

ALASKA LEGISLATURE

1598

HOUSE and SENATE FINANCE COMMITTEE FILES, 1997-1998

WELFARE REFORM - AFDC to ATAP

Feb. 97

“Pre-ATAP” Welfare Reform Changes to AFDC

- **Minor Teen Parents**
- **Shelter Costs in Benefit Calculation**
- **Penalty for Asset Transfer**

July 1997

ATAP Implementation

- **60 Month Time Limit**
- **Work or Work Activities Before 25th Month**
- **Self-Sufficiency Plans for All Families**
- **Applicant Work Search**
- **Benefit Reductions for 2-Parent Families**
- **Disqualification for Job Quit or Refusal**
- **No Benefits for Convicted Drug Felons**
- **Increased Earned Income Disregards**
- **Vehicle Value Limit Raised**
- **100-Hour Rule Eliminated**
- **Diversion**
- **Strong Paternity/Child Support Cooperation Requirements**

WELFARE REFORM - AFDC TO ATAP

Regulation Timeline - July 1, 1997 Implementation

Feb. 14	First Draft to Dept. of Law
Feb. 28	Finalize Regulations
Mar. 5	Distribute for Public Comment
Mar. 17-21	Public Hearings
Apr. 1- 8	Incorporate Public Comments
Apr. 9	Final to Dept. of Law
Apr. 30	Regulations Adopted, Signed by Lt. Gov.

The Welfare-to-Work Challenge

What the Laws Require Relative to Work

◆ **Five Year Limit on Benefits**

Both state and federal law limit recipients to a total of 60 months of benefits

▷ **Two year Work Requirement Limit**

Both state and federal law require that non-exempt recipients be in a work activity within 24 months of receiving benefits

◆ **Work Participation Requirements**

Federal law requires that the state meet work participation requirements as follows:

Fiscal Year	<i>ALL FAMILIES</i>	<i>TWO-PARENT FAMILIES</i>
97	25 %	75 %
98	30 %	75 %
99	35 %	90 %
00	40 %	90 %
01	45 %	90 %
Thereafter	50 %	90 %

Note: Failure to meet federal participation rates results in a penalty to the state. Five percent per year (\$3.2 million) up to 21% (\$13 million). States are required to make up the difference.

FY98 Mandated Work Requirements

	<u>FY98</u>
Average Monthly ATAP Case Load	12,744
Excluded Cases	
Child Only Cases	1,000
Exempt Families	<u>1,115</u>
Total Cases Subject to Work Reqs.	10,629
Two Parent Families	1,960
One Parent Families	8,669
 <i>FY98 Federal Welfare Reform Mandatory Participation Rates</i>	
Two Parent Participation Rate	75%
All Families Participation Rate	30%
Two Parent Cases to Meet Rates	1,470
Single Parent Cases to Meet Rates	<u>1,719</u>
Total Cases to Meet All Families Rate	3,189
Active Cases Served to Meet All Families Rate	4,252
(Based on 75% of active cases meeting work requirements.)	

Allowable Work Activities

<i>STATE LAW</i>	<i>FEDERAL LAW</i>
EMPLOYMENT ACTIVITIES	
<ul style="list-style-type: none"> ◆ Subsidized and unsubsidized work ◆ On-the-Job training 	<ul style="list-style-type: none"> ◆ Unsubsidized Employment ◆ Subsidized private sector employment ◆ Subsidized public sector employment ◆ On-the-Job training ◆ Provision of child care services to an individual who is participating in a community service program
WORK EXPERIENCE ACTIVITIES	
<ul style="list-style-type: none"> ◆ Job sampling ◆ Community work services 	<ul style="list-style-type: none"> ◆ Work experience¹ ◆ Community service programs
JOB PREPARATION ACTIVITIES	
<ul style="list-style-type: none"> ◆ Job readiness assessments ◆ Job search requirements 	<ul style="list-style-type: none"> ◆ Job search and job readiness assistance²
EDUCATION AND TRAINING ACTIVITIES	
<ul style="list-style-type: none"> ◆ Education and vocational training 	<ul style="list-style-type: none"> ◆ Vocational educational training³ ◆ Job skills directly related to employment⁴ ◆ Education directly related to employment ◆ Education directly related to employment⁵ (in the case of a recipient who has not received a high school diploma or certificate of high school equivalent) ◆ Satisfactory attendance at a secondary school of course of study leading to a GED⁵ (in the case of a recipient who has not completed secondary school)

Important Footnotes

¹public sector work experience which counts only if private sector employment is not available

²limited to 6 weeks and no more than 4 may be consecutive

³may not exceed 12 months for any individual, no more than 20% may be in voc ed in any month

⁴this activity does not count for the first 20 hours per week of participation for single parent families or the first 30 hours of participation for 2-parent families

⁵this activity does not count for the first 20 hours per week of participation for single parent families or the first 30 hours of participation for 2-parent families unless the parent is under 20 years of age and a head of household

Exemptions to Work Requirements

- ◆ Families without an adult head of household (child only cases)
- ◆ Unmarried teens under 18 without a high school diploma or GED (they are required to be in school or pursuing a GED)
- ◆ Single custodial parents with a child less than one year

Additional exemptions provided for in state law (SB 98)

- ◆ Parent or caretaker providing home care for a disabled child or relative requiring 24 hour care
- ◆ Parent or caretaker who establishes an inability to participate for medical reasons as supported by a medical professional
- ◆ If the participation would pose unreasonable hardships on the family

Hours of Participation

<i>ALL FAMILIES</i>		<i>TWO-PARENT FAMILIES</i>	
<u>Fiscal Year</u>	<u>Weekly Average</u>	<u>Fiscal Year</u>	<u>Weekly Average</u>
97	20 hours	97 and Thereafter	35 hours
98	20 hours		
99	25 hours		
Thereafter	30 hours		

WORK FIRST PHILOSOPHY

Source: Manpower Demonstration Research Corporation: Work First Guide

- ◆ The best way to succeed in the labor market is to join it.
- ◆ Work habits and skills are developed on the job rather than in the classroom.
- ◆ Any job is a good job and can be a stepping stone to a better job.
- ◆ The goal is to move people from welfare to work as quickly as possible.
- ◆ Job search is a central activity.
- ◆ The labor market is used as the test of job readiness.
- ◆ Job Clubs are used extensively.
- ◆ For those unable to find a job right away additional activities are geared to move participants to work as quickly as possible, e.g., education, training, counseling, community work service.
- ◆ These activities are short term, closely monitored and immediately followed by additional job search.

Source: NGA forum: Work First: It's Not Just About Welfare - Cleveland Nov 20-21, 1996

- ◆ The effectiveness of services to job seekers can be improved significantly if the service delivery system is more closely linked to local economies and the real needs of employers.
- ◆ Work is an employability development tool, not just the desired end result of employment and training policies.
- ◆ Employment services and job training are tightly connected to local labor markets.
- ◆ Training is work based and driven by employer requirements.

DPA's Philosophy Toward Work

At DPA we believe,

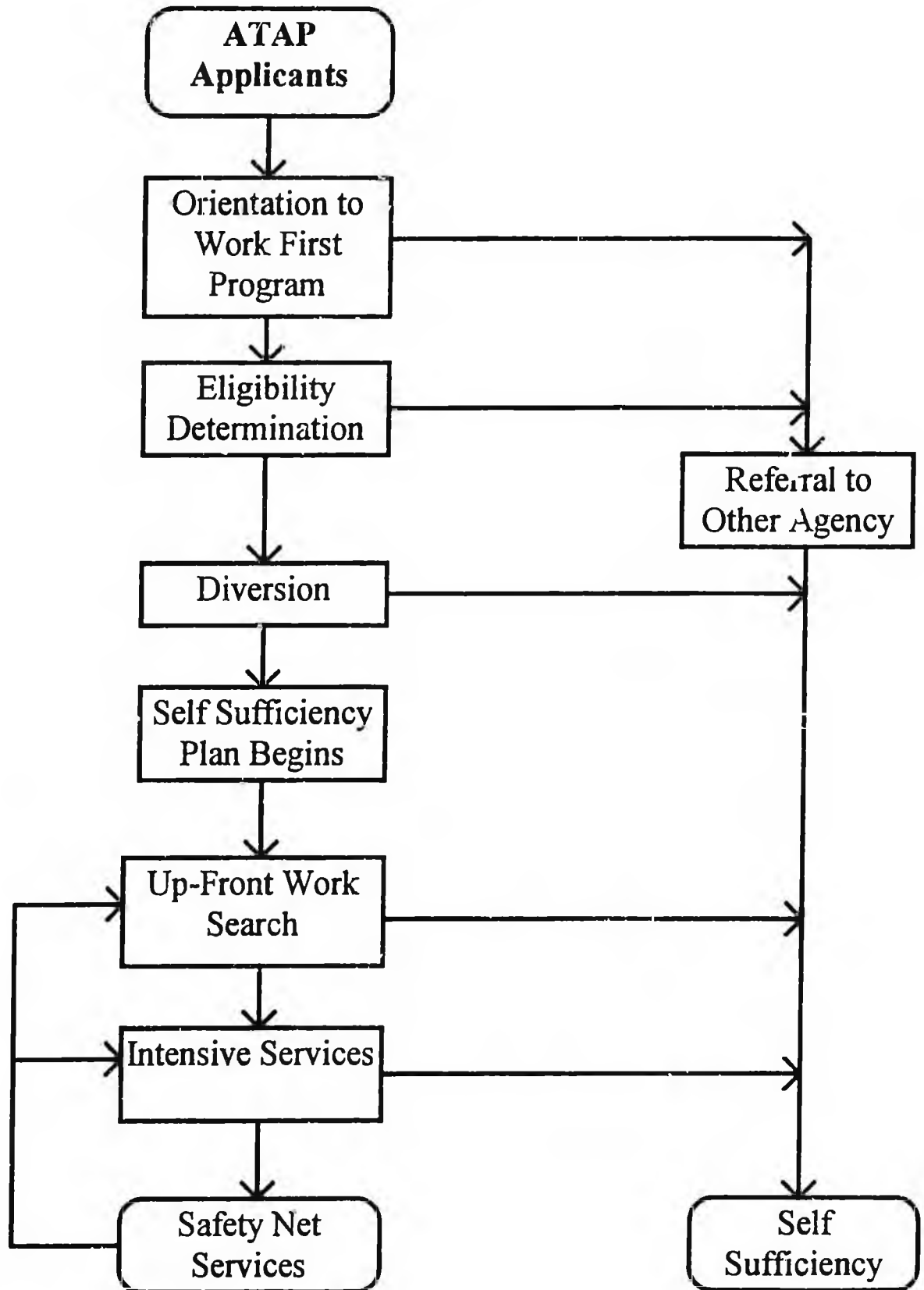
Work....is always better than welfare
....offers the best avenue to escape poverty

Welfare...does not adequately support families
....should only be a short-term means of support

Our clients...are all capable of making strides toward self-sufficiency
....are an essential part in developing their plans for self-sufficiency
....are accountable for their progress toward their goals
....should be treated with dignity and respect that honors their differences

Our job...is focused on helping as many families as possible become self-sufficient
....is to provide the support to help clients reach their goals
....requires that we be mindful of our responsibility to the citizens of Alaska
....involves collaborating with clients, staff, partners and the community to ensure our clients' success
....is to make work a better option than welfare

Client Service Delivery Revised Work Flow



CONTRACTING MODEL

(Developed in Oregon)

- ◆ District state welfare offices have strong local autonomy and collaborate with local community organizations
- ◆ A prime contractor works in direct partnership with the state in each of their 15 districts.
- ◆ The state and prime contractor jointly share responsibility for meeting certain performance targets.
- ◆ The prime contractor must be able to demonstrate collaborative planning at the local level showing support from potential subcontractors and other agencies that participated in the planning process.
- ◆ Prime and subcontractors must describe what additional measurable direct and in-kind services and other resources they can contribute to helping achieve program objectives.
- ◆ There must be a plan for a broad-based local advisory committee that will review program performance and identify operational and other issues that will improve services to clients.

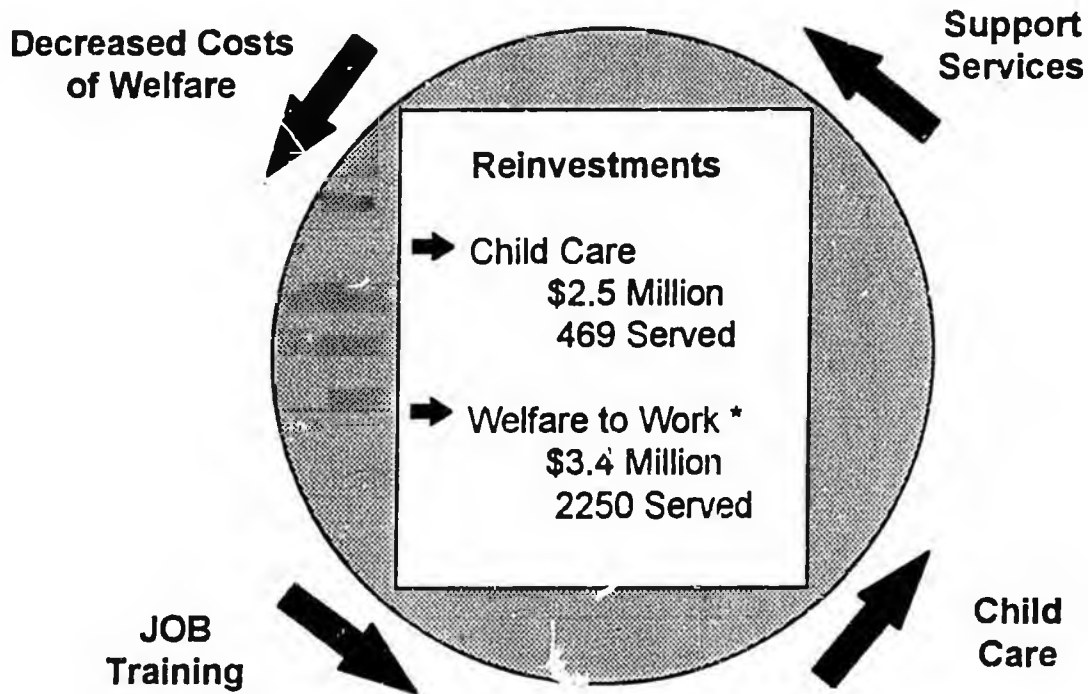
ONE STOP SITES

We have established or will be moving forward with the creation of one-stop facilities at several locations:

- **Mat-Su:** DPA, ES, Voc Rehab, CSED (March 97) and JTPA/ABE later
- **Ketchikan:** DPA, ES, Voc Rehab, ABE. Recently completed remodel, integrated phone system.
- **Fairbanks:** DPA, ES and CSED Reconfiguration plans include Fairbanks Private Industry Council and DCRA/JTPA.
- **Kenai/Soldotna:** DPA, ES, JTPA, ABE, CSED, and an out-stationed Public Health nurse.. Bids have gone out to house all these agencies in one facility.
- **Anchorage:** Preliminary discussions have taken place regarding long term planning of one or more one-stop facilities. Partners yet to be determined.
- **Bethel:** DPA, JTPA ,AHFC, outstation ES, Voc Rehab and ABE
- **Eagle River:** ES provides an out-station space for DPA, DVR, JTPA
- **Homer:** DPA, ES, AHFC, CSED outstation
- **Sitka:** DPA and ES currently in separate facilities. Developing plans for colocation, including out-stationing for ABE and UAS.

Reinvestments in Welfare Reform

↓ \$6.6 Million Decrease
↑ \$6.6 Million Increase



* Represents new recipients who must enter work activities in FY98.

Reinvestments in Welfare Reform-Chart

Reinvestments in Welfare Reform

(Reallocation of ATAP Savings to Welfare to Work Activity)

	<u>State</u>	<u>Federal</u>	<u>Total</u>
◆ Child Care	1722.3	818.8	2541.1

With thousands of additional recipients moving into jobs or work activities, there is a much greater need for child care services.

◆ Work First	1724.5	1724.5	3449.0
---------------------	--------	--------	--------

New Welfare-to-Work services need to be delivered. Community contracting, contract services and supportive services.

◆ Computer System	261.1	261.1	522.2
--------------------------	-------	-------	-------

Increased PC network support.

**DIVISION OF
CHILD SUPPORT
ENFORCEMENT
DEPARTMENT OF REVENUE**

***WELFARE REFORM
IMPLEMENTATION***

**Child Support Components
in SB98**

➔ OCCUPATIONAL AND DRIVER'S LICENSE - REVOCATION, SUSPENSION, NON-ISSUANCE OR NON-RENEWAL

Original Obligors Identified	13,857
Obligors (after exclusion)	9,300 ±
Obligors who live in Alaska	6,450 ±
Number of Payment Plans	91
Total Monthly Payments from Plans	\$22,850
December Collections Attributed to Program	\$190,000+

Licensing Triage Team Offers Assistance: Modification, Default

Arrears, Payment Plan or Hardship

➔ DEFAULT ARREARS PROGRAM

- ✓ Potential Reduction of \$300,000
- \$600,000 in Arrears
- ✓ Status of Program:
 - ◆ Default Team has recently completed training
 - ◆ Licensing Team is referring cases so that arrears are adjusted before licensing action taken
 - ◆ Default Team has manually identified thousands of cases

and adjustments begin
February 1.

➔ INTEREST RATE REDUCTION

- ✓ Reduced interest rate on arrears from 12% to 6% on cases with Alaskan child support orders

New Child Support Provisions in Federal Welfare Reform

➔ New Hire Employer Reporting

- ✓ All Employers must report new hires**
- ✓ 15,000+ employers must report to CSED - rather than current 300 employers who now report**

➔ State and Federal Case Registry

- ✓ Must match registry with New Hire data**
- ✓ Must provide data to Federal Case**

Registry - by mainframe link

➔ Expedited Processes

- ✓ Quarterly data matches with financial institutions in state
- ✓ Must disburse payments in 2 business days rather than current 15 days
- ✓ Must process income withholding orders within 2 business days rather than current 15 days
- ✓ Employers must forward funds within 7 days rather than current 10 days

- ✓ Penalties for failure to respond to administrative subpoenas
- ✓ Increased access to utility and cable records

➔ Other Provisions

- ✓ Rights of parties and privacy safeguards expanded
- ✓ Social security numbers required for numerous licenses and certificates
- ✓ Additional options for state on the frequency and reasons for review

and adjustment of orders

- ✓ Licensing law must include recreational licenses
- ✓ Reporting of individuals with arrears over \$5,000 for feds to deny, revoke or limit passports
- ✓ Decreased time lines in interstate cases and tougher restrictions
- ✓ Increased locate opportunities - requiring more public and private entities to cooperate with CSED

Legal Aliens

On August 22, 1996 President Clinton signed into law P.L. 104-193, The Personal Responsibility and Work Opportunity Act of 1996. This law has a substantial impact on immigrant eligibility for public assistance and medical assistance benefits. The table below compares the benefits to be received by legal aliens under current law and proposed legislation

Program	Current Law	Proposed Change
Food Stamps	Most legal aliens no longer eligible	No change; Fed only program
Supplemental Security Income	Most legal aliens no longer eligible	No change; Fed only program
Medicaid	Most legal aliens barred from Medicaid coverage regardless of entry date into country.	Legal aliens receiving Medicaid as of 8/22/96 grandfathered; legal aliens arriving after 8/22/96 barred for 5 years.
Alaska Temporary Assistance Program: (ATAP)	Legal aliens eligible for benefits regardless of date of entry; legal alien benefits all general funds.	Legal aliens receiving benefits as of 8/22/96 grandfathered; legal aliens arriving after 8/22/96 barred for 5 years. Continue federal/state funding.
Adult Public Assistance	All legal aliens continue program eligibility.	Grandfathered eligibility to only those legal aliens in country as of 8/22/96 - legal aliens arriving after 8/22/96 barred for 5 years

FY 97 Budgeted Expenditures
(Legal Immigrants)

Program	General Fund	Total
Food Stamps	\$0.0	\$812.3
Medicaid	\$2,585.7	\$5,171.3
AFDC/ATAP	\$1,349.7	\$2,699.4
APA	\$3,123.9	\$3,123.9
Totals	\$7,059.3	\$11,806.9

Individual Impacts on Legal Immigrants

Benefits for Blind/Disabled/Elderly

	Before Federal Legislation	After Federal Legislation (current state law)	Under Proposed State Legislation	
			Date of Arrival before 8/22/96	Date of Arrival after 8/22/96
FS	\$70	\$0	\$0	\$0
SSI	\$484	\$0	\$0	\$0
APA	\$362	\$362	\$362	\$0
Medicaid	Yes	No	Yes	No

Benefits for Children & Families

	Before Federal Legislation	After Federal Legislation (current state law*)	Under Proposed State Legislation	
			Date of Arrival before 8/22/96	Date of Arrival after 8/22/96
FS	\$70	\$0	\$0	\$0
AFDC/ATAP	\$825	\$825	\$825	\$0
Medicaid	Yes	No	Yes	No

* Under current state law, benefits paid to aliens under the ATAP program are all general funds.

Public Assistance Data on Statewide Immigrant Population

(for Immigrants on Public Assistance Only)

as of January 1, 1997

Programs

Program Type	ATAP Only	ATAP/ FS	APA Only	APA/ FS	FS Only	FS/ MED	GRA/ GRM	MED Only	Total
# of Persons	167	651	639	162	154	69	7	256	2,105

Heritage

Heritage	Asian	Black	Hispanic	Pacific Islander	White	Other/ Unknown	Total
# of Persons	1,069	44	429	119	360	84	2,105

Time on Assistance

Less than 5 Years	461
More than 5 years	<u>644</u>
Total	2,105

SSI Status:

SSI Recipient	669
Non-SSI Recipient	<u>1,436</u>
Total	2,105

Alien status:

Currently Sponsored :	81
Non-sponsored:	<u>2,024</u>
Total	2,105

Sex:

Male:	784
Female:	<u>1,321</u>
Total	2,105

Age:

Under Age 18:	439
18 - 64:	1,025
Over Age 64:	<u>641</u>
Total	2,105

Type of Recipient:

Children & Families	1,304
Aged & Disabled	<u>801</u>
Total	2,105

Community of Residence:

Anchorage	1,414
Kodiak	160
Mat-Su	134
Fairbanks	106
Southeast	99
Other	<u>192</u>
Total	2,105

Creation of the Child Care Development Fund (CCDF)

Consolidates four child care programs into one. The Title IV-A child care programs, including JOBS Child Care, Transitional Child Care, and At-Risk Child Care programs are merged with the Child Care Development Block Grant (CCDBG).

Three Funding Streams

- ◆ **Mandatory funds** (100% federal dollars) equal to the federal payments in FY 95 for the JOBS Child Care, Transitional Child Care and At-Risk programs.
- ◆ **Matching funds** To access these funds, States must spend mandatory funds and maintain 100% of the State's share of expenditures in FY 95 (MOE). Matching funds must be matched at the FY 95 Medicaid Program matching rate. Unused matching funds will be redistributed to other states.
- ◆ **Discretionary funds** (100% federal dollars) are subject to Congressional appropriation.

Quality Activity Set-Aside

- ◆ At least 4% of CCDF funding must be used on activities to improve the quality and availability of child care.

Administrative Cap

- ◆ No more than 5% of the CCDF may be used for administrative costs.

Use for Certain Populations

- ◆ Families receiving public assistance.
- ◆ Families attempting through work activities to transition off public assistance.
- ◆ Families who are at risk of becoming dependent on such assistance programs.
- ◆ Other low-income working families below 85% of the median income.

E O

9 8

HFIN

FILE

FISCAL NOTE REPORTED OUT OF

Bill Version: E.O. 98
(H) Publish Date: 1/13/97

STATE OF ALASKA
17 LEGISLATIVE SESSION

HFC

Revision Date: _____
 Title: Executive Order transferring the Division of
Measurement Standards to DOT/PF
 Sponsor: Business Committee
 Requestor: Governor

Department: Commerce and Economic Development
 BRU: Measurement Standards
 Component: Measurement Standards

COMPONENT SERIAL NO. 349

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

02 Federal Receipts						
03 GF Match						
04 General Fund						
05 GF/Program Receipts						
06 GF/MHT/A						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY 97) cost: \$ 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: (Attach a separate page if necessary)

This illustrates the fiscal impact of an Executive Order transferring the functions of the Division of Measurement Standards in the Department of Commerce and Economic Development to the Department of Transportation and Public Facilities (DOT/PF). The transfer of the Division of Measurement Standards will have no net fiscal impact; the full amount of funding will be transferred from DCED to DOT/PF by budget amendment.

Prepared by: Edward Moses
 Division: Measurement Standards
 Approved by Commissioner: William L. Hensley
 Agency: Commerce and Economic Development

Phone: 345-7750
 Date: 3 January, 1997
 Date: 1-6-97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

COMMITTEE COPY

STATE OF ALASKA
1997 LEGISLATIVE SESSION

REPORTED OUT OF
HFC

BILL NO: (H) Publish Date: 1/13/97

Revision Date: _____ Dept. Affected: Public Safety
 Title: Executive Order - Transferring certain BRU: Alaska State Troopers
functions of CVE to DOT/PF Component: Commercial Vehicle Enforcement
 Sponsor: Rules
 Requestor: Governor COMPONENT SERIAL NO. 1235

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL EXPENDITURES	-0-	-0-	-0-	-0-	-0-	-0-
CHANGE IN REVENUES () Revenue Code	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GE Match						
1004 GE						
1005 GE/Program Receipts						
1008 GE/MHTIA						
Other						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-


Estimate of current year (FY 97) impact: \$ _____

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: (Attach a separate page if necessary.)

Funding and positions will be transferred from the Department of Public Safety to the Department of Transportation and Public Facilities by submission of a budget amendment.

Prepared By: Sandy Perry-Provost, Special Assistant to the Commissioner Phone: 465-4322
 Division: Commissioners Office Date: 1/6/97
 Approved by Commissioner:  Date: 1/6/97
 Agency: Ronald L. Otte, Dept. of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

COMMITTEE COPY For further distribution information call the Governor's Legislative Office

STATE OF ALASKA
997 LEGISLATIVE SESSION

FISCAL NOTE
REPORTED OUT OF
HFC

(H) Publish Date: 1/13/97

Revision Date: _____ Dept. Affected: DOT&PF
 Title: Transfer of certain DPS and DCED functions BRU: Office of the Commissioner
To DOT Component: Commissioner's Office
 Sponsor: Rules Committee
 Requester: Governor COMPONENT SERIAL NO. 530

Expenditures/Revenues

(Thousands of Dollars)

OPERATING EXPENDITURES	FY 96	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE

(Thousands of Dollars)

002 Federal Receipts						
003 GF Match						
004 GF						
005 GF/Program Receipts						
008 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost: \$ 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: (Attach a separate page if necessary)

Transfer of functions is expected to occur on July 1 1997 and will involve budget amendments which will transfer the appropriate funding and positions from DPS and DCED to DOT&PF

Prepared by: Sam Kito III Phone: 465-3900
 Division: Office of the Commissioner Date: _____
 Approved by: [Signature] Date: _____
 Agency: Department of Transportation and Public Facilities
 Special Assistant
 Commissioner

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

COMMITTEE COPY

For further distribution information, call the Governor's Legislative Office

MEMORANDUM**STATE OF ALASKA**
Department of Commerce &
Economic Development
Division of Measurement Standards

To: Boyd Brownfield, Deputy Commissioner
DOT&PF

Date: January 23, 1998

Telephone: 907-345-7750

Thru:

Fax: 907-345-6835

From: Edward Moses, Director

Subject: Support for
Executive Order 98

File No.:

The Division of Measurement Standards currently consists of the sections of Weights & Measures, the State's Metrology Lab, Over/Weight and Over/Size Permits, Weigh Station Operations, the Air Carriers Compliance Program, and administrative support services that together consist of 45 permanent full time and seven permanent part-time employees. They perform the statutory mandated services that are essential for public protection and for maintenance of a healthy economy by protecting the motoring public through the control of oversize/overweight vehicles and loads on the highway system; by providing an assurance of financial responsibility of all intrastate air carriers that carry passengers or freight for hire; by inspecting and testing commercial weighing and measuring devices used in the market place to determine the cost of goods or services sold; and by providing an assurance that commodities purchased contain the net content advertised on the appropriate label.

On July 1, 1982, the Division of Measurement Standards was created within the Department of Commerce & Economic Development (DCED). At that time, the Alaska State legislature transferred responsibility of oversize and overweight permits, and the operation of all State weigh stations from the Department of Public Safety to this newly formed Division within DCED.

For over a decade the Division of Measurement Standards has consistently faced an under funding problem for its commercial vehicle enforcement program. It is the Division's belief that by combining commercial vehicle safety inspections, secondary size and weight enforcement and insurance verification with the Division of Measurement Standards (which currently operates the fixed weigh stations, and issues oversize and overweight permits), efficiencies would be gained in the administration of a combined program and the unification of the three fragmented departments (DOT&PF, DPS, DC&ED).

01/23/97

A committee, Alaska Commercial Truck Transportation Advisory committee (ACTTAC), was formed consisting of members of the Federal Highway Administration, Alaska Commercial Truck Enforcement, Trucking Industry, Teamsters and occasionally local government officials to address commercial vehicle enforcement issues during monthly meetings. The committee members took an active role in attempting to improve the hours of weigh station operations, improve the number of commercial vehicle safety inspections, and secondary size and weight (portable) enforcement. The committee felt it would improve the performance of the program if it was consolidated and placed under the control of DOT, reporting to the Deputy Commissioner as it is a State wide enforcement program.

It is also the belief of the Alaska Trucking Association, the Alaska Teamsters, the Federal Highway Administration, and the affected State officials that merging and placing the newly combined commercial vehicle enforcement program under one agency would strengthen efforts to obtain funding for operating the program at an acceptable level that meets the needs of all enforcement agencies and industry.

The management and staff of the Division of Measurement Standards is very supportive of DMS merging with DOT&PF. We feel the merger is also essential if we are expected to maintain an effective commercial vehicle enforcement program that is in compliance with the Federal Highway Administration; addresses the growing needs of regulating commercial vehicles in the State of Alaska; Protects the motoring public, the infra structure, and our federal-aid highway funds.

cc: William L. Hensley, Commissioner

Bo
4000!

MEMORANDUM

State of Alaska

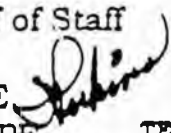
TO: The Honorable Tony Knowles
Governor

DATE: August 21, 1996

THRU: James R. Ayers, Chief of Staff

FILE NO:

FROM: Joseph L. Perkins, P.E.
Commissioner, DOT&PF

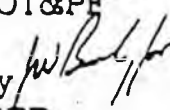


TELEPHONE NO: 465-6973

TEXT TELEPHONE: 465-3652

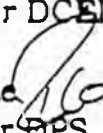
FAX NUMBER: 586-8365

and: William L. Hensley
Commissioner DCED



SUBJECT: Commercial Vehicle
Program

and: Ronald L. Otto
Commissioner DPS



Decision Memorandum

Under the existing state governmental structure, issues pertaining to the regulation, administration, safety and enforcement of Alaska's Commercial Vehicle Program are being accomplished, in part, by three separate departments. It is the intent of this decision memorandum to seek approval to place all relevant functions of the Commercial Vehicle Program under the responsibility of the Department of Transportation and Public Facilities (DOT&PF).

DOT&PF, through its Division of Engineering and Operations, presently issues regulations relating to overweight and oversize vehicles.

The Department of Commerce and Economic Development (DCED), through its Division of Measurement Standards, presently issues overweight and oversize permits (based on DOT&PF regulations) specifying routes and conditions under which such vehicles move on the state highway system. They operate the state's ten fixed weigh stations. The state Weights and Measures program is also a part of and will remain with this division.

The Department of Public Safety (DPS), through its Commercial Vehicle Safety program presently provides the safety and secondary size and weight enforcement, as well as the overall law enforcement authority essential for the success of the program.

The Commercial Vehicle program is of paramount importance to the preservation of our highway systems and the safety of our traveling public. Because of its present fragmented nature, the program does not lend itself to good management and effective utilization of resources. There are three relatively small units, each functioning under separate departments with no common convergence of senior management. The results are predictably a program bordering on minimum effectiveness and constantly faced with federal sanctions which could ultimately affect Federal Highway Administration (FHWA) financial support.

With the consolidation of all functions under one department, the entire program will elevate the organization to a higher, more visible status under one major division. This will provide singular lines of communication, responsibility and will clearly bring more effective direction to the entire program. The consolidation will improve efficiency and result in an increased level of customer service. In addition, the state's highways will benefit due to maximizing enforcement of misuse by oversize and overweight vehicles. DPS will continue to retain responsibility for vehicle safety and will continue this important program as an activity of the State Troopers.

This proposed change affects the DOT&PF, DPS and DCED as noted above. The present staffing and funding requirements will not change and will be transferred to DOT&PF with one noted exception. Two trooper positions will remain as DPS employees but will be assigned and under the operational control of the new division. The transfer of personnel will include 5 positions from the DPS (not including the assignment of the two trooper positions) and 52 positions from the DCED for a total of 57 positions transferred.

The transfer will not require additional funding. The combined FY 1997 funding projection includes \$1.8 million of state general funds, \$1.3 million in program receipts and \$339 thousand in federal funding.

DOT&PF is the most logical Department to supervise the combined organization. DOT&PF is ultimately responsible for providing and maintaining safe, well designed state and federal highway systems. The program also most directly affects DOT&PF as an ineffective program could ultimately jeopardize up to 10% of federal funding through federal sanctions. A proposed organizational chart and a combined division functional organization are included as attachments 1 and 2, respectively.

The Alaska Trucking Association and Teamsters Local 959 have been contacted informally and have agreed to support this proposal.

If this decision memorandum is approved, formal public meetings will be held. The expected outcome is an Executive Order detailing the statutory changes necessary for the consolidation to be issued the first day of the 1997 Legislative Session, with an effective date of July 1, 1997. During the public meeting process several issues are likely to arise.

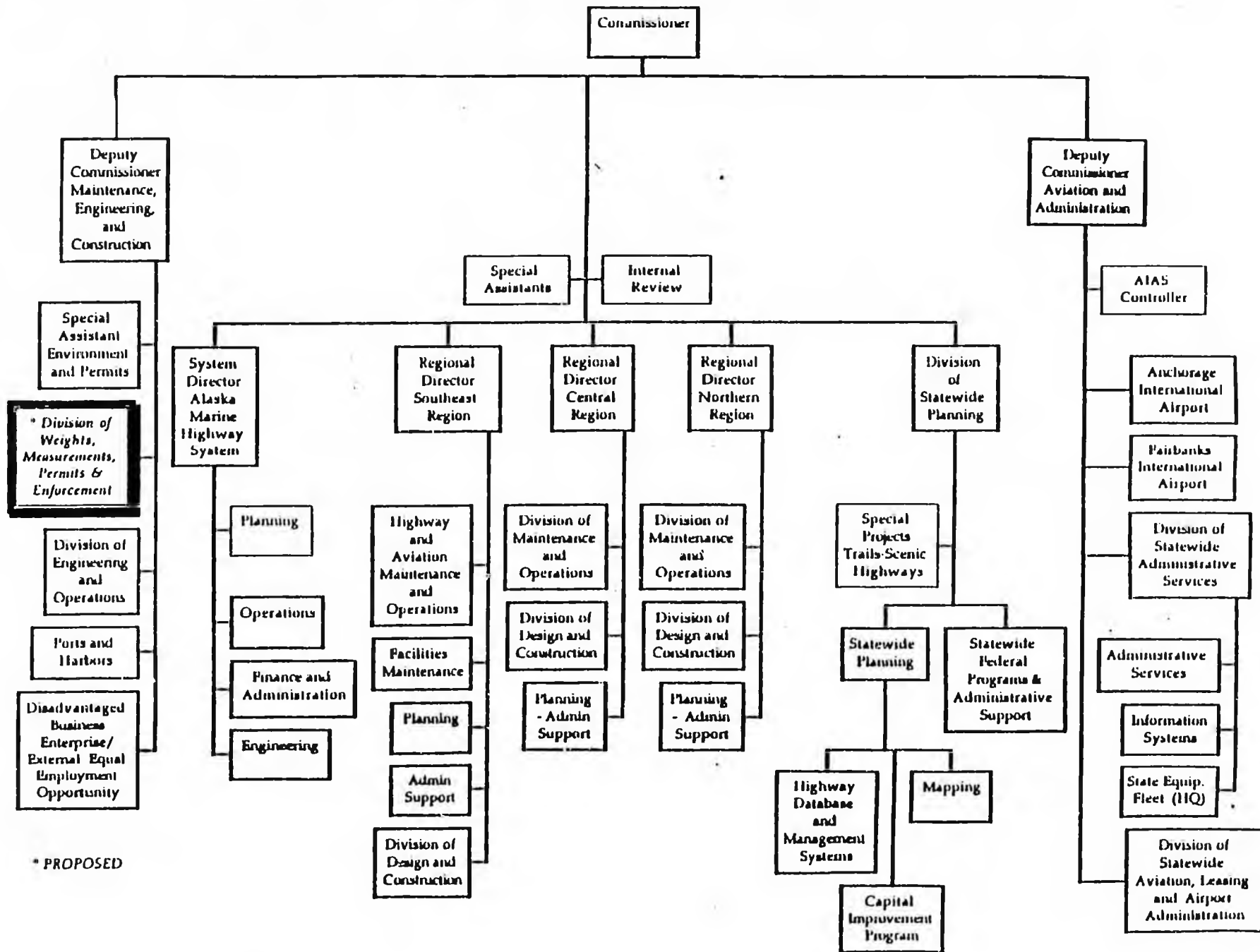
1. A question of the appropriate level of operation and funding of this program. The FHWA feels the program is presently operating barely above acceptable levels. There will be a mutual interest within the FHWA and the trucking industry to increase the number of hours for weigh station operations and increase the number of safety inspectors.
2. A question regarding the current amount of revenue being collected from the trucking industry and how it is being used. About \$900,000 is collected annually in overweight/oversize permit fees. The DPS, through its Commercial Vehicle Registrations, collects about \$3.0 million from heavy vehicles weighing 12,000 pounds or more. There is a need to match current revenues and costs with program needs.
3. There is legislative direction for the program to pay for itself. Presently, \$1.6 million is collected through fees while the program cost is \$3.1 million. This does not include the estimated \$3.0 million collected by the DPS. The redistribution of these revenues back into the Commercial Vehicle program to make up current deficits may well be an issue.

There is no immediate need for special press coverage from the Governor's Office. There may be such a requirement after the public process is completed.

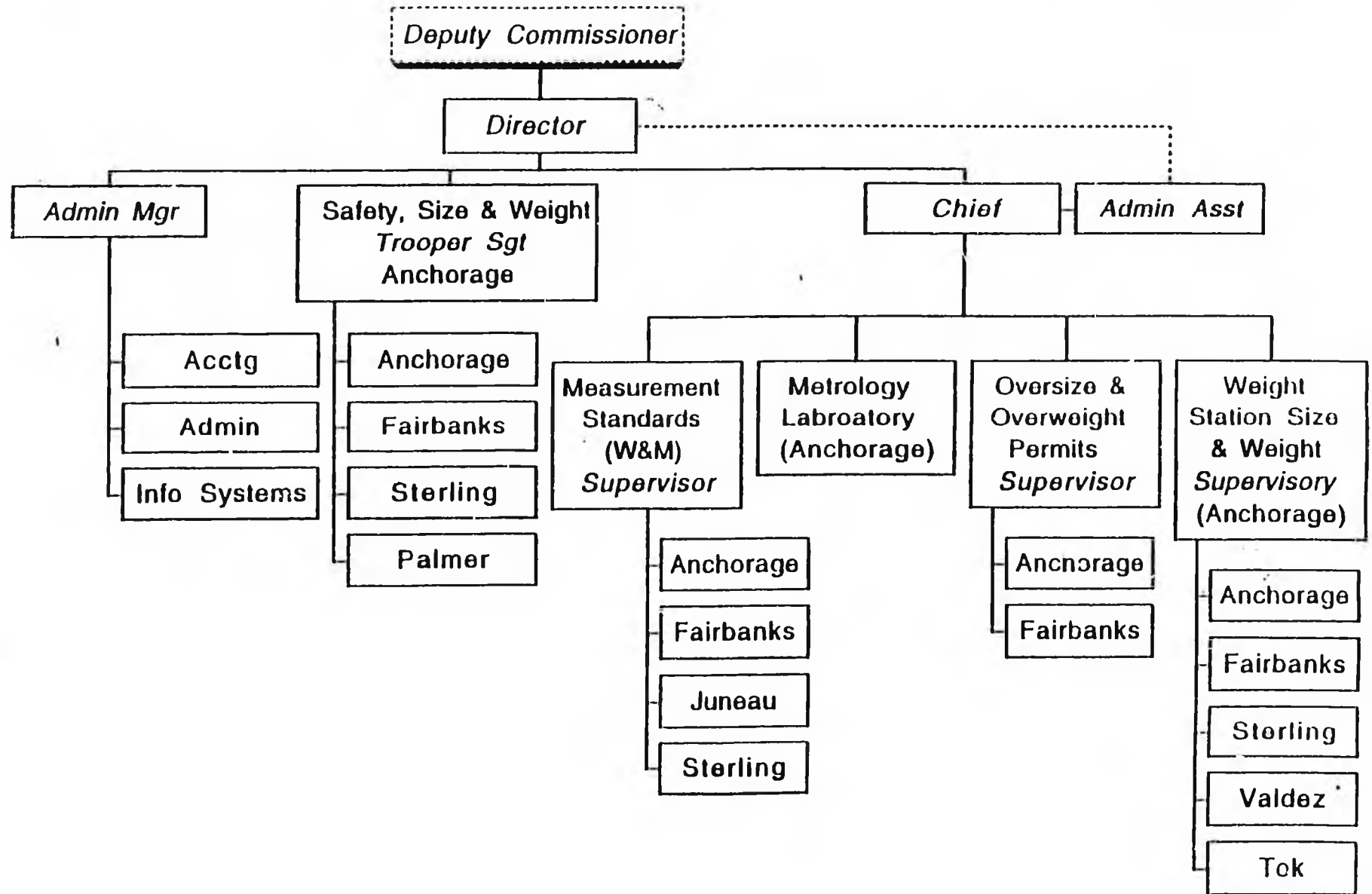
Request your approval of this concept and approval to conduct public meetings concerning this proposal.

Attachments

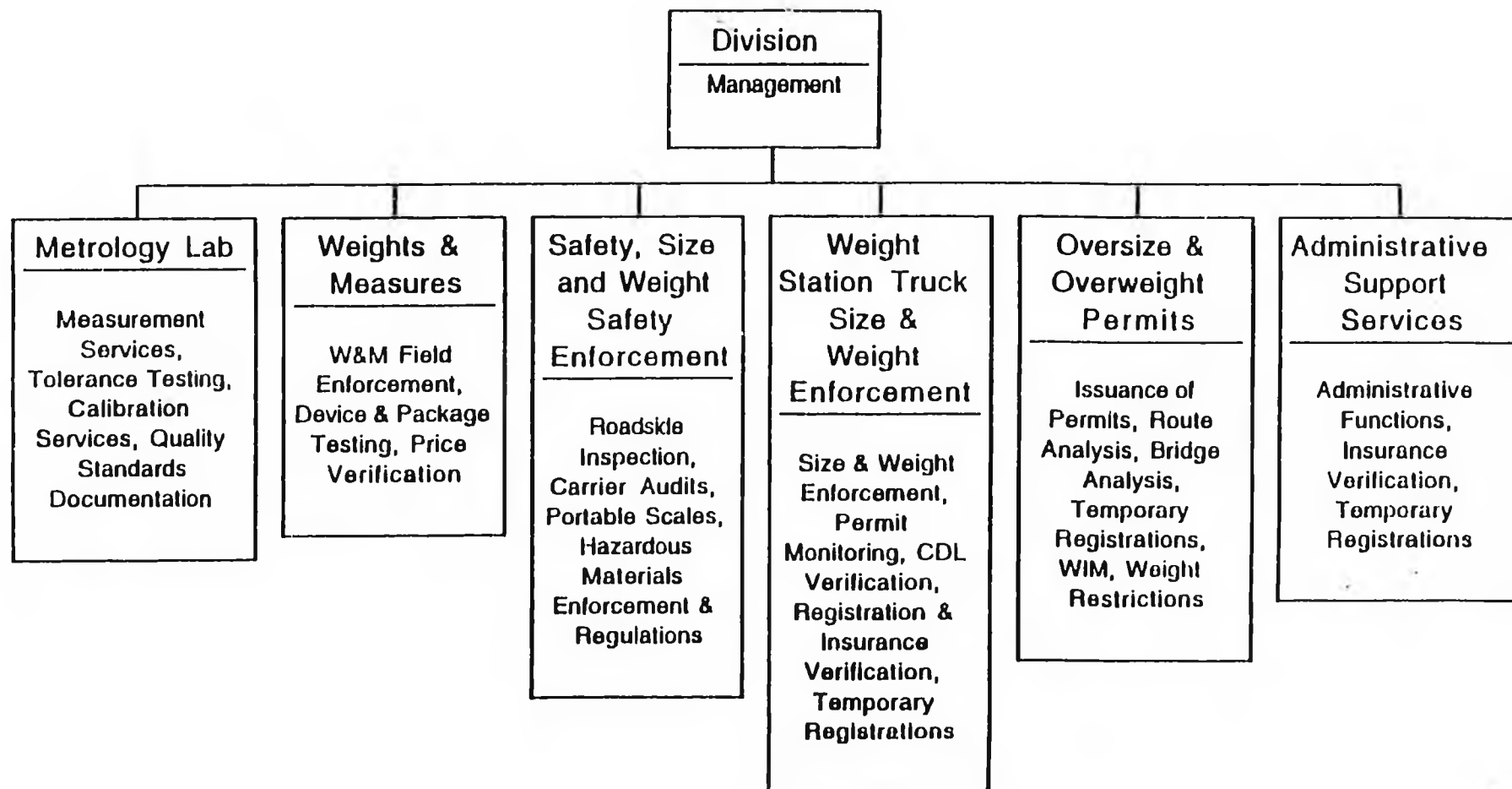
cc: Annalee McConnell, Director, Office of Management and Budget



Division of Weights, Measurements, Permits and Enforcement



**Combined
Division
Functional Organization
Chart**



Executive Order 98

Transferring certain functions from DCED and DPS to DOT&PF
Prepared by DOT&PF

Under the existing state government structure, issues pertaining to the regulation, administration, safety and enforcement of Alaska's Commercial Vehicle Program are being accomplished, in part, by three separate departments. Executive Order 98 proposes to place all relevant functions of the program under the responsibility of the Department of Transportation and Public Facilities (DOT&PF).

DOT&PF currently issues regulations relating to overweight and oversize vehicles.

The Department of Commerce and Economic Development (DCED) currently issues overweight and oversize permits in compliance with regulations adopted by DOT&PF through the Division of Measurement Standards.

DCED also operates the state's ten fixed weigh stations.

The Department of Public Safety (DPS) currently provides safety and secondary size and weight enforcement through its Commercial Vehicle Safety Program.

DPS also provides overall law enforcement authority for the Commercial Vehicle Safety Program.

The Commercial Vehicle Program is essential to the preservation of the state's highway system and the safety of the traveling public. Because of the fragmented structure of the current program, the administration believes that a consolidation of the three components which compose the Commercial Vehicle Program will result in increased efficiency from the standpoint of highway users. The consolidation will also result in an increase in internal efficiency.

The proposed change will affect DOT&PF, DPS and DCED as indicated above. All of the above agencies have played a vital role in consolidating all of these related functions under one agency (DOT&PF).

The department also held a public hearing which was attended by all affected agencies as well as officials representing the trucking industry.

Staffing and funding requirements will not change, and will be transferred to DOT&PF with the exception of two state trooper positions which will remain with DPS but will function within the new division.

Five positions will be transferred from DPS, and fifty-two positions will be transferred from DCED.

Because DOT&PF is ultimately responsible for the maintenance and condition of the state's roadway's it is the most logical location for the consolidated division.

The transfer will not require additional funding. However, changes to departmental budgets will be required once the executive order is implemented.

ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnesota Drive • Anchorage, Alaska 99503 • PHONE (907) 276-1149 • FAX (907) 274-1946

January 23, 1997

To: Members of the 20th Legislature

The Alaska Trucking Association, a 38 year old trade association with 300 member companies geographically distributed throughout Alaska, strongly urges your support of Executive Order No. 98.

The consolidation of agencies who have major responsibilities towards truck operators will improve Alaska's transportation systems efficiency and safety. It will allow for a better understanding of Federal Funding Requirements and slow the need for increased spending on the truck related matters.

Thank you for your support. Please vote to approve Executive Order 98.

Sincerely,



Frank J. Dillon
Executive Director



Notice of Public Meeting

Alaska's Commercial Vehicle Program is being administrated by three separate departments within the Executive Branch of State Government. The Departments are seeking comments from the public on a proposal to consolidate all the functions under one department. The public is invited to a meeting scheduled for Wednesday, November 6, 1996, from 4 to 8 PM in the Main Conference Room, 4111 Aviation Drive Anchorage, Alaska. Department representatives will be at the meeting to solicit comments and exchange ideas with the public. It is hoped that the meeting will assist the departments in preparing for the consolidation effort.

The Department of Transportation and Public Facilities, through its Division of Engineering and Operations, issues regulations relating to overweight and oversize vehicles.

The Department of Commerce and Economic Development, through its Division of Measurement Standards, issues overweight and oversize permits (based on DOT & PF regulations). They also operate the state's ten fixed weigh stations.

The Department of Public Safety, through its Commercial Vehicle Safety program provides the safety, secondary size, and weight enforcement.

The intent of the consolidation action would be to place all the relevant functions of the Commercial Vehicle Program under the responsibility of the Department of Transportation and Public Facilities

Besides the meeting, the public is also encouraged to submit written comments to Deputy Commissioner, Boyd Brownfield, P.E., Department of Transportation and Public Facilities, 3132 Channel Drive, Juneau, Alaska 99801-7879, telephone (907) 465-3900.

If you are a person with a disability who may need a special accommodation to participate in this process, please contact the Department at (907) 465-3900.

Boyd Brownfield, P.E., Deputy Commissioner



STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

January 13, 1997

The Honorable Gail Phillips
Speaker of the House
Alaska State Legislature
State Capitol
Juneau, AK 99801-1182

Dear Speaker Phillips:

The state of Alaska has various responsibilities in managing its highway system, some of which require compliance with federal standards in order to ensure highway funding. But current oversight of these numerous responsibilities rests between three departments. This makes no sense. Combining all functions of highway management within the Department of Transportation and Public Facilities (DOTPF) is simply good, efficient government.

This Executive Order 98 transfers commercial highway-related functions from the Department of Commerce and Economic Development (DCED) and Department of Public Safety (DPS) to the DOTPF. Ironically, the DOTPF already is responsible for adopting vehicle size and weight standards, but the DCED enforces those standards through its Division of Weights and Measures. That division will be transferred to the DOTPF, thereby consolidating the entire size and weight standards program.

Another area of confusion concerns the financial responsibility programs for air carriers and commercial motor vehicles. They're currently split between the DCED and the DPS for no obvious organizational reason. Executive Order 98 transfers all these programs to the DOTPF. The air carrier function comes with the Division of Weights and Measures; the commercial motor vehicle safety program will be transferred from the DPS to the DOTPF, becoming an integral part of the new division.

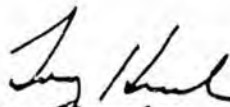
The Honorable Gail Phillips

January 13, 1997

Page 2

Executive Order 98, along with the other executive order I am offering to you today (Executive Order 99) to transfer functions of the Division of Motor Vehicles from the DPS to the Department of Administration, is part of my Administration's continuing effort to deliver services to the public in the most efficient and cost-effective way possible.

Sincerely,

A handwritten signature in black ink, appearing to read "Tony Knowles". The signature is written in a cursive style with a large initial "T".

Tony Knowles
Governor

ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnesota Drive • Anchorage, Alaska 99503 • PHONE (907) 276-1149 • FAX (907) 274-1946

January 23, 1997

To: Members of the 20th Legislature

The Alaska Trucking Association, a 38 year old trade association with 300 member companies geographically distributed throughout Alaska, strongly urges your support of Executive Order No. 98.

The consolidation of agencies who have major responsibilities towards truck operators will improve Alaska's transportation systems efficiency and safety. It will allow for a better understanding of Federal Funding Requirements and slow the need for increased spending on the truck related matters.

Thank you for your support. Please vote to approve Executive Order 98.

Sincerely,



Frank J. Dillon
Executive Director



E O

9 9

HFIN

FILE

STATE OF ALASKA
1997 LEGISLATIVE SESSION

Revision Date: _____
 Title: Executive order to transfer the Division of Motor Vehicles to Department of Administration
 Sponsor: Rules Committee
 Requestor: Governor

Department Affected: Administration
 BRU: Division of Motor Vehicles
 Component: Division of Motor Vehicles
 COMPONENT SERIAL NO. _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

0.0 Estimate of any current year (FY 97) cost: \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Funding and positions will be transferred via budget amendment.

Prepared by: Sharon Barton, Director
 Division: Administrative Services

Phone: 465-2277

Date: _____

Approved by Commissioner: Mark Bover
 Agency: Department of Administration

Date: 1/3/97

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information, call the Governor's Legislative Office

FISCAL NOTE

No. 2

Bill Version: E.O. 99

**STATE OF ALASKA
1997 LEGISLATIVE SESSION**

BILL NO: (H) Publish Date: 1/13/97

Revision Date: _____ Dept. Affected: Public Safety
 Title: Executive Order transferring certain functions BRU: Motor Vehicles
from DPS to DOA. Component: Administration, Field Services
 Sponsor: Rules Driver Services
 Requestor: Governor COMPONENT SERIAL NO. 500,501,502

EXPENDITURES/REVENUES: (Thousands of Dollars) (inflation not included)

OPERATING	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL EXPENDITURES	0	0	0	0	0	0
-----------------------------	---	---	---	---	---	---

CHANGE IN REVENUES ()						
Revenue Code						

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GE Match						
1004 GE						
1005 GE/Program Receipts						
1006 GE/MHTIA						
Other						
TOTAL	0	0	0	0	0	0

Estimate of current year (FY 97) impact: \$ _____

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary.)

Funding and positions will be transferred from the Department of Public Safety to the Department of Administration by the submission of a budget amendment.

Prepared By: Juanita M. Hensley Phone: 465-2650
 Division: Motor Vehicles Date: 1/4/97
 Approved by Commissioner: *Ronald L. Otte* Date: 1/6/97
 Agency: Ronald L. Otte, Dept. of Public Safety

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information call the Governor's Legislative Office

FISCAL NOTE

No. 3
 Bill Version: E.O. 99
 (H) Publish Date: 1/13/97

**STATE OF ALASKA
 1997 LEGISLATIVE SESSION**

Revision Date: _____ Dept. Affected: DOT&PF
 Title: Executive Order No. 99 BRU: Office of the Commissioner
Transfer DMV from DPS to DOA Component: Commissioner's Office
 Sponsor: Rules Committee
 Requester: Governor COMPONENT SERIAL NO. 530

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE IN REVENUES ()	0.0	0.0	0.0	0.0	0.0	0.0

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1006 GF/MHTIA						
Other						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY97) cost: \$ 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: (Attach a separate page if necessary)

The Department anticipates no additional costs (or savings) resulting from the transfer of DMV functions from the Department of Public Safety to the Department of Administration.

Prepared by: Sam Kito, III Phone: 465-3900
 Division: Office of the Commissioner Date: _____
 Approved by: [Signature] Date: JAN 6, 97
 Agency: Department of Transportation and Public Facilities
 Special Assistant
 Commissioner

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE
 For further distribution information, call the Governor's Legislative Office

ALASKA TRUCKING ASSOCIATION, INC.

3443 Minnesota Drive • Anchorage, Alaska 99503 • PHONE (907) 276-1149 • FAX (907) 274-1946

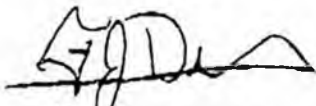
January 24, 1997

To: Members of the 20th Alaska Legislature

Please vote to support Executive Order 99. Members of the Alaska Trucking Association believe that this change will result in more service oriented and customer oriented motor vehicle licensing. The function itself is more administrative not law enforcement in the policing sense. We believe this is a good move that will improve service to both commercial vehicle operators and the motoring public.

Thank you for your attention on this matter and your support.

Sincerely,



Frank J. Dillon
Executive Director



HB

1

(File 1)

HFIN

FILE

HOUSE COMMITTEE REPORT

(11)

Date Referred to Committee: February 14, 1997

FURTHER REFERRALS:

Date of Committee Action: 2/26/97

The FINANCE Committee considered:

HB 1

HOUSE BILL NO. 1

CIGARETTE AND TOBACCO TAX

"An Act relating to taxes on cigarettes and tobacco products; and providing for an effective date."

recommends it be replaced with the following committee substitute CS HB 1 (FIN) the same title a new title

additional referral to _____ Committee

attached amendment(s)

ADOPTS: _____ Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) _____

APPROVES PREVIOUS: (Dept/Date) _____

fiscal note(s) Revenue

fiscal note(s) _____

zero fiscal note(s) _____

zero fiscal note(s) _____

SIGNING WITH RECOMMENDATIONS		DP	DNP	NR	AM
<i>Gene Theriault</i>	Theriault				X
<i>Mark Hanley</i>	Hanley				X
<i>Alan Mulder</i>	Mulder	X	X		
<i>John J. Davis</i>	J. DAVIS	X	X		
<i>Ben Gussendonk</i>	Gussendonk				X
<i>Fearg Martin</i>	Martin		X		
<i>Will Kohring</i>	Kohring		X		
<i>John G. Davis</i>	G. DAVIS			X	
<i>Pete Kelly</i>	Kelly		X		
<i>Carl H. Moses</i>	Moses			X	

CHAIR'S SIGNATURE

Gene Theriault *Mark Hanley*

Revision Date: _____ Dept. Affected: Revenue
 Title: Cigarette and Tobacco Tax BRU: Revenue Operations
 Component: Income and Excise Audit
 Sponsor: Representative Bunde
 Requestor: (H) FIN COMPONENT SERIAL NO. 113

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
PERSONAL SERVICES	30.0	30.0	30.0	30.0	30.0	30.0
TRAVEL	0.5	0.5	0.5	0.5	0.5	0.5
CONTRACTUAL	6.5	1.5	1.5	1.8	1.5	1.5
SUPPLIES	0.5	0.5	0.5	0.5	0.5	0.5
EQUIPMENT	4.0	0.0	0.0	0.0	0.0	0.0
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	41.5	32.5	32.5	32.8	32.5	32.5

CAPITAL EXPENDITURES						
----------------------	--	--	--	--	--	--

CHANGE IN REVENUES	29,181.9	43,772.9	43,772.9	60,668.6	50,668.6	60,904.2
--------------------	----------	----------	----------	----------	----------	----------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	41.5	32.5	32.5	32.8	32.5	32.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other						
TOTAL	41.5	32.5	32.5	32.8	32.5	32.5

Estimate of any current year (FY97) cost \$ 0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

(See Attached Analysis)

Prepared by: Brett Fried, Economist Phone: 465-3682
 Division: Income and Excise Audit Division Date: February 27, 1997
 Approved by Commissioner: Wilson L. Condon Date: February 27, 1997
 Agency: Department of Revenue

PREPARER TO PROVIDE ALL DISTRIBUTION COPIES TO GOVERNOR'S LEGISLATIVE OFFICE

For further distribution information call the Governor's Legislative Office

**Alaska Department of Revenue
Income and Excise Audit Division**

Cigarette and Tobacco Tax
CSHB 1 (FIN)
February 27, 1997
Page 2 of 5

DRAFT BILL ANALYSIS

Section 1 changes the amount the licensee can deduct for expenses from one percent of the total tax due to four-tenths of one percent. Also increases the School Fund portion of the cigarette tax rate by \$1.00 per pack of 20; from 2.5 mills per cigarette (\$.05 per pack) to 52.5 mills per cigarette (\$1.05 per pack) through FY 2000. Combining this rate with the 12 mills per cigarette (\$.24 per pack) levied under AS 43.50.190, which goes to the General Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.29. After June 30, 2000 the School Fund portion increases to 64.5 mills per cigarette (\$1.29 per pack) so the total tax rate on a pack of cigarettes increases from \$1.29 to \$1.53 through FY 2003. After June 30, 2003 the School Fund portion increases to 76.5 mills per cigarette (\$1.53 per pack) so the total tax rate on a pack of cigarettes increases from \$1.53 to \$1.77 through FY 2006. After June 30, 2006 the school fund portion increases to 88.5 mills (\$1.77) plus an additional 12 mills (\$.24) during each succeeding three-year period.

Section 2 This section only takes effect if section 1 of this act is ruled unconstitutional (see section 10). If so, the statute would be amended back to how it was prior to the bill passage.

Section 3 directs the Department of Revenue to give public notice of changes in cigarette tax rates under AS 43.50.090 at the time these tax rates are changed.

Section 4 This section only takes effect if section 1 is ruled unconstitutional (see section 10). If so, this section increases the General Fund portion of the cigarette tax rate by \$1.00 per pack of 20; from 12 mills per cigarette (\$.24 per pack) to 62 mills per cigarette (\$1.24 per pack) through FY 2000. Combining this rate with the 2.5 mills per cigarette (\$.05 per pack) levied under AS 43.50.090, which is dedicated to the School Fund, the total tax rate on a pack of cigarettes would increase from \$.29 to \$1.29. After June 30, 2000 the General Fund portion increases to 74 mills per cigarette (\$1.48 per pack) so the total tax rate on a pack of cigarettes increases from \$1.29 to \$1.53 through FY 2003. After June 30, 2003 the General Fund portion increases to 86 mills per cigarette (\$1.72 per pack) so the total tax rate on a pack of cigarettes increases from \$1.53 to \$1.77 through FY 2006. After June 30, 2006 the General Fund portion increases to 86 mills (\$1.96) plus an additional 12 mills (\$.24) during each succeeding three-year period.

Alaska Department of Revenue
Income and Excise Audit Division

Cigarette and Tobacco Tax
CSHB 1 (FIN)
February 27, 1997
Page 3 of 5

Section 5 This section only takes effect if section one is ruled to be unconstitutional (see section 10). If so, this section directs the Department of Revenue to give public notice of changes in cigarette tax rates under AS 43.50.190 at the time these tax rates are changed.

Section 6 increases the tobacco products tax rate from 25% to 100% of the wholesale price of the tobacco products.

Section 7 creates a new section under AS 43.50 (AS 43.50.365) to increase the tobacco product tax rate applied to the wholesale price by the Anchorage CPI on July 1 of each even numbered year. The starting point of the index is January 1, 1998.

Section 8 changes the amount that the tobacco products licensee can retain to cover expenses from one percent of the tax due to four-tenths of one percent.

Section 9 This section only takes effect if section 1 is ruled unconstitutional (see section 11). If so, this section repeals the public notice provision for changes in the cigarette tax rates under AS 43.50.090 that were made in section 3 of this bill.

Section 10 provides for sections 2, 4, 5 and 9 of this Act only taking effect if dedication of the proceeds of the cigarette tax to the School Fund is found to be unconstitutional.

Section 11 establishes that if section 1 is found unconstitutional and sections 2 and 4 of this act take effect then revenue derived under section 1 (prior to it being found unconstitutional) that exceeds the original 2.5 mills will be credited to the tax levied under AS 43.50.190 (a) as amended by section 4 of this Act.

Section 12 establishes an effective date of October 1, 1997 for sections 1, 3, 6, 7 and 8 of this Act.

Section 13 establishes an effective date for sections 2, 4, 5 and 9 of which ever of the following comes later: (1) when a court enters a final judgement that the amendment under section 1 of this act is unconstitutional or (2) when the time for appeal has expired or upon entry of a final order on the appeal that section 1 is unconstitutional.

Alaska Department of Revenue
Income and Excise Audit Division

Cigarette and Tobacco Tax
CSHB 1 (FIN)
February 27, 1997
Page 4 of 5

OPERATING EXPENDITURES

Department of Revenue is requesting operating funds to cover ½ the costs of a Revenue Auditor III position. With such a large increase in taxes due the state (increase from \$17 to \$50 million annually), the department anticipates increased taxpayer noncompliance.

With significantly higher levels of tax, it is possible that taxpayers will look for loopholes or other methods of tax avoidance. This position will be responsible for ensuring that all taxpayers are identified and that taxpayers are filing and paying the proper amount of tax. The projected annual salary costs for the ½ portion of this position comes to \$30.0.

The department is also requesting one time FY 98 funding of \$5.0 for contractual funds to cover costs of public notice of rate increases, forms revisions and postage, and \$4.0 for equipment (\$3.5 for computer costs and \$.5 for office equipment). The recurring costs will be \$2.5 to cover travel, contractual and supplies, except for FY 01 where an addition \$.3 will be necessary to cover public notice of the tax rate increase.

REVENUE COLLECTED

The attached spreadsheet details revenue projections from rate increases in this bill.

Alaska Department of Revenue
Income and Excise Audit Division
Projected Revenue Increases from Change in Tobacco Tax Rates

Cigarette and Tobacco Tax
 CSHB 1 (FIN)
 February 27, 1997
 Page 5 of 5

	FY 98*	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Cigarettes							
<i>Elasticity Factor</i>	-18.3%	0.0%	0.0%	-23.0%	0.0%	0.0%	-27.0%
Consumption (packs of cigarettes)	28,625,595 *	42,938,393	42,938,393	40,567,562	40,567,562	40,567,562	38,249,415
Rate	\$1.29	\$1.29	\$1.29	\$1.53	\$1.53	\$1.53	\$1.77
Cigarette Tax	\$36,927,017	\$55,390,527	\$55,390,527	\$62,068,369	\$62,068,370	\$62,068,370	\$67,701,465
Less .4% Commission	(147,708)	(221,562)	(221,562)	(248,273)	(248,273)	(248,273)	(270,806)
Net Cigarette Tax	\$36,779,309	\$55,168,965	\$55,168,965	\$61,820,096	\$61,820,096	\$61,820,096	\$67,430,659
FY 97 Projected Cigarette Tax	(10,083,937) *	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)	(15,125,905)
Net Cigarette Tax Increase	\$26,695,372	\$40,043,060	\$40,043,060	\$46,694,191	\$46,694,191	\$46,694,191	\$62,304,764
Increase to School Fund	\$26,695,372	\$40,043,060	\$40,043,060	\$46,694,191	\$46,694,191	\$46,694,191	\$62,304,764
Tobacco Products							
<i>Elasticity Factor</i>	-18.3%	0.0%	0.0%	-19.0%	0.0%	-20.7%	0.0%
Consumption (Whole. Pr. 1996 \$)	\$3,591,648 *	\$5,387,473	\$5,387,473	\$5,314,097	\$5,314,097	\$5,240,722	\$5,240,722
Rate	100%	100%	100%	106%	106%	112%	112%
Tobacco Products Tax	\$3,591,648	\$5,387,473	\$5,387,473	\$5,632,943	\$5,632,943	\$5,869,609	\$5,869,609
Less .4% Commission	(14,367)	(21,550)	(21,550)	(22,532)	(22,532)	(23,476)	(23,478)
Net Tobacco Products Tax	\$3,577,282	\$5,365,923	\$5,365,923	\$5,610,411	\$5,610,411	\$5,846,130	\$5,846,130
FY 97 Projected Tob. Prod. Tax	(1,090,715)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)	(1,636,073)
Net Tobacco Prod. Tax Increase	\$2,486,566	\$3,729,880	\$3,729,880	\$3,974,338	\$3,974,338	\$4,210,067	\$4,210,067
Increase to General Fund	\$2,486,566	\$3,729,880	\$3,729,880	\$3,974,338	\$3,974,338	\$4,210,067	\$4,210,067
Cigarette and Tob. Products							
Net Cigarette and Tobacco Tax	\$40,366,691 *	\$60,634,888	\$60,634,888	\$67,701,312	\$67,701,313	\$67,937,978	\$73,671,073
Net Cig. and Tob. Increase	\$29,181,939 *	\$43,772,910	\$43,772,910	\$60,868,629	\$60,868,630	\$60,904,249	\$66,614,811

*Note: The bill's effective date results in the tax increase covering 8 months in FY 98.

CS FOR HOUSE BILL NO. 1(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): REPRESENTATIVES BUNDE, Ivan, Croft, Porter, Hudson, Green

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to taxes on cigarettes and tobacco products; and providing for
2 an effective date."

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

4 * Section 1. AS 43.50.090(a) is amended to read:

5 (a) There is levied an excise tax [OF TWO AND ONE-HALF MILLS] on each
6 cigarette imported or acquired in the state. Each licensee shall, at the time of filing
7 the return required by AS 43.50.080, pay to the department the excise for the calendar
8 month covered by the return, deducting four-tenths of one percent of the total tax due,
9 which the licensee shall retain to cover the expense of accounting and filing returns.
10 Cigarettes upon which the excise is imposed are not again subject to the excise when
11 acquired by another person. The excise tax is levied at the following rates:

12 (1) on and after the effective date of this bill section and through

13 June 30, 2000 - 52 1/2 mills;

14 (2) after June 30, 2000, and through June 30, 2003 - 64 1/2 mills;

1 (3) after June 30, 2003, and through June 30, 2006 - 76 1/2 mills:

2 and

3 (4) after June 30, 2006 - 76 1/2 mills plus an additional 12 mills

4 during each succeeding three-year period, the increase to be effective on the first

5 day of the succeeding three-year period.

6 * Sec. 2. AS 43.50.090(a) is amended to read:

7 (a) There is levied an excise tax of two and one-half mills on each cigarette
8 imported or acquired in the state. Each licensee shall, at the time of filing the return
9 required by AS 43.50.080, pay to the department the excise for the calendar month
10 covered by the return, deducting four-tenths of one percent of the total tax due, which
11 the licensee shall retain to cover the expense of accounting and filing returns.
12 Cigarettes upon which the excise is imposed are not again subject to the excise when
13 acquired by another person. [THE EXCISE TAX IS LEVIED AT THE FOLLOWING
14 RATES:

15 (1) ON AND AFTER THE EFFECTIVE DATE OF THIS BILL
16 SECTION AND THROUGH JUNE 30, 2000 - 52 1/2 MILLS;

17 (2) AFTER JUNE 30, 2000, AND THROUGH JUNE 30, 2003 - 64 1/2
18 MILLS;

19 (3) AFTER JUNE 30, 2003, AND THROUGH JUNE 30, 2006 - 76 1/2
20 MILLS; AND

21 (4) AFTER JUNE 30, 2006 - 76 1/2 MILLS PLUS AN ADDITIONAL
22 12 MILLS DURING EACH SUCCEEDING THREE-YEAR PERIOD, THE
23 INCREASE TO BE EFFECTIVE ON THE FIRST DAY OF THE SUCCEEDING
24 THREE-YEAR PERIOD.]

25 * Sec. 3. AS 43.50.090 is amended by adding a new subsection to read:

26 (d) At the time of a change in the amount of tax under (a) of this section, the
27 department shall give public notice of the change. The department shall also provide
28 notification of the change to all persons licensed under this chapter.

29 * Sec. 4. AS 43.50.190(a) is amended to read:

30 (a) On [THERE IS LEVIED AN EXCISE TAX OF 12 MILLS ON] each
31 cigarette imported or acquired in this state, there is levied an excise tax at the

1 following rates:

2 (1) on and after the effective date of this bill section and through
3 June 30, 2000 - 62 mills;

4 (2) after June 30, 2000, and through June 30, 2003 - 74 mills;

5 (3) after June 30, 2003, and through June 30, 2006 - 86 mills; and

6 (4) after June 30, 2006 - 86 mills plus an additional 12 mills during
7 each succeeding three-year period, the increase to be effective on the first day of
8 the succeeding three-year period.

9 * Sec. 5. AS 43.50.190 is amended by adding a new subsection to read:

10 (c) At the time of a change in the amount of tax under (a) of this section, the
11 department shall give public notice of the change. The department shall also provide
12 notification of the change to all persons licensed under this chapter.

13 * Sec. 6. AS 43.50.300 is amended to read:

14 Sec. 43.50.300. Excise tax levied. An excise tax is levied on tobacco products
15 in the state at the rate of 100 [25] percent of the wholesale price of the tobacco
16 products. The tax is levied when a person

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

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

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

23 * Sec. 7. AS 43.50.300 is amended by adding new subsections to read:

24 (b) The amount in (a) of this section changes, as provided in (b) - (d) of this
25 section, according to and to the extent of changes in the Consumer Price Index for all
26 urban consumers for the Anchorage Metropolitan Area compiled by the Bureau of
27 Labor Statistics, United States Department of Labor. The index for January of 1998
28 is the reference base index.

29 (c) The amount changes on July 1 of each even-numbered year in an amount
30 equal to the percentage of change, calculated to the nearest whole percentage point,
31 between the index for January of that year and the most recent index used to change

1 the amount in (a) of this section. However, the amount does not change if the amount
 2 required by (b) - (d) of this section is that currently in effect as a result of earlier
 3 application of (b) - (d) of this section.

4 (d) If the index is revised, the percentage of change is calculated on the basis
 5 of the revised index. If a revision of the index changes the reference base index, a
 6 revised reference base index is determined by multiplying the reference base index
 7 applicable by the rebasing factor furnished by the Bureau of Labor Statistics, United
 8 States Department of Labor. If the index is superseded, the index referred to in (b) -
 9 (d) of this section is the one represented by the Bureau of Labor Statistics as reflecting
 10 most accurately changes in the purchasing power of the dollar for Alaska consumers.

11 (e) At the time of a change in the amount of the tax under this section, the
 12 department shall promptly give public notice of the change. The department shall also
 13 provide notification of a change to all persons licensed under this chapter.

14 * Sec. 8. AS 43.50.330(b) is amended to read:

15 (b) The licensee shall remit with the return the tax due under AS 43.50.300
 16 for the month covered by the return, after deducting four-tenths of one percent of the
 17 tax due, which the licensee shall retain to cover the expense of accounting and filing
 18 the return.

19 * Sec. 9. AS 43.50.090(d), added by sec. 3 of this Act, is repealed.

20 * Sec. 10. CONDITIONAL EFFECT OF CERTAIN SECTIONS. Sections 2, 4, 5, 8, and
 21 9 of this Act take effect only if

22 (1) a court enters a final judgment that the amendment made to
 23 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes violates the
 24 prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska, against dedication of
 25 the proceeds of a state tax or license; and

26 (2) either the time for appeal of that judgment expires or, if an appeal is taken,
 27 the court enters a final order on appeal that AS 43.50.090(a), as amended by sec. 1 of this
 28 Act, violates art. IX, sec. 7, Constitution of the State of Alaska.

29 * Sec. 11. CONDITIONAL RETROACTIVITY OF CERTAIN PROVISIONS. If secs. 2
 30 and 4 of this Act take effect under sec. 10 of this Act, then the amendments to
 31 AS 43.50.090(a) and 43.50.190(a) made by secs. 2 and 4 of this Act are retroactive to October

1 1, 1997, and the revenue derived from the levy of mills per cigarette of the tax levied under
2 AS 43.50.090(a), as amended by sec. 1 of this Act, for cigarettes sold after October 1, 1997,
3 that exceeds two and one-half mills shall be credited to the tax levied under AS 43.50.190(a),
4 as amended by sec. 4 of this Act.

5 * Sec. 12. Sections 1, 3, 6, 7, and 8 of this Act take effect October 1, 1997.

6 * Sec. 13. If secs. 2, 4, 5, and 9 of this Act take effect under sec. 10 of this Act, they take
7 effect on the later of (1) the date a court enters a final judgment that the amendment made to
8 AS 43.50.090(a) by sec. 1 of this Act changing the rate of taxation on cigarettes violates the
9 prohibition set out in art. IX, sec. 7, Constitution of the State of Alaska, against dedication of
10 the proceeds of a state tax or license, and (2) the expiration of any time for appeal of that
11 judgment, or, if an appeal is taken, upon entry of a final order on the appeal that
12 AS 43.50.090(a), as amended by sec. 1 of this Act, violates art. IX, sec. 7, Constitution of the
13 State of Alaska. The attorney general shall promptly notify the lieutenant governor and the
14 revisor of statutes of a judgment described in this section.

**ARBA****Anchorage Restaurant and Beverage Association****CHARR****Alaska Cabaret, Hotel, Restaurant and Retailers Association****3400 Spenard Rd., Suite 9
Anchorage, AK 99503****(907) 274-8133 or 1-800-478-2427
FAX (907) 274-8640****TO: Mr. Larry Myers
State of Alaska, Department of Revenue****FROM: Mary Beth Whitehurst
CHARR****COVER PLUS 30 PAGES****DATE: 2/14/97****COMMENTS:****Hard copy to follow by regular mail.**

**ESTIMATED REVENUE EFFECTS OF A
PROPOSED \$1 PER PACKAGE INCREASE
IN THE CIGARETTE TAX RATE IN ALASKA**

PREPARED FOR:

THE ALASKA CABARET, HOTEL, RESTAURANT AND RETAIL ASSOCIATION

PREPARED BY:

**BARENTS GROUP LLC
OF KPMG PEAT MARWICK LLP
WASHINGTON, D.C.**

FEBRUARY 13, 1997

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

**ARBA****Anchorage Restaurant and Beverage Association****CHARR****Alaska Cabaret, Hotel, Restaurant and Retailers Association****3400 Spenard Rd., Suite 9
Anchorage, AK 99503****(907) 274-8133 or 1-800-478-2427
FAX (907) 274-8640****TO: Mr. Larry Myers
State of Alaska, Department of Revenue****FROM: Mary Beth Whitehurst
CHARR****COVER PLUS 30 PAGES****DATE: 2/14/97****COMMENTS:****Hard copy to follow by regular mail.**



*Alaska Cabaret, Hotel,
Restaurant & Retailers Association*

*2400 Spenard Road, Suite 9 • Anchorage, Alaska 99503
(907) 574-8123 • Fax: (907) 574-8040
Toll Free in Alaska (800) 476-1427*

February 14, 1997

Mr. Larry Meyers
State of Alaska, Department of Revenue
Income and Excise Audit Division
550 West 7th Avenue, Suite 560
Anchorage, AK 99501-3556

Dear Mr. Meyers,

Please find enclosed the updated "Estimated Revenue Effects of a Proposed \$1 Per Package Increase in the Cigarette Tax Rate in Alaska," originally prepared by Barents Group LLC, in December 1995.

I hope this updated report will clarify any questions raised from the first report. However, please note, that the changes do not affect the results of the original analysis.

Sincerely,

Mary Beth Whitehurst
Interim Director, CHARR

**ESTIMATED REVENUE EFFECTS OF A
PROPOSED \$1 PER PACKAGE INCREASE
IN THE CIGARETTE TAX RATE IN ALASKA**

PREPARED FOR:

THE ALASKA CABARET, HOTEL, RESTAURANT AND RETAIL ASSOCIATION

PREPARED BY:

**BARENTS GROUP LLC
OF KPMG FEAT MARWICK LLP
WASHINGTON, D.C.**

FEBRUARY 13, 1997

PREFACE

Barents Group LLC of KPMG Peat Marwick LLP was asked by the Alaska, Cabaret, Hotel, Restaurant and Retail Association to reexamine a proposal by the Governor Tony Knowles to increase the State cigarette tax by \$1 per package from \$0.29 to \$1.29 starting in fiscal year 1998. This report updates our previous report, *The Estimated Revenue Effects of a Proposed \$1 Increase in the Cigarette Tax Rate in Alaska*, dated December 11, 1995. This report which describes our findings, has an Executive Summary, four parts, and a technical appendix. Part 1 is an introduction, Part 2 describes the methodology used to evaluate the Department of Revenue's analysis, Part 3 describes our results, and Part 4 provides our conclusions.

TABLE OF CONTENTS

PREFACE1

EXECUTIVE SUMMARY3

1. INTRODUCTION4

2. METHODOLOGY6

3. RESULTS.....7

LOCAL TAX EFFECTS8

MILITARY SALES AND BOOTLEGGING9

INCREASED INDIAN BOOTLEGGING SALES12

THE REGRESSIVE NATURE OF EXCISE TAXES12

PRICE IMPACT ON NON-SMOKERS14

4. CONCLUSION15

TECHNICAL APPENDIX.....16

REFERENCES25

EXECUTIVE SUMMARY

Buents Group LLC of KPMG Peat Marwick LLP was asked by the Alaska Cabaret, Hotel, Restaurant, and Retail Association to reexamine a proposal by Governor Tony Knowles to increase the State cigarette tax by \$1 per package from \$0.29 to \$1.29 starting in fiscal year 1998. The Alaska Department of Revenue estimates that this proposal will increase cigarette tax revenues by \$36.5 million in fiscal year 1998 and by \$40.1 million annually for the period 1999 to 2003 (and beyond).

KPMG Barents found shortcomings in the Department of Revenue's estimating procedures that lead to an overstatement of the net revenue impact of the proposal. Based upon our review of the extensive academic literature on this issue, the Department of Revenue assumed an unrealistically low responsiveness of cigarette consumers to changes in the price of cigarettes. The Department of Revenue also did not consider the tendency for consumer responsiveness to increase with time.

In summary, KPMG Barents found that the Department of Revenue overstated potential revenue gains of the proposed tax increase by over \$5 million (16 percent) in FY 1998 and by \$16 million (63 percent) in FY 2003. The tax would also increase the bootlegging of cigarettes in Alaska in connection with military installations, Indian reservations, or other nontaxed alternatives. Finally, as a result of declining cigarette demand, the State increase would reduce local tax collections in Anchorage, Juneau, and Fairbanks by a total of \$12 million over the six year period.

In addition to raising less revenue than anticipated, the proposed tax increase will also be quite regressive by raising taxes equal to a much greater share of income of those with the lowest incomes than it does of those with higher incomes. Further, the tax increase will cause relative prices to change throughout the State's economy as a result of changes in the quantity of cigarettes consumed. That is, as smokers change their spending on cigarettes there will be corresponding changes in their non-cigarette consumption. These changes in demand will lead to price effects that will have consequences for smokers and non-smokers alike.

1. INTRODUCTION

Alaska Governor Tony Knowles has proposed a \$1 per package increase in the State cigarette tax beginning in fiscal year 1998. Governor Knowles has stated that the reason for this tax increase is to deter young people from smoking, and although he hopes the tax will not raise any money, any revenue raised will flow to the General Fund Education Account and the Dedicated School Fund. The Alaska Department of Revenue estimates that total cigarette excise taxes will increase to \$51.7 million in FY 1998 and \$55.2 million thereafter.

A 345 percent increase in the State cigarette tax from \$0.29 to \$1.29 will have a number of unintended effects in the State. These effects include: (1) raising less money than the Department of Revenue is estimating; (2) a loss in revenue to major municipal governments; (3) increased illegal activity because of the bootlegging of tax-free cigarettes from jurisdictions not covered by the state's taxing authority, military bases for example; (4) deterioration in the distribution of income due to the regressive nature of the tax; and (5) as smokers change their consumption of cigarettes in response to the tax change, relative prices of other goods will change impacting not only smokers, but non-smokers as well.

- ◆ The Department of Revenue estimates that a \$1 per package increase in the cigarette tax will raise an additional \$37 million in FY 1998 and \$40 million per year during the period FY 1999 through FY 2003.¹ These estimates, however, are based upon assumptions that overstate the revenue potential of the tax with the result that the tax increase will raise less money than is estimated.
- ◆ The Department of Revenue assumes a "demand elasticity" much lower than reported in most peer reviewed, professional journals. The scientific evidence suggests that following the proposed tax increase, taxable cigarette sales, and hence tobacco tax revenues, would fall much more than the Department of Revenue estimates.
- ◆ The Department of Revenue ignores long-run factors specific to Alaska that are likely to further erode potential tax revenue gains. Tax-free cigarette sales at military installations are likely to rise substantially, through legitimate sales and through bootlegging, if the proposed tax increase becomes law. Even under the existing tax regime, an approximately 9 percent share of cigarette sales in the State occurs through military bases.
- ◆ In addition to the impact on State tax collections, we also find that the proposed tax increase will directly reduce the tax collections of Anchorage, Fairbanks, and Juneau.

¹ The Governor's proposal is estimated to raise \$44 million annually by taxing cigarettes and other tobacco products. Our analysis focuses only on the cigarette tax. These estimates are consistent with the estimates used in the Governor's State of the Budget Address which was delivered on January 16, 1997.

This reduction will result from the tax-induced decline in demand for cigarettes that are subject to local taxation in these jurisdictions.

- Interest in the distributional consequences of taxes has historically been a major concern in tax policy debates. The concern is particularly acute for lower-income taxpayers, for whom even relatively small dollar increases in tax burden can require disproportionately large sacrifices. The 345-percent increase in cigarette taxes will represent a much larger percentage of income for lower income residents than for wealthier residents. This will adversely affect the distribution of income within the State and make the tax system more regressive.
- Finally as cigarette taxes increase and the consumption of cigarettes falls, smokers will change their purchases of other goods and services. These changes in demand will cause relative prices to shift in ways that increase the cost of some items and reduce the cost of others. That is, as smokers change their purchasing patterns, both smokers and non-smokers will be affected by the proposed cigarette tax increase.

In summary, we find that the Department of Revenue overstates potential revenue gains of the proposed tax increase by 17 percent in FY 1998 and by FY 2003, overstates potential revenue gains by 66 percent. In addition, the decline in local tax revenues collected by Anchorage, Juneau, and Fairbanks, which the Department of Revenue does not discuss, will be approximately \$2 million per year. Indeed, revenues may be even lower due to increased bootlegging. Also, the tax increase will fall most heavily on the lower-income portion of the State's population. Finally, as smokers change their consumption patterns, relative price changes will affect smokers and non-smokers alike.

2. METHODOLOGY

The central relationship in this study is the demand for taxable cigarettes. This relationship explains how cigarette consumers react to changes in the price of a pack of cigarettes.¹ This relationship also describes how changing consumer preferences affect demand. Finally, the demand for taxable cigarettes is affected by inflation when fixed, per-unit taxes are not indexed to the price level, as they are not in all states. This section briefly discusses each of these considerations. The Technical Appendix explains these factors in greater detail.

A demand elasticity describes how responsive consumers are to a change in price. If a large percentage increase in the price of cigarettes is followed by a larger percentage decline in the consumption of cigarettes, then economists say that the demand for cigarettes is "price elastic," that is, very responsive to a price change. There have been many studies of cigarette demand, dating back to at least 1933². Among these, some carry more influence than others, especially those articles that appear in peer reviewed professional journals. Among the peer reviewed articles cited in this report, the average demand elasticity is -0.619; the average long-run demand elasticity is -1.033³. We assume that the Department of Revenue used an implied demand elasticity of -0.4⁴, which is at the low end of the estimate range of all the peer reviewed publications.⁵ Moreover, elasticities tend to increase over time, as consumers learn to adjust to price changes. The Department of Revenue ignores this effect.

As a simple example, assume the average retail price of cigarettes is \$2 per pack.⁷ A \$1 per pack tax increase will raise the price by 50 percent. A price elasticity of -0.4, as assumed by the Department of Revenue, implies an 19 percent⁸ drop in consumption; i.e., the percent decline in demand is equal to -0.4 multiplied by the percent increase in price. On the other hand, a short-run elasticity of -0.619 implies a 29-percent drop in demand, and a long-run elasticity of -1.033 implies a 49-percent drop in demand. This drop in demand for taxed cigarettes affects not only the revenues from the proposed \$1 per pack tax increase, but also reduces the number of packs on which the current \$0.29 tax per pack is collected. Such differences in estimating future consumption indicate that the Department of Revenue has overstated potential tax collections.

¹ This is the elasticity of demand for cigarettes. See Technical Appendix.

² See References.

³ See Appendix Table A-3 for full list of elasticities.

⁴ KPMG Baronté uses real (i.e., inflation adjusted) prices in estimating the revenue impact of the proposed tax increase. As a result, the implied price elasticity used by the Department of Revenue is -0.427.

⁵ The Department of Revenue does not explicitly identify its elasticity; however, it can be inferred from their data. See Technical Appendix.

⁷ In performing our analysis we used \$2.14, the price as of November 1996 provided by the Tobacco Institute. We use \$2 per pack in the examples to simplify the presentation.

⁸ The Department of Revenue assumes a one-time 18.5 percent decline in demand.

CORRECTION

THE FOLLOWING DOCUMENT(S)
HAVE BEEN REFILMED TO
ASSURE LEGIBILITY OR PAGINATION



Rev. 6/98

Central Microfilm Services
Department of Education
State of Alaska

2. METHODOLOGY

The central relationship in this study is the demand for taxable cigarettes. This relationship explains how cigarette consumers react to changes in the price of a pack of cigarettes.¹ This relationship also describes how changing consumer preferences affect demand. Finally, the demand for taxable cigarettes is affected by inflation when fixed, per-unit taxes are not indexed to the price level, as they are not in all states. This section briefly discusses each of these considerations. The Technical Appendix explains these factors in greater detail.

A demand elasticity describes how responsive consumers are to a change in price. If a large percentage increase in the price of cigarettes is followed by a larger percentage decline in the consumption of cigarettes, then economists say that the demand for cigarettes is "price elastic," that is, very responsive to a price change. There have been many studies of cigarette demand, dating back to at least 1933². Among these, some carry more influence than others, especially those articles that appear in peer reviewed professional journals. Among the peer reviewed articles cited in this report, the average demand elasticity is -0.619; the average long-run demand elasticity is -1.033³. We assume that the Department of Revenue used an implied demand elasticity of -0.4⁴, which is at the low end of the estimate range of all the peer reviewed publications.⁵ Moreover, elasticities tend to increase over time, as consumers learn to adjust to price changes. The Department of Revenue ignores this effect.

As a simple example, assume the average retail price of cigarettes is \$2 per pack.⁷ A \$1 per pack tax increase will raise the price by 50 percent. A price elasticity of -0.4, as assumed by the Department of Revenue, implies a 19 percent⁸ drop in consumption; i.e., the percent decline in demand is equal to -0.4 multiplied by the percent increase in price. On the other hand, a short-run elasticity of -0.619 implies a 29-percent drop in demand, and a long-run elasticity of -1.033 implies a 49-percent drop in demand. This drop in demand for taxed cigarettes affects not only the revenues from the proposed \$1 per pack tax increase, but also reduces the number of packs on which the current \$0.29 tax per pack tax is collected. Such differences in estimating future consumption indicate that the Department of Revenue has overstated potential tax collections.

¹ This is the elasticity of demand for cigarettes. See Technical Appendix.

² See References.

³ See Appendix Table A.3 for full list of elasticities.

⁴ KPMG Baroni uses real (i.e., inflation adjusted) prices in estimating the revenue impact of the proposed tax increase. As a result, the implied price elasticity used by the Department of Revenue is -0.427.

⁵ The Department of Revenue does not explicitly identify its elasticity; however, it can be inferred from their data. See Technical Appendix.

⁷ In performing our analysis we used \$2.14, the price as of November 1996 provided by the Tobacco Institute. We use \$2 per pack in the examples to simplify the presentation.

⁸ The Department of Revenue assumes a one-time 18.3 percent decline in demand.

3. RESULTS

The most relevant numbers for the State to consider in budget forecasting are current (or "nominal") dollar estimates. That is, how much money is expected to flow into the State treasury as a result of a given fiscal policy option. To be consistent with actual collections, such estimates must take into account expected price inflation. KPMG Barents prepared its estimates in nominal dollars to be consistent with the Alaska Department of Revenue and to provide the most relevant analysis.

Table 1

Estimated Tax Collections Under a \$1 per Pack Increase

	FY1998	FY1999	FY2000	FY2001	FY2002	FY2003
	-----\$ Millions----->					
KPMG Barents estimate	31.4	31.9	29.3	26.7	24.2	24.6
Department of Revenue's estimate	36.5	40.1	40.1	40.1	40.1	40.1
Department of Revenue's overstatement	5.1	8.2	10.8	13.4	15.9	15.5
Percentage overestimate	16.4%	25.6%	36.8%	50.1%	65.9%	63.1%
Local revenue loss not estimated by Department of Revenue	1.4	1.6	1.8	2.0	2.3	2.3

The KPMG Barents estimate shows the likely change in cigarette tax revenue resulting from the \$1 per pack increase in the State tobacco tax.⁹ Table 1 shows the tax increase beginning in FY 1998, which implies a net revenue gain of \$31.4 million. The revenue gain increases slightly in FY 1999 due to lags in tax collections and then decreases until by FY 2003, the additional tax revenue is only \$24.6 million above the amount that otherwise would have been collected. Table 1 also shows the amount and the percentage by which the Department of Revenue's calculations exceed the KPMG Barents estimate.

⁹ All values are in nominal dollars. That is, they are not inflation adjusted.

RECEIVED FROM 202 728 0544

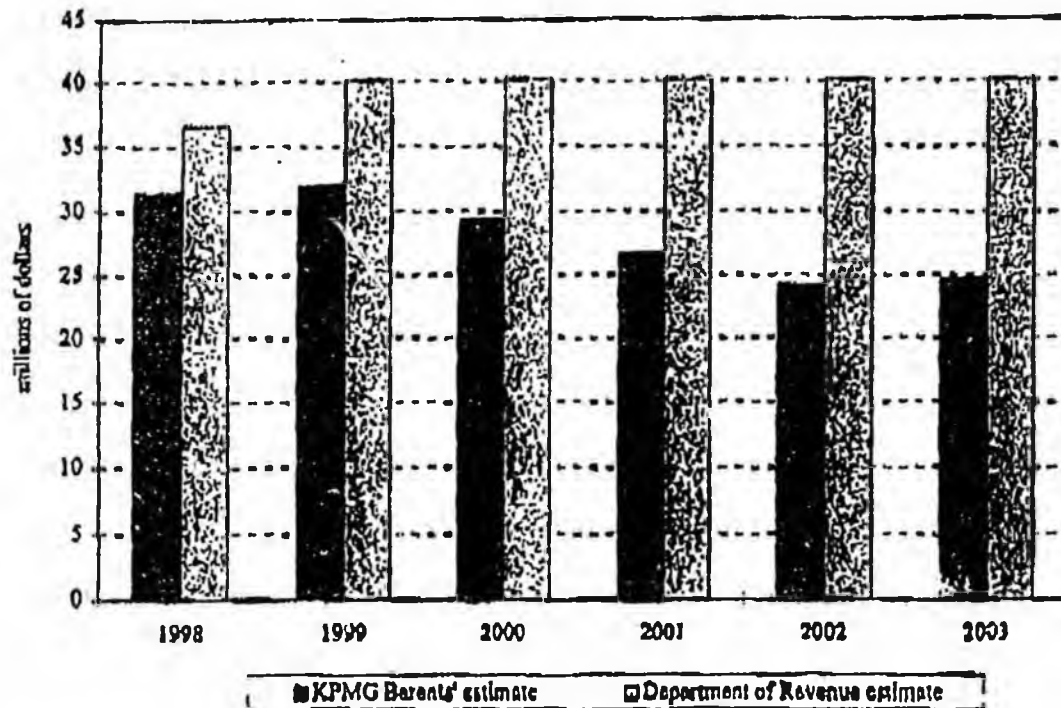
01.29.1988 01130

P. 9

In FY 1998, the Department of Revenue overestimates tax revenues by \$5.1 million (16 percent over the KPMG Barents estimate); by FY 2003, the Department of Revenue exceeds the KPMG Barents forecast by \$15.5 million (63 percent over the KPMG Barents estimate). Figure 1 shows both sets of estimates in nominal dollars.

Figure 1

**Comparison of KPMG Barents' Revenue Estimates
with Department of Revenue's Estimates**



Appendix Table A-1 shows in detail how we prepared the estimates and the methodology is provided in the Technical Appendix.

Local Tax Effects

The proposed \$1 tax increase will impair the revenue collection efforts of Alaska's three largest municipal governments: Anchorage, Fairbanks, and Juneau.

Table 2 shows the local tax effects. The annual decline in collections ranges between \$1 and \$2 million with about 87 percent of the impact occurring in Anchorage. Over the six year period, Anchorage collections will decline by a total of \$10 million, Fairbanks will lose just over \$1 million, and Juneau will lose \$287,000. Collections for these three municipal governments will decline by a total of \$11.5 million over the six year period.