks of smoking.²⁵ A higher tax would deter initiation of smoking, thus compensating for any undervalued risk.

A third reason to tax addictive commodities is that such taxes are likely to lead to a relatively small change in behavior among those already addicted. Suppose, for example, there were no external costs, no ignorance, and no regret associated with smoking. From the point of view of raising revenue, it may still be wise to tax cigarettes because it is preferable to tax items for which behavior does not change; there is less induced inefficiency.²⁶ This argument could also justify higher cigarette taxes than at present.

Despite the uncertainties surrounding our estimates, in the case of alcohol, the difference between the actual tax and external costs is so large that, in our view, a strong case can be made for an increase in federal alcohol taxes. The tax increase should occur at the federal level, not the state level, to prevent bootlegging across state lines. The case is especially strong for raising taxes on beer and wine, which, as noted previously herein, are much lower (per ounce of ethanol) than taxes on distilled spirits. Strategies such as banning advertising or promoting negative advertising may be complementary.²⁷

To the degree that external costs of alcohol abuse stem from people who drink in bars and restaurants and then drive home while intoxicated, there is a case for an additional tax on alcohol sold by the drink. We have not tried to ascertain what proportion of external costs stem from alcohol consumed in bars and restaurants relative to that consumed in homes.

Ideally, society would tax drunk drivers to force them to pay the external costs of drunk driving rather than tax alcohol. To some extent, society does so with fines, suspension of driving licenses, jail sentences, and civil liability.

However, the present legal system does not make, nor could it reasonably make, drunk drivers bear fully the external costs of their actions, especially in those cases where there is a loss of innocent lives.²⁸ For example, liability insurance partially shields drunk drivers.

We close by considering two arguments against higher excise taxes. First, tobacco and alcohol taxes constitute a larger proportion of the income of the poor than of the well-to-do.²⁹ However, alcohol and tobacco taxes each supply only 1% of federal revenues. As a result, rather small changes in the individual income tax structure could readily compensate for the effect of increased excise taxes on the distribution of income, if that were deemed desirable. Drinkers and smokers would still pay more, but low-income individuals, as a group, need not pay more.

Second, light drinkers may argue that they impose few or no external costs, but would unfairly pay a higher tax burden. There are two responses. First, suppose that a given amount of revenue to finance government expenditure must be raised from various taxes, including excise taxes on alcohol. As a group, persons whose consumption of alcohol is below the population average of 1.7 reported drinks (over four actual drinks) per day will benefit from shifting more of the tax burden to alcohol taxes and away from other taxes (eg, payroll taxes). In fact, of adults who drink three fourths drink less than this amount. Second, to the degree that higher taxes deter alcohol abuse, the resulting decrease in external costs will offset increases in the tax burden of light drinkers.

Because excise taxes must be proportional to consumption and because the external costs of smoking and drinking are not proportional to consumption, there will not be, in practice, a tax that does not leave someone subsidizing someone else. The task of determining how such subsidies will flow falls to our political institutions. We hope our estimates contribute to more informed decisions.

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Anchorage Daily News



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Tobacco, alcohol and the price paid

A new RAND Corp. study provides a novel examination of the consequences for society of tobacco and alcohol. The study found that smokers, in a macabre sort of way, pay for the social costs of their habit. Drinkers, on the other hand, cost society much more than they pay in alcohol taxes.

From the study's conclusions, one could construe that smokers are doing the rest of society a favor — dying, as they do, prematurely and thus not collecting pensions and Social Security. This scenario has quicker-dying smokers subsidizing the pensions and nursing-home care of longer-living nonsmokers.

But don't rush out and hug the next smoker you see. For the study gives little weight to other, less obvious costs of smoking. The costs to society — the health woes of "passive smokers" and lost productivity from smokers who, studies show, stay home sick more often than nonsmokers — are substantial. In addition, the simple nuisance of cigarette smoke to others probably has no measureable economic value — but takes a toll psychologically.

Regarding alcohol, the case is clear: Drinking extracts a huge price from drinkers and others. The costs of higher health and disability insurance premiums and damage to innocent victims of drunken drivers dwarf the amount drinkers pay in alcohol taxes. In fact, the RAND study says, alcohol taxes would need to be at least doubled before they would cover those costs.

The study will likely lend support to efforts to raise alcohol taxes — but a more attractive consequence would be if it provides a boost to the struggle against alcohol abuse. The personal and family toll taken by alcohol abuse have long been recognized. And a demonstration of just how financially costly the problem is to the rest of society adds more compelling reasons why the struggle is not in vain.

HISTORY OF EXCISE TAX ON INTOXICATING LIQUOR
IN THE TERRITORY AND STATE OF ALASKA

The liquor excise tax is levied on every brewer, distiller, bottler, jobber, retailer, wholesaler or manufacturer who sells or consigns for shipment into Alaska intoxicating liquor. All except the retailer, who has secondary liability, are considered primarily responsible for the tax payment. The rate of the tax is 25¢ per wine gallon of wine or other liquor having no more than 21 per cent alcohol by volume, and ~~\$4.00~~^{5.60} per wine gallon of liquor having greater than 21 per cent alcohol by volume.

Those liable for the Alaska tax are required to make monthly statements and payments to the Commissioner of Revenue, who is responsible for the administration of the liquor tax. There are no exemptions, as such, in the tax law, but a tax credit is allowed for any liquor sold to authorized beverage dispensers, such as a post exchange, on military or governmental reservations. National Guard units not on active duty and civilian clubs located on federal reservations are required to pay the tax (1960 Opinions of the Attorney General No. 16).

HISTORICAL AND LEGAL BACKGROUND

The first liquor excise tax was enacted by the Territory of Alaska in 1933. This was a 5¢ per gallon levy on 3.2 beer and wine. In 1937 the tax was broadened and the rates raised.

The 1937 rates were 5¢ per gallons of beer, 15¢ per gallon of wine, and 50¢ per gallon of liquor.

The 1945 tax raised the tax on liquor to \$1.60 per gallon.

The 1947 rates were: 10¢ per wine gallons of malt beverages with at least one per cent alcoholic content, 25¢ per wine gallon wine or other liquor having no more than 21 per cent alcohol by volume and \$3.00 per wine gallon of liquor having greater than 21 per cent alcohol by volume.

The 1957 amendment increased the 1945 tax rates to 25¢ for malt beverages, 50¢ for wine or other liquor having an alcoholic content of 21 per cent or less by volume, and \$3.50 for liquor with more than 21 per cent alcohol.

HISTORY OF EXCISE TAX ON INTOXICATING LIQUOR
IN THE TERRITORY AND STATE OF ALASKA
(continued)

The 1961 amendment increased the 1957 tax rates to 60¢ for wine or other liquor having an alcoholic content of 21 per cent or less by volume, and \$4.00 for liquor with more than 21 per cent alcohol.

The 1983 amendment increased the tax rates to 35¢ a gallon on malt beverages, 85¢ a gallon on wine or liquor having an alcoholic content of 21 per cent or less by volume, and \$5.60 for liquor with more than 21 per cent alcohol.

	<u>Wine</u>	<u>Beer</u>	<u>Liquor</u>
1957	50¢	25¢	3.50
1961	60¢	25¢	4.00
1983	85¢	35¢	5.60

Prepared by:

Department of Revenue
Income & Excise Audit
April 10, 1989

ALCOHOL TAX - Change in tax rates effective August 1, 1983. Liquor \$4.00 to \$5.60.
Wine \$.60 to \$.85. Beer \$.25 to \$.35.

Liquor	1981-82	1982-83	1983-84*	1984-85	1985-86
Tax	\$5,258,552	\$5,426,200	\$7,436,207	\$7,546,817	\$6,960,890
Volume (Wine Gallons)	1,314,638	1,356,550	1,404,777	1,347,646	1,243,016
Wine					
Tax	\$ 806,257	\$ 837,069	\$1,253,169	\$1,396,303	\$1,348,944
Volume	1,343,762	1,395,116	1,518,110	1,642,709	1,586,993
Beer					
Tax	\$2,980,287	\$3,302,614	\$4,706,163	\$4,865,069	4,851,902
Volume	11,921,147	13,210,454	13,958,000	13,900,198	13,862,576

*Year the tax changed. Because two tax rates are included in this year, the dollar amount cannot be found by multiplying gallons by the rate.

Consumption 1981-1986

SUMMARY
OF ESTIMATED ALCOHOL/DRUG RELATED COSTS
TO ALASKANS

STATE COSTS:	AMOUNT:
ASSISTANCE PAYMENTS:	\$ 14,731,829
SOCIAL SERVICES:	30,107,726
CRIMINAL JUSTICE SYSTEM:	130,441,069
DEPARTMENT OF PUBLIC SAFETY:	20,578,163
STATE HEALTH/MEDICAL CARE:	3,842,490
TOTAL STATE COSTS:	\$ 199,701,277
NET REVENUE TO STATE:	
Licensure Fees and Taxation	\$ 14,871,860
TOTAL COSTS LESS REVENUES:	\$184,829,417

The State Spends \$13.42 in Services/Costs for Each
\$1.00 of Revenue Collected for Alcoholic Beverages.

COST TO RESIDENTS:	
Lost Alaskan Income	\$ 40,804,800
Property Loss	36,752,917
Excess Medical Costs	16,567,798
TOTAL COSTS:	\$ 94,125,515
TOTAL COSTS TO THE STATE AND RESIDENTS:	\$278,954,932

THE BEST OF CARE

The Challenge of Providing Health Care to Alaskans

A Report of the
Governor's Interim Commission on Health Care

September 1988

For further information contact:
Department of Health and Social Services
P.O. Box H
Juneau, Alaska 99811
(907) 465-3030

- Recommendation.
GOV'S Interim Commission Health Care.

issue immediately and submit proposed legislation to the Legislature.

25.

Mandatory Insurance for Substance Abuse and Mental Health

Findings

- Individuals should bear the cost of their mental health and substance abuse treatment when able to do so.
- Employment-related insurance provides a means by which people can assume more responsibility for their own care.

Recommendation

The Commission supports the concept of mandatory provision of inpatient and outpatient substance abuse and mental health treatment in employer-offered health insurance packages.

1988 Legislative Update: The Legislature passed two pieces of legislation that go a great distance toward implementing this recommendation. Senate bill 363 (Chapter 150 SLA 1988) requires that group health insurance policies include coverage of substance abuse treatment. Senate Bill 67 required group health insurance policies to include coverage of mental health treatment. Governor Cowper vetoed this legislation, citing the additional expense to employers and the potential that some employers would drop health coverage altogether.

Like other health care, substance abuse care and mental health treatment are the responsibility of the individual and family first, and the responsibility of the community, including employers, second. For this reason, the state should require individual and employer participation in financing mental health and substance abuse treatment by mandating its coverage in all employer-offered health insurance packages. The package of benefits and the level of coverage should reflect the need for care across the continuum of services, the types of providers available within the community, and the price of services. The package

should be developed by the Legislature and the administration working closely with the business sector to ensure that the health insurance package, including treatment for substance abuse and mental health, is affordable.

Cost: Including these treatments in insurance packages that currently do not cover them will increase the price of insurance. The amount of increase will depend on the level of coverage mandated. Coverage requirements should provide for a meaningful level of treatment without seriously jeopardizing the affordability of health insurance coverage. The state will face additional costs to the extent that it must improve its own group health insurance package.

Implementation: Legislation is required to mandate the inclusion of substance abuse and mental health treatment in group health insurance. The Legislature should pass such legislation at the earliest opportunity.

"By and large, a lot of medical conditions which we treat in expensive acute-care hospitals . . . are related to a person's alcohol consumption."

George Mundell,
State Office of
Alcohol and Drug Abuse

26.

Alcohol and Tobacco Taxation

Findings

- Alcohol and/or tobacco use can lead to numerous health problems that increase the overall cost of health care in Alaska.
- Consumption of alcohol and tobacco is price-sensitive, especially among adolescents.
- Taxation of alcohol and tobacco discourages the use of these products while increasing revenues to government.
- Inequities exist in current state alcohol and tobacco taxes. Wine and beer are not taxed at the same rate as spirits; tobacco products other than cigarettes are not taxed at all.

Recommendation

Taxes should be used to increase revenue and decrease consumption of substances with negative health consequences. The Commission recommends the following actions:

The state should raise the tax on beer and wine to equal the tax on spirits;

the state should institute a tax on tobacco products other than cigarettes; and

local governments that have not already done so should be encouraged to tax tobacco and alcohol and dedicate the revenues to specific health services.

1988 Legislative Update: Senate Bill 339 Chapter 125 SLA 1988) contains a provision instituting an excise tax of 25 percent of the wholesale price on tobacco products other than cigarettes.

Taxing alcohol and tobacco products helps to raise revenues while discouraging the consumption of products that have a serious negative impact on health. Both alcohol and tobacco are associated with health problems that account for substantial government health costs.

In recent years, consumers have shifted their consumption of alcohol away from spirits (hard liquor) and toward beer and wine. Yet spirits currently are taxed at a higher level (based on alcohol content). By equalizing the tax, the state would discourage consumption of all alcohol products to the same extent. Furthermore, evidence suggests that use of alcohol among teenagers is extremely sensitive to price; therefore, raising the tax on wine and beer could reduce alcohol abuse among teenagers.

Currently, the state taxes cigarettes alone among tobacco products. Yet the use of other tobacco products, especially chewing tobacco, has increased, and these other products also have negative health consequences. The state should discourage all tobacco use by taxing all tobacco products.

Local taxation of tobacco and alcohol offers municipalities a method of enhancing their funding of health services. Unlike the state, local governments are not necessarily prohibited from

dedicating these revenues to health care; therefore, the communities can forge a direct link between the sale of products with harmful health consequences and the level of health funding.

Cost: These proposals would produce increased government revenues. Increasing the tax on beer and wine would raise an estimated \$3.5 million annually, and the tax on tobacco products would raise between \$600,000 and \$1 million.

Implementation: The Legislature should raise the tax on beer and wine and institute a tax on tobacco products as soon as possible. Local governments not already doing so should give immediate consideration to taxing tobacco and alcohol.

27.

Medicaid Coverage for Prescription Drugs

Findings

- Alaska is the only state that does not cover prescription drugs under Medicaid.
- General Relief Medical, funded entirely by the state, pays for prescription drugs for Medicaid recipients in Alaska.
- Adoption of the Medicaid prescription drug option would save the state about \$2 million per year because of the federal matching funds it would receive under the Medicaid program. This change would not affect clients.

Recommendation

The state should adopt the Medicaid option for coverage of prescription drugs.

1988 Legislative Update: A provision of Senate Bill 255 (Chapter 120 SLA 1988) adopted the Medicaid prescription drug option for one year.

Cost: Adopting the prescription drug option should save the state approximately \$10 million over the next five years.

Implementation: The Legislature should adopt the prescription drug option as soon as possible.

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Judy Bush, Fairbanks
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Lynn Hutton, Research Analyst, Division of Mental Health, DHSS
Dave Williams, Planning Section Chief, Division of Budget and Finance, DHSS

Writer:

Jonathan Sherwood

The Commission formed into two committees to consider specific issues and recommendations. In addition to Commission members, each committee included a representative of the Medical Care Advisory Committee (MCAC). These committees were as follows:

Committee on Long Term Care

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Mim Dixon
Sen. Willie Hensley
Norma Lundy, Chairperson
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Committee on the Indigent and Medically Underserved

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STATE OF ALASKA

THE LEGISLATURE

BUDGET AND AUDIT COMMITTEE

FINANCE DIVISION
P.O. BOX WF
JUNEAU, ALASKA 99811
PHONE: (907) 465-3795

MEMORANDUM

DATE: April 11, 1989

TO: Senator John Binkley, Co-Chairman
Senate Finance Committee

FROM: Cameron Kashani, Fiscal Analyst^{ck}
Legislative Finance Division

SUBJ: Alcohol Tax

The general features of a sumptuary tax include efficiency, equity, elasticity, administrative, compliance, and political considerations. Excise taxes are not very elastic, especially with respect to alcoholic beverages. Estimates of the price elasticities of demand for alcoholic beverages are highly variable, with beer typically having the lowest elasticity and wine having the highest. Since demand is price responsive, excise taxes would reduce consumption, but at a marginal rate.

Although sumptuary taxes are regressive, the primary goal of this kind of taxation is to reduce use of alcohol and tobacco -- consequently, promoting equity by reducing the external costs that users impose on others. Efficiency is also promoted through additional revenues for external costs that otherwise would be ignored by individuals who decide to use alcohol.

Alcoholic beverage taxes are being reduced to insignificance by inflation. This trend will continue unless tax rates are either indexed or adjusted for inflation through periodic legislative action. In Alaska, the real tax burden on alcoholic beverages has fallen since 1961. The tax revisions made in 1983 did not compensate for inflation erosion of the real value of the excise tax on alcoholic beverages. since 1961, Anchorage CPI-U has increased by more than 200 percent.

Leg. Finance Discussion of Taxes 4-11-89