

ALASKA LEGISLATURE

2757

HOUSE and SENATE FINANCE COMMITTEE FILES, 2003-2004

FISCAL NOTE

FN # 3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1001

ANALYSIS CONTINUATION

Analysis Continued:

tobacco on Alaskans, evaluate existing program activities, assess "Best Practices Guidelines" from the National Centers for Disease Control and Prevention, and identify new opportunities to target prevention programs. Working together, the ATCA and Tobacco Control Program staff develops detailed recommendations to the Director, ADPH and Commissioner, Department of Health and Social Services for allocating appropriated resources.

If the legislature passes the proposed tobacco excise tax increase and authorizes 8.9 percent of annual proceeds to be deposited to the Tobacco Use Education and Cessation Fund, then the program will be able to significantly increase prevention program activities. To do so, the Tobacco Control Program staff will meet with our colleagues of the Alaska Tobacco Control Alliance to plan for ramping up the program beginning in FY06. We propose maintaining program spending in FY05 at the currently authorized level of \$4,669,200. This will allow the program to achieve a positive cash flow situation in FY05 with adequate funding to carry forward in FY06 to assure a continued positive cash flow.

We propose a FY06 and FY07 budget at a level of \$7,500,000 with an annual carry forward of \$2,600,000. This level of funding will protect the program from negative cash flow. This will bring us closer to, the Center for Disease Control's Best Practices minimum recommended expenditure level of \$8,100,000. Actual revenues and expenditures will be monitored to possibly allow for increased program funding to this recommended level in FY08 or beyond.

See attachments A-E.

Tobacco Use, Education and Cessation Fund Cash Flow Without Tobacco Tax

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Monthly Expenditures **	531.0	257.2	257.2	689.4	235.4	235.4	627.0	235.4	235.4	622.0	302.9	312.9	4,541.2
Cash Balance in Tobacco Fund w/out Tax ***	(134.0)	(391.2)	(648.4)	(1,337.8)	(1,573.2)	(1,808.6)	(2,435.6)	(2,671.0)	(2,906.4)	771.6	468.7	155.8	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	155.8												155.8
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	427.5	207.1	207.1	555.0	189.5	189.5	504.8	189.5	189.5	500.7	243.8	251.9	3,655.8
Cash Balance in Tobacco Fund w/out Tax ***	(271.7)	(478.7)	(685.8)	(1,240.8)	(1,430.3)	(1,619.8)	(2,124.5)	(2,314.0)	(2,503.5)	495.7	251.9	(0.0)	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	(0.0)												(0.0)
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	409.3	198.2	198.2	531.3	181.4	181.4	483.2	181.4	181.4	479.4	233.5	241.2	3,500.0
Cash Balance in Tobacco Fund w/out Tax ***	(409.3)	(607.5)	(805.7)	(1,337.0)	(1,518.5)	(1,699.9)	(2,183.1)	(2,364.6)	(2,546.0)	474.6	241.2	(0.0)	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on current program management plan. FY06 & FY07 total expenditures equal to total revenue projected for year. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

*** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund. This would likely delay the scheduled monthly expenditures and possibly impact the total expenditure level in the Tobacco Control Program.

Tobacco Use, Education and Cessation Fund Cash Flow With Proposed Tobacco Tax Receipts

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**					379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	2,582.3
Total Monthly Tobacco Educ/Cess Fund Revenue	397.0	0.0	0.0	0.0	379.2	377.1	341.5	267.3	300.5	4,593.7	329.7	293.3	7,279.3
Projected Monthly Expenditures ***	546.0	264.4	264.4	708.8	242.0	242.0	644.7	242.0	242.0	639.5	311.4	321.7	4,669.2
Cash Balance In Tobacco Fund with Tax ****	(149.0)	(413.4)	(677.9)	(1,386.7)	(1,249.5)	(1,114.5)	(1,417.6)	(1,392.4)	(1,333.9)	2,620.3	2,638.5	2,610.1	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	2,610.1												2,610.1
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,896.7	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,110.1
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,028.0	500.6	517.1	7,505.1
Cash Balance In Tobacco Fund with Tax ****	2,019.1	1,943.0	1,892.2	1,160.7	1,150.9	1,139.0	444.3	322.5	234.0	2,999.7	2,828.8	2,605.0	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	2,605.0												2,605.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,891.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,105.0
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,027.9	500.6	517.1	7,505.0
Cash Balance In Tobacco Fund with Tax ****	2,014.0	1,937.9	1,887.1	1,155.7	1,145.9	1,133.9	439.2	317.5	228.9	2,994.7	2,823.8	2,100.0	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Cigarette Tax Deposits based on Dept of Revenue estimate with 2 month lag after effective date of tax bill before first deposit made to Tobacco Educ/Cess Fund.

*** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on total authorized by Legislature. FY06 & FY07 total expenditures assume a cash balance in the Fund at the end of the fiscal year sufficient to maintain positive cash flow in the Tobacco Educ/Cess Fund until the Master Settlement deposit the following April. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

This projection does not show expenditures equal to the CDC recommended minimum Tobacco Prevention and Control Program of \$8.1 million for Alaska. However, if expansion of the Tobacco Program in FY06 is slower than projected, this would result in additional carryforward (in excess of \$2.6 million as shown), which could potentially allow for increased program expenditures in future years.

**** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above in FY05, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund.

Proposed FY06-07 Tobacco Education/Cessation Fund Budgets/Revenues with Tobacco Tax

	Tobacco Use, Education and Cessation Fund
<i>FY2005 Conference Committee Tobacco EduclCess Fund Budget:</i>	
Public Health: Tobacco Prevention and Control	3,315.3
Public Health: Epidemiology	242.7
Public Health: Community Health Grants	500.0
Behavioral Health: Behavioral Health Admin (Enforcement)	611.2
Total FY2005 Budget	4,669.2
<i>FY2005 Revenues:</i>	
Dept of Law revenue estimate from Nat'l Assoc of Attorneys General *	4,300.0
Carryforward of FY04 Revenue	397.0
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd by June 30, 2005)	2,582.3
Total Estimated FY2005 Revenue	7,279.3
Net Revenue Available to Carryforward to FY06	2,610.1

* Dept of Revenue Spring 2004 Revenue Forecast is \$4.4 million. Dept of Law reports that the National Assoc of Attorneys General that administer the settlement are forecasting a decrease in revenues in FY05-06.

	Tobacco Use, Education and Cessation Fund
<i>FY2006 Proposed Tobacco EduclCess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2006 Budget	7,505.0
<i>FY2006 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY05 Revenue	2,610.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/05-6/30/06)	4,000.0
Total Estimated FY2006 Revenue	10,110.1
Net Revenue Available to Carryforward to FY07	2,605.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

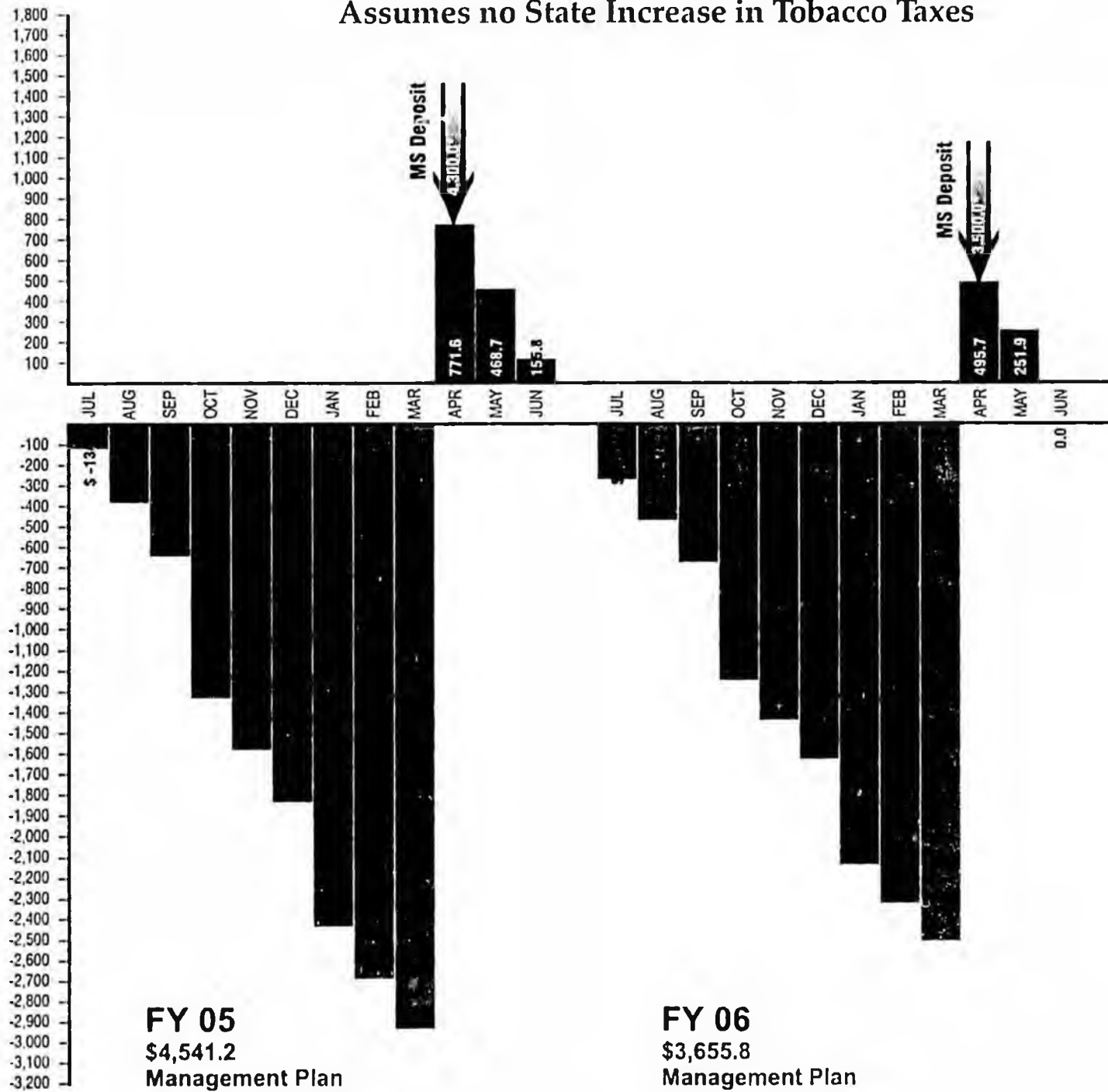
	Tobacco Use, Education and Cessation Fund
<i>FY2007 Proposed Tobacco Educ/Cess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed FY06 Tobacco Tax increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2007 Budget	7,505.0
<i>FY2007 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY06 Revenue	2,605.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/06-6/30/07)	4,000.0
Total Estimated FY2006 Revenue	10,105.1
Net Revenue Available to Carryforward to FY08	2,600.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

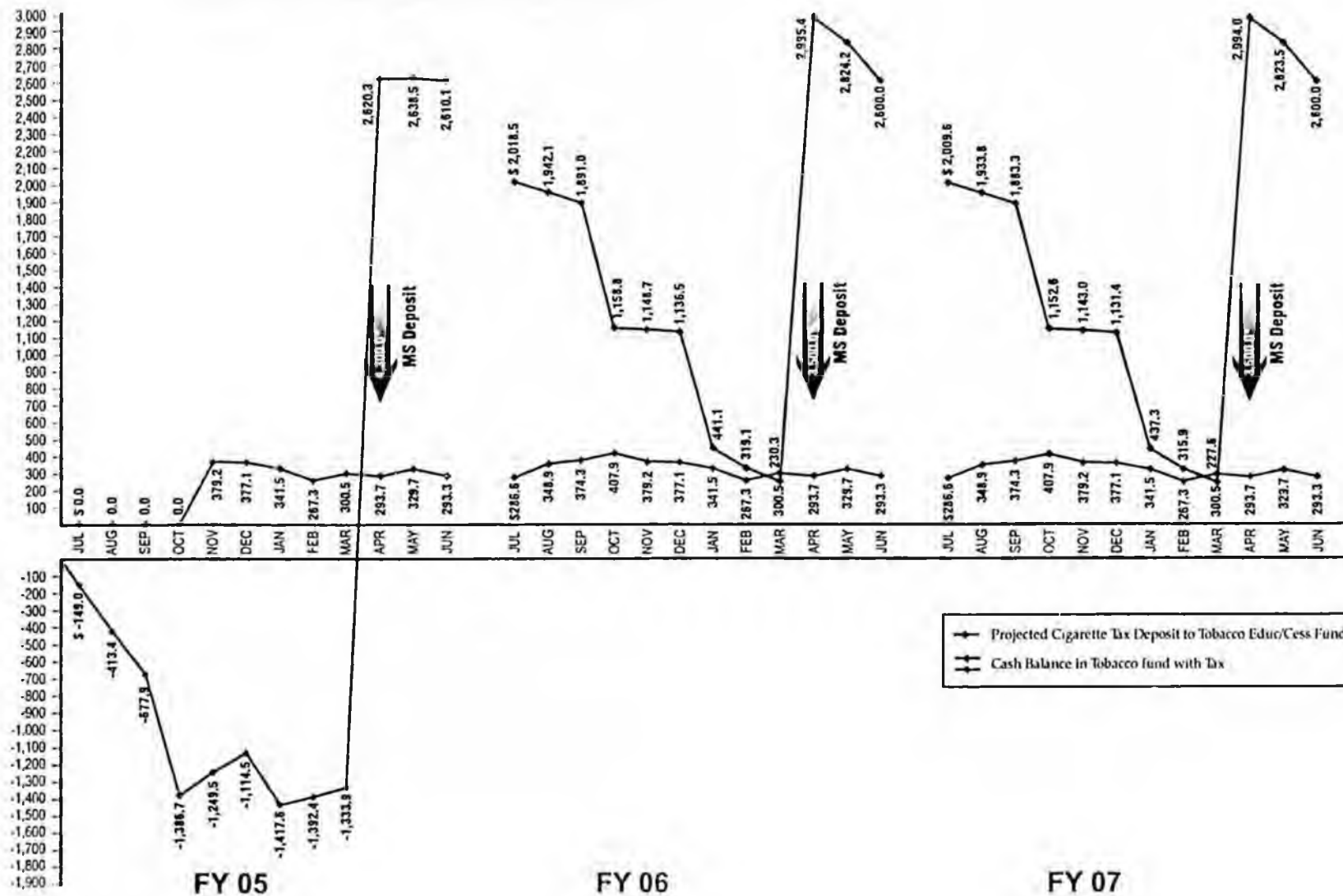
*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

Tobacco Revenue Cash Flow 2005-06

Assumes no State Increase in Tobacco Taxes



Tobacco Revenue Cash Flow 2005-07 with State Increase in Tobacco Tax



Additional Backup is
contained in the
binders provided by
the Governor under
HB 1001



June 22, 2004

The Honorable Pete Kott
Speaker of the House of Representatives
716 W. 4th Ave.
Anchorage, AK 99501

Dear Speaker Kott:

The American Cancer Society strongly supports the governor's call to pass a full and immediate one-dollar per pack increase in Alaska's cigarette tax, along with an accompanying increase in the non-cigarette tobacco product tax, during the special session.

The Society recognizes tobacco taxes as one of the most effective ways to reduce youth smoking and save lives. We have seen evidence of this fact across the nation as well as here in Alaska. There is no longer any doubt that tobacco taxes are a proven means to reduce tobacco use and save lives. Now is the time to act on this crucial policy issue.

The mission of the American Cancer Society is to eliminate cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer. We clearly recognize the devastating impact of cancer on Alaskans. Cancer is currently the second leading cause of death for all Alaskans and the leading cause of death for Alaska Natives. Research shows that one-third of all cancers are tobacco-related and almost all tobacco-users first become addicted as children. By increasing the state's tobacco tax, with its known correlation to reducing youth smoking, we are taking a critical step in stemming the tide of rising health care costs to the state and needless death and disability in our communities.

The American Cancer Society urges the legislature to adopt this critical public health measure as soon as possible to save lives and protect the health of our children.

Sincerely,

A handwritten signature in black ink, appearing to read "Emily E. Nenon", with a long horizontal flourish extending to the right.

Emily E. Nenon
Alaska Advocacy Manager

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www.aklung.org
Fax: (907) 565-5587

June 22, 2004

Representative Pete Kott
State Capitol, Room 208
Juneau, AK 99801-1182

Fax: 907-465-2819

Re: Increasing the State Tobacco Tax

Dear Representative Kott:

The American Lung Association of Alaska is pleased to support Governor Murkowski's bill to raise Alaska's Tobacco Tax. This measure represents a win, win, win solution for Alaska that reduces smoking, raises much-needed revenue and has strong support from voters.

Studies show that higher cigarette **taxes are one of the most effective ways to reduce smoking** among both youth and adults. A Department of Revenue study shows Alaska's tobacco consumption dropped substantially in response to the 1997 tobacco price increase. Among younger children the report estimated a 30 percent reduction in smoking.

At the same time the 1997 tobacco tax increase generated approximately 30 million per year in new state revenue. The 2004 **\$1 tax increase would generate approximately 36 million per year.**

There is **strong public support** for substantially increased state tobacco taxes. A recent poll completed for Alaskans for Tobacco-Free Kids shows 67 percent support among Alaskan voters for a \$1.00 per pack increase in tobacco taxes.

The tobacco tax increase would **save thousands of Alaska lives**, reduce health care costs and generate much needed revenue. All measures of success the American Lung Association of Alaska can enthusiastically support.

Sincerely,

Christie Garbe, CEO
American Lung Association of Alaska

SB

1001

SFIN

FILE

SENATE FINANCE COMMITTEE REPORT

DATE: 6/23/04

REPORTED OUT
JUN 23 2004
SENATE FINANCE
COMMITTEE
SENATE BILL NO. 1001

FURTHER:

DATE TURNED IN TO OFFICE: 6/23/04

Finance Committee considered _____ SENATE BILL NO. 1001

SB 1001 TOBACCO TAX; LICENSING; PENALTIES

"An Act relating to taxes on cigarettes and tobacco products, to tax stamps on cigarettes, to forfeiture of cigarettes and of property used in the manufacture, transportation, possession, or sale of unstamped cigarettes, to accounting for and use of part of the proceeds of the additional cigarette tax, and to licenses and licensees under the Cigarette Tax Act; relating to unfair cigarette sales; and providing for an effective date."

and recommends:

- be replaced with _____ CS _____ (_____)
- adopt previous _____ CS _____ (_____)
- attached amendment(s)
- adopt Letter of Intent by _____ Committee
- further referral to _____ Committee

Senate Bill:
 Same Title
 New Title

House Bill:
 Same Title
 Technical Title Change
 New Title w/ SCR # _____

NEW FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero.	FN#

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#
REV	6/15	✓			1
DPS	6/1	✓			2
HSS	6/21	✓			3

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
<i>[Signature]</i>	✓			
COCHAIR: <i>[Signature]</i>		✓		
COCHAIR: <i>[Signature]</i>	✓			

JUN 23 2004

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 1001
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Revenue
Title Cigarette and Tobacco Products Tax Increase RDU Revenue Programs & Services
Component Tax Division
Sponsor Governor
Requester Rules Component No. 2476

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	466.1	466.1	466.1	466.1	466.1	466.1
Travel	60.0	60.0	60.0	60.0	60.0	60.0
Contractual	248.0	246.8	246.8	246.8	246.8	246.8
Supplies	6.0	6.0	6.0	6.0	6.0	6.0
Equipment	48.0	0.0	0.0	0.0	0.0	0.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	828.1	778.9	778.9	778.9	778.9	778.9

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	29,100.0	35,000.0	35,000.0	35,000.0	35,000.0	35,000.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	828.1	778.9	778.9	778.9	778.9	778.9
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	828.1	778.9	778.9	778.9	778.9	778.9

Estimate of any current year (FY2004) cost: 00

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time	6	6	6	6	6	6
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Cigarette and Tobacco Products Tax Increase - Bill Analysis (December 24, 2003)

Bill Language: This bill will increase the cigarette tax from \$1 per pack of twenty cigarettes to \$2 per pack and the tobacco products tax (OTP) from 75% to 100% of the wholesale cost. This bill will also institute a floor stock tax on existing cigarette inventories held for sale in an attempt to reduce the amount of stockpiling of cigarettes on the effective date. In an attempt to reduce the amount of cigarette smuggling and tax evasion, this bill will also allow the Department of Public Safety to seize and dispose of equipment, vehicles, monies and other assets used in activities which violate the cigarette and tobacco products statutes.

(cont. on page 2)

Prepared by: Johanna Bales Phone 269-6628
Division: Tax Division Date/Time 6/15/04 9:53 AM
Approved by: Steve Porter, Deputy Commissioner Date 6/15/2004
Agency: Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1001

ANALYSIS CONTINUATION

Assumptions: The Department of Revenue (DOR) will have primary enforcement responsibility for the cigarette and tobacco products excise tax program. However, DOR will work with the Department of Public Safety (DPS) and Department of Law (DOL) as part of a task force responsible for cigarette tax stamp enforcement in the state. DPS, at the request of DOR, will provide investigative support through a reimbursable services agreement (RSA). The amount of this RSA has been estimated by DPS. Monies for the RSA are included in the Contractual costs requested in this fiscal note. This fiscal note does not include additional costs that may be incurred by DOL as a result of this legislation. From information obtained from other states with cigarette tax rates of \$1.50 to \$2.05 per pack, DOR expects that the increase in the tax rates will result in a significant increase in incidents of cigarette smuggling and tax evasion.

Program Summary: DOR will conduct periodic inspections of cigarette and tobacco products licensees as well as retailers who hold tobacco endorsements with the Department of Community and Economic Development for unstamped cigarettes. In addition, DOR will be the primary contact for complaints from the public and compliant retailers regarding unstamped cigarettes. DOR will work with DPS and DCL to develop cases against cigarette smugglers, including seizing unstamped product and assets used in activities that violate the cigarette and tobacco products statutes. DOR will prepare assessments for unstamped cigarettes and untaxed cigarettes and OTP imported into the state by individuals for personal use and/or resale and work with federal agencies to stop out-of-state entities, specifically Internet sellers, from shipping cigarettes into the state in violation of existing statutes.

Positions: DOR expects that it will need 6 additional positions, 1 Revenue Auditor Supervisor II, 2 Investigator III's, 1 Revenue Auditor III, 1 Accounting Technician III and 1 Appeals Officer (Revenue Auditor V), to manage the workload of the task force, conduct investigations, prepare assessments, and work appeals filed in disputes involving assessments, seized cigarettes, and seized assets. These six positions, along with the two existing investigator positions already assigned to tobacco cases, will represent DOR as part of the task force explained above. DOR estimates the total cost of these additional positions to be \$466,100 each year.

Other Operating Expenditures: (1) Travel - DOR estimates it will need \$60,000 for travel costs for investigators to conduct routine inspections of the approximate 1,600 known cigarette retail establishments throughout the state each year. DOR estimates that each investigator will need to conduct, at a minimum, ten separate inspections/investigations in villages within the state each year to insure an effective enforcement program and respond to complaints from the public of unstamped product. (2) Contractual - Contractual costs in the amount of \$248,000 in the first year and \$246,800 each year thereafter are primarily to fund an RSA between DOR and DPS and for the lease, operation and maintenance of two vehicles to be used by investigators to conduct inspections/investigations in the Anchorage, Mat-Su and Kenai Peninsula areas of the state where most cigarette retail establishments are located. Investigators must be able to respond to complaints of unstamped product quickly and perform unscheduled inspections of retail establishments on an ongoing basis. Contractual costs also include leasing office space and providing phone service for 6 additional employees and renting storage facilities for seized cigarettes and other assets. (3) Supplies - DOR estimates \$1,000 per each FTE each year (a total of \$6,000) for supplies needed to perform the duties of these positions. (4) Equipment - DOR expects equipment expense of \$8,000 per FTE (a total of \$48,000) in the first year for computers, telephones, cubicle parts, software, and other one-time purchases of office equipment needed to perform the duties of these positions.

Revenue: DOR estimates cigarette and tobacco products revenues to increase between \$33 and \$37 million each year. However, DOR believes these revenues will be much smaller unless we institute an aggressive investigation and enforcement program. Although we believe the provision for cigarette tax stamps, which took effect January 1, 2004, will be an effective tool in enforcement of the cigarette excise tax, its success depends upon aggressive enforcement. Even at \$1.00 per pack, the incentive for smuggling and tax evasion is great. At \$2.00 per pack, it will be much more attractive. An aggressive enforcement program will help protect the projected revenue increase.

FISCAL NOTE

REPORTED OUT
 JUN 23 2004
 SENATE FINANCE COMMITTEE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2 SENATE FINANCE
 Bill Version: SB 1001 COMMITTEE
 (S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Public Safety
 Title: Act Relating to Tobacco Tax RDU: Alaska State Troopers
 Component: Bureau of Alcohol and Drug Enforcement
 Sponsor: Rules Committee
 Requester: Governor Component No.: 2745

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	171.4	171.4	171.4	171.4	171.4	171.4
Travel	20.0	20.0	20.0	20.0	20.0	20.0
Contractual	15.0	15.0	15.0	15.0	15.0	15.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	206.4	206.4	206.4	206.4	206.4	206.4

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

CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1007 Inter-Agency Receipts	206.4	206.4	206.4	206.4	206.4	206.4
TOTAL	206.4	206.4	206.4	206.4	205.4	206.4

Estimate of any current year (FY2004) cost: 0.0
 Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill will increase the cigarette tax from \$1 per pack of twenty to \$2 per pack and the other tobacco products (OTP) tax from 75% to 100% of the wholesale costs. The Department of Public Safety (DPS) will be required to seize and dispose of assets used in illegal activities related to tobacco products statutes.

The DPS will provide investigative support to the Department of Revenue through a reimbursable services agreement. The DPS estimates the services of two full-time investigators and associated field travel, training, communication and vehicle usage will be needed to implement this legislation. The use of these investigative assets and any, as yet unidentified expenses associated with cigarette tax stamp enforcement, will be coordinated between the two agencies and reimbursed at actual cost.

Prepared by: Captain Al Storey Phone: 269-5682
 Division: Alaska State Troopers Date/Time: 6/14/04 9:26 AM
 Approved by: Commissioner William Tandesko Date: 6/14/2004
 Agency: Department of Public Safety

JUN 23 2004

SENATE FINANCE
COMMITTEE

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
 Bill Version: SB 1001
 (S) Publish Date: 6/23/04
 Dept. Affected: Health & Social Services
 RDU: Public Health
 Component: Tobacco Prevention and Control

Revision Date/Time (Note if correction):
 Title: TOBACCO TAXES AND RELATED MATTERS

Sponsor: (RLS) BY REQUEST OF THE GOVERNOR

Requester: _____ Component No. 2384

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services						
Travel						
Contractual		2,600.0	2,600.0	2,600.0	2,600.0	2,600.0
Supplies						
Equipment						
Land & Structures						
Grants & Claims		1,400.0	1,400.0	1,400.0	1,400.0	1,400.0
Miscellaneous						
TOTAL OPERATING	0.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (0)						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1037 GF/Mental Health						
1168 Tobacco Educ/Cess Fund		4,000.0	4,000.0	4,000.0	4,000.0	4,000.0
Other(Specify Type-do not abbreviate)						
TOTAL	0.0	4,000.0	4,000.0	4,000.0	4,000.0	4,000.0

Estimate of any current year (FY2004) cost: _____

Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Funding for the Tobacco Control Program is authorized and appropriated by the Alaska Legislature each year. The Legislature established the Tobacco Use Education and Cessation Fund as AS 37.05.580, and a portion of Tobacco Master Settlement Agreement revenues are deposited into the Tobacco Fund in April of each year to support the Tobacco Control Program. The program faced a serious cash flow problem in FY04 that continues as it heads into FY05. The Department of Health and Social Services projects that the fund will have only \$397,000 of carry forward revenue at the start of FY05. The FY 2005 budget passed by the legislature authorized a budget of \$4,669,200. The projected \$4,300,000 Master Settlement revenue will not be deposited to the (continued next page)

Prepared by: Sherry Hill, Special Assistant
 Division: Office of the Commissioner
 Approved by: Joel S. Gilbertson, Commissioner
 Agency: Department of Health and Social Services

Phone: 465-1618
 Date/Time: 06/21/2004
 Date: 06/22/2004

FISCAL NOTE
FN # 3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1001

ANALYSIS CONTINUATION

Analysis Continued:

State until April 2005. As a result, the program will have to "borrow" from other Public Health programs in the interim to allow the Tobacco Control program to operate. This can be seen in the attached table showing Cash Flow without Tobacco Tax as a negative cash flow from July 2004 until April 2005 (attachment A).

Passing the proposed increase in tobacco excise taxes and including the proposed provision that 8.9 percent of the total proceeds of the tax shall be deposited into the Tobacco Use Education and Cessation Fund established in AS 37.05.580 will fix the existing cash flow problem as well as increase prevention funding. This fiscal note reflects an increase of \$4,000,000 Tobacco Education/Cessation Fund spending authorization for the Tobacco Prevention and Control component of the Public Health RDU. Additional authorization of this amount will result in expanded tobacco program activities as well as allow for sufficient carryforward to support program activities in the next fiscal year until Master Settlement revenues are deposited. See attached table showing cash flow with Tobacco Tax (attachment B).

These funds will also help offset a projected decrease in the Tobacco Master Settlement Agreement revenues, according to the latest forecast by the National Association of Attorneys General. This fiscal note also assumes that the current authorization for \$500,000 Tobacco Education/Cessation Fund in the Community Health Grants component would be switched to General Funds in the FY06 budget. If this does not occur, the funds available to the Tobacco Prevention and Control component would be reduced by \$500,000 to remain within the projected revenues. The net increase to the Tobacco Prevention and Control component will be approximately \$3,330,000. See attachment C for summary of Tobacco Program revenues and authorization.

The increased spending authorization is based on the Department of Revenue's projection that the amount of cigarette tax revenue deposited into the Tobacco Use Education and Cessation Fund would be \$4,000,000 annually. All revenues are reported on the Department of Revenue fiscal note.

Critical to the ongoing fiscal integrity of the program will be action by the legislature every year to provide for carry forward of unexpended Tobacco Use Education and Cessation Funds from the current State Fiscal Year to the following one. Because the Master Settlement revenues are not deposited until April each year, legislative action to authorize carry forward is essential so the State can avoid a negative cash flow situation.

The State Tobacco Control Program develops its annual management plan every year depending on the level of appropriations authorized by the legislature. The Tobacco Control Program staff, Alaska Division of Public Health (ADPH), work on an on-going basis closely with members of the Alaska Tobacco Control Alliance (ATCA) to monitor the burden of

FISCAL NOTE
FN # 3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1001

ANALYSIS CONTINUATION

Analysis Continued:

tobacco on Alaskans, evaluate existing program activities, assess "Best Practices Guidelines" from the National Centers for Disease Control and Prevention, and identify new opportunities to target prevention programs. Working together, the ATCA and Tobacco Control Program staff develops detailed recommendations to the Director, ADPH and Commissioner, Department of Health and Social Services for allocating appropriated resources.

If the legislature passes the proposed tobacco excise tax increase and authorizes 8.9 percent of annual proceeds to be deposited to the Tobacco Use Education and Cessation Fund, then the program will be able to significantly increase prevention program activities. To do so, the Tobacco Control Program staff will meet with our colleagues of the Alaska Tobacco Control Alliance to plan for ramping up the program beginning in FY06. We propose maintaining program spending in FY05 at the currently authorized level of \$4,669,200. This will allow the program to achieve a positive cash flow situation in FY05 with adequate funding to carry forward in FY06 to assure a continued positive cash flow.

We propose a FY06 and FY07 budget at a level of \$7,500,000 with an annual carry forward of \$2,600,000. This level of funding will protect the program from negative cash flow. This will bring us closer to, the Center for Disease Control's Best Practices minimum recommended expenditure level of \$8,100,000. Actual revenues and expenditures will be monitored to possibly allow for increased program funding to this recommended level in FY08 or beyond.

See attachments A-E.

Tobacco Use, Education and Cessation Fund Cash Flow Without Tobacco Tax

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Monthly Expenditures **	531.0	257.2	257.2	689.4	235.4	235.4	627.0	235.4	235.4	622.0	302.9	312.9	4,541.2
Cash Balance in Tobacco Fund w/out Tax ***	(134.0)	(391.2)	(648.4)	(1,337.8)	(1,573.2)	(1,808.6)	(2,435.6)	(2,671.0)	(2,906.4)	771.6	468.7	155.8	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	155.8												155.8
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	427.5	207.1	207.1	555.0	189.5	189.5	504.8	189.5	189.5	500.7	243.8	251.9	3,655.8
Cash Balance in Tobacco Fund w/out Tax ***	(271.7)	(478.7)	(685.8)	(1,240.8)	(1,430.3)	(1,619.8)	(2,124.5)	(2,314.0)	(2,503.5)	495.7	251.9	(0.0)	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	(0.0)												(0.0)
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Monthly Expenditures **	409.3	198.2	198.2	531.3	181.4	181.4	483.2	181.4	181.4	479.4	233.5	241.2	3,500.0
Cash Balance in Tobacco Fund w/out Tax ***	(409.3)	(607.5)	(605.7)	(1,337.0)	(1,518.5)	(1,699.9)	(2,183.1)	(2,364.6)	(2,546.0)	474.6	241.2	(0.0)	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on current program management plan. FY06 & FY07 total expenditures equal to total revenue projected for year. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

*** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund. This would likely delay the scheduled monthly expenditures and possibly impact the total expenditure level in the Tobacco Control Program.

Tobacco Use, Education and Cessation Fund Cash Flow With Proposed Tobacco Tax Receipts

FY05	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY05 Total
Projected Carryforward of Revenue from FY04	397.0												397.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										4,300.0			4,300.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**					379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	2,582.3
Total Monthly Tobacco Educ/Cess Fund Revenue	397.0	0.0	0.0	0.0	379.2	377.1	341.5	267.3	300.5	4,593.7	329.7	293.3	7,279.3
Projected Monthly Expenditures ***	546.0	264.4	264.4	708.8	242.0	242.0	644.7	242.0	242.0	639.5	311.4	321.7	4,669.2
Cash Balance In Tobacco Fund with Tax ****	(149.0)	(413.4)	(677.0)	(1,386.7)	(1,249.5)	(1,114.5)	(1,417.6)	(1,392.4)	(1,333.9)	2,620.3	2,638.5	2,610.1	

FY06	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY06 Total
Projected Carryforward from FY05	2,610.1												2,610.1
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,896.7	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,110.1
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,028.0	500.6	517.1	7,505.1
Cash Balance In Tobacco Fund with Tax ****	2,019.1	1,943.0	1,892.2	1,160.7	1,150.9	1,139.0	444.3	322.5	234.0	2,999.7	2,828.8	2,605.0	

FY07	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	April	May	June	FY07 Total
Projected Carryforward from FY06	2,605.0												2,605.0
Dept of Law Estimated Tobacco Settlement Deposit to Tobacco Educ/Cess Fund *										3,500.0			3,500.0
Projected Cigarette Tax Deposits to Tobacco Educ/Cess Fund**	286.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	293.7	329.7	293.3	4,000.0
Total Monthly Tobacco Educ/Cess Fund Revenue	2,891.6	348.9	374.3	407.9	379.2	377.1	341.5	267.3	300.5	3,793.7	329.7	293.3	10,105.0
Projected Monthly Expenditures ***	877.6	425.1	425.1	1,139.3	389.0	389.0	1,036.2	389.0	389.0	1,027.9	500.6	517.1	7,505.0
Cash Balance In Tobacco Fund with Tax ****	2,014.0	1,937.9	1,887.1	1,155.7	1,145.9	1,133.9	439.2	317.5	228.9	2,994.7	2,823.8	2,600.0	

* Dept of Law revenue estimate based on the National Association of Attorneys General estimate for Alaska's Master Settlement Revenues. The official Dept of Revenue forecast for FY05 is \$4.4 million.

** Cigarette Tax Deposits based on Dept of Revenue estimate with 2 month lag after effective date of tax bill before first deposit made to Tobacco Educ/Cess Fund.

*** Projected Monthly Expenditures based on normal cash flow for grants/contracts/staff costs. FY05 total expenditures based on total authorized by Legislature. FY06 & FY07 total expenditures assume a cash balance in the Fund at the end of the fiscal year sufficient to maintain positive cash flow in the Tobacco Educ/Cess Fund until the Master Settlement deposit the following April. These projections also assume that Tobacco Educ/Cess Funding for Community Health Grants (\$500.0 in FY05) is switched to GF in FY06 budget, leaving all Tobacco Funds in direct support of the Tobacco Program.

This projection does not show expenditures equal to the CDC recommended minimum Tobacco Prevention and Control Program of \$8.1 million for Alaska. However, if expansion of the Tobacco Program in FY06 is slower than projected, this would result in additional carryforward (in excess of \$2.6 million as shown), which could potentially allow for increased program expenditures in future years.

**** No payments can be made from the Tobacco Use, Education and Cessation Fund when there is zero or negative cash balance. When a negative balance is shown above in FY05, another source of funding must be utilized until a revenue deposit is made into the Tobacco Educ/Cess Fund.

Proposed FY06-07 Tobacco Education/Cessation Fund Budgets/Revenues with Tobacco Tax

	Tobacco Use, Education and Cessation Fund
<i>FY2005 Conference Committee Tobacco EduclCess Fund Budget:</i>	
Public Health: Tobacco Prevention and Control	3,315.3
Public Health: Epidemiology	242.7
Public Health: Community Health Grants	500.0
Behavioral Health: Behavioral Health Admin (Enforcement)	611.2
Total FY2005 Budget	4,669.2
<i>FY2005 Revenues:</i>	
Dept of Law revenue estimate from Nat'l Assoc of Attorneys General *	4,300.0
Carryforward of FY04 Revenue	397.0
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd by June 30, 2005)	2,582.3
Total Estimated FY2005 Revenue	7,279.3
Net Revenue Available to Carryforward to FY06	2,610.1

* Dept of Revenue Spring 2004 Revenue Forecast is \$4.4 million. Dept of Law reports that the National Assoc of Attorneys General that administer the settlement are forecasting a decrease in revenues in FY05-06.

	Tobacco Use, Education and Cessation Fund
<i>FY2006 Proposed Tobacco EduclCess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2006 Budget	7,505.0
<i>FY2006 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY05 Revenue	2,610.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/05-6/30/06)	4,000.0
Total Estimated FY2006 Revenue	10,110.1
Net Revenue Available to Carryforward to FY07	2,605.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

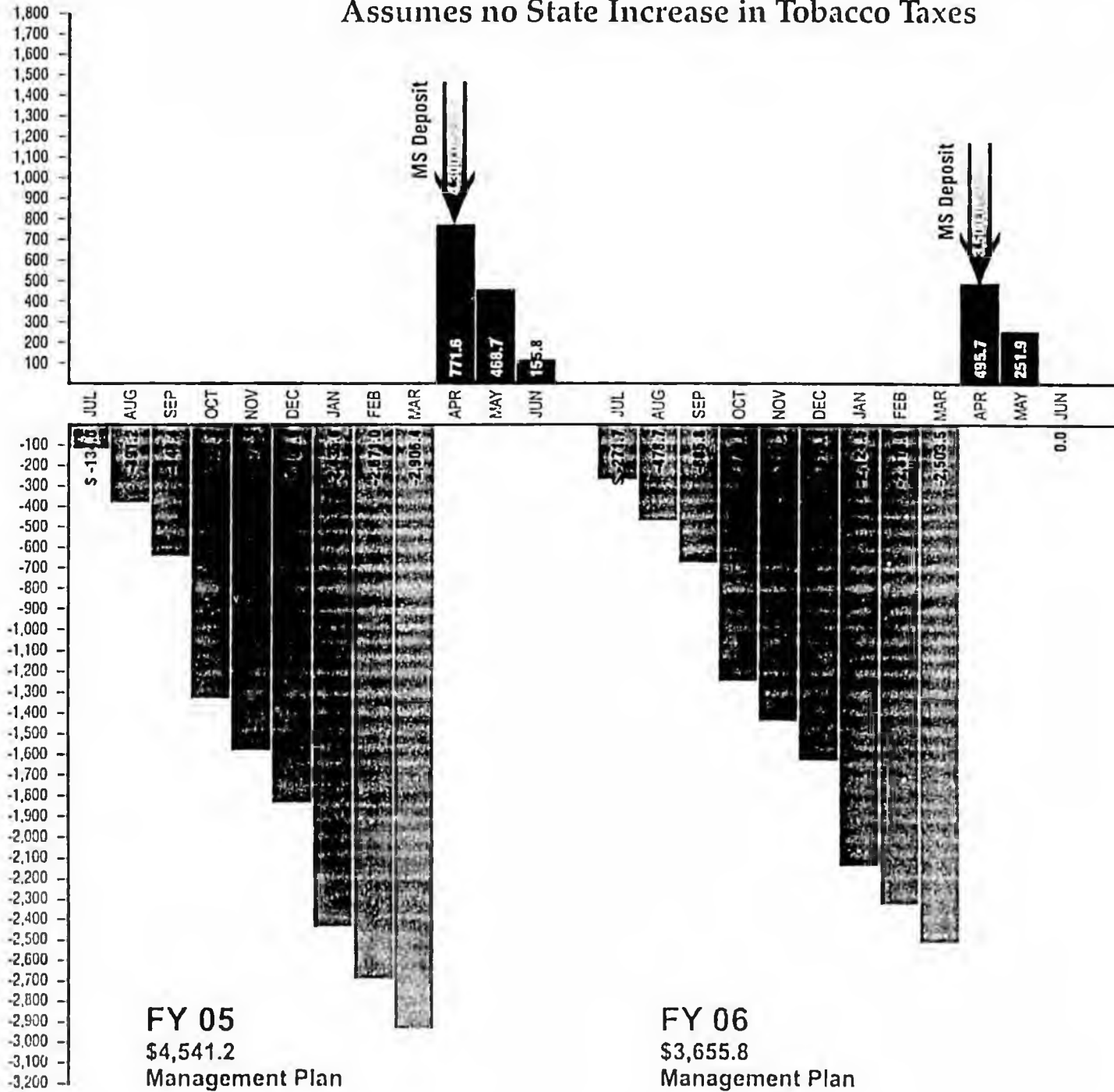
	Tobacco Use, Education and Cessation Fund
<i>FY2007 Proposed Tobacco Educ/Cess Fund Budget: **</i>	
Public Health: Tobacco Prevention and Control (current funding)	3,315.3
Public Health: Tobacco Prevention and Control (net effect of decrease in Master Settlement revenue) ***	(670.3)
Public Health: Tobacco Prevention and Control (proposed FY06 Tobacco Tax increase)	4,000.0
Public Health: Epidemiology	245.0
Behavioral Health: Behavioral Health Admin (Enforcement)	615.0
Total Proposed FY2007 Budget	7,505.0
<i>FY2007 Revenues</i>	
Dept of Law Revenue Estimate from Nat'l Assoc of Attorneys General	3,500.0
Carryforward of FY06 Revenue	2,005.1
Cigarette Tax Deposits to Tobacco Fund (Estimated to be Rcvd 7/1/06-6/30/07)	4,000.0
Total Estimated FY2006 Revenue	10,105.1
Net Revenue Available to Carryforward to FY08	2,600.1

** FY06 and FY07 Proposed Budgets are based on eliminating Tobacco Educ/Cess funding from the Community Health Grants component by replacing that source with General Funds (\$500.0).

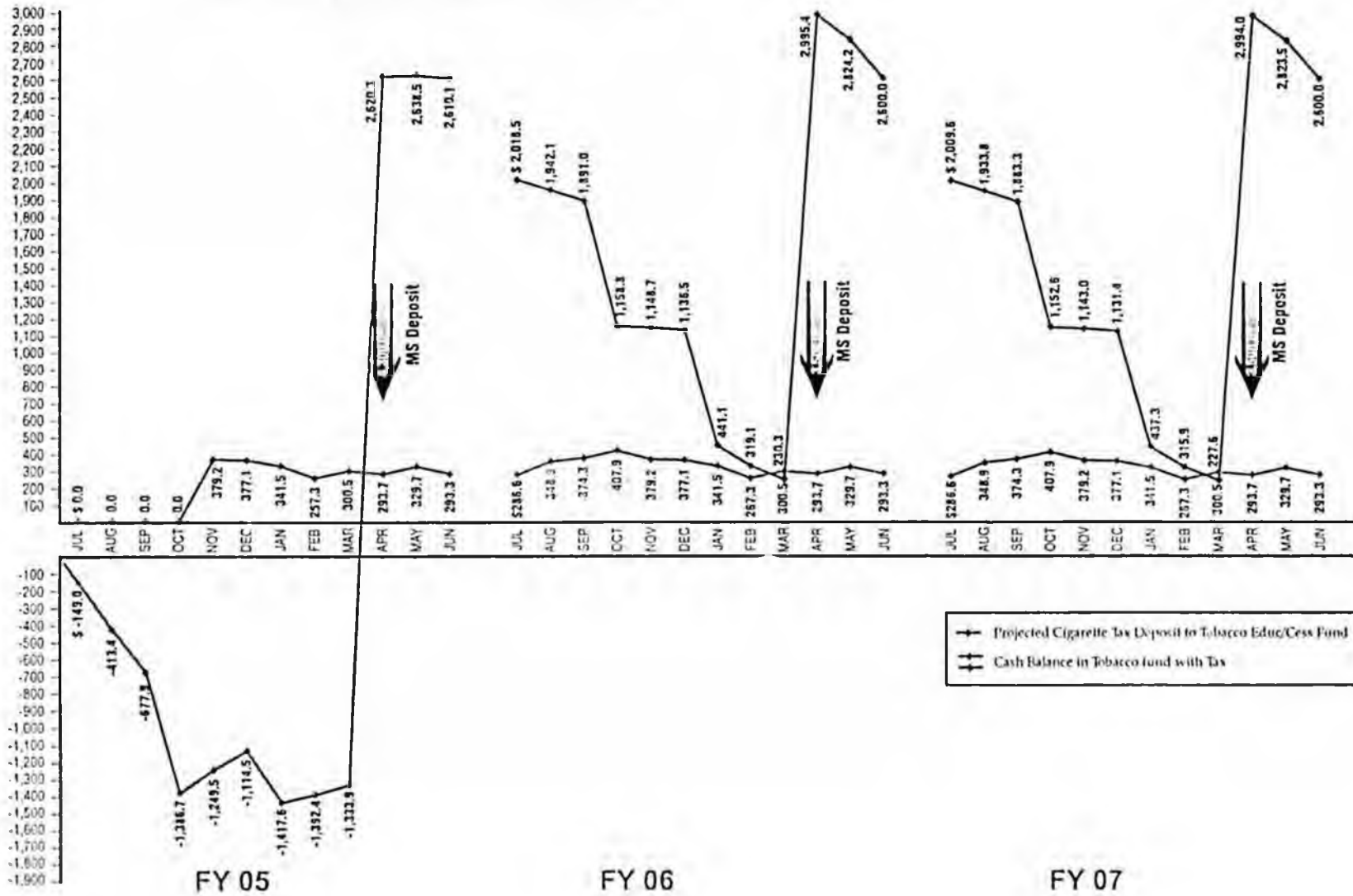
*** The latest revenue estimates from the Nat'l Assoc of Attorneys General forecast a decrease in Tobacco Settlement revenue. This decrease in expenditure authority keeps the DHSS program in balance with the total revenue anticipated.)

Tobacco Revenue Cash Flow 2005-06

Assumes no State Increase in Tobacco Taxes



Tobacco Revenue Cash Flow 2005-07 with State Increase in Tobacco Tax



Special Session Tobacco Tax Bill

Sectional Analysis Departments of Revenue and Law

- Sections 1, 16:** Section 1 outlines the intent by the legislature to provide funding for tobacco control programs at the minimum level recommended by the U.S. Department of Health and Human Services from tobacco tax revenues collected by the state. Section 16 implements this intent by taking 8.9% of annual cigarette tax revenues levied under AS 43.50.190(a) to be deposited into the tobacco use education and cessation fund.
- Sections 2-4:** These sections raise the various cigarette license fees to \$50—to make them the same as the current license fee for distributors.
- Sections 5, 10-13:** These sections make technical corrections to the wholesaler-distributor cigarette license type. They also ensure that in-state individuals and retailers are not double-taxed on product that is sold to them by an entity holding a wholesaler-distributor license.
- Section 6:** This section requires unlicensed entities that bring cigarettes into the state upon which a tax stamp is not affixed to pay the cigarette excise tax and remit it to the department each month.
- Sections 7 and 15:** These sections exempt the first 400 cigarettes (2 cartons) that an individual personally transports into the state each month from the cigarette tax.
- Section 8:** This section changes the definition of a class A misdemeanor for violations of the cigarette shipping restrictions from one but fewer than 1,000 cigarettes to one but fewer than 5,000 cigarettes. This section also changes the definition of a class C felony for violations of the shipping restrictions from 1,000 or more cigarettes to 5,000 or more cigarettes. The intention in raising the threshold for a class C felony is to make it consistent with the current threshold for a class C felony theft, which requires the value of the property or services to be at least \$500. The tax that would be due on 5,000 cigarettes under this bill would be \$500.
- Section 9:** This section makes a person who shipped cigarettes to Alaska in violation of our cigarette shipping restrictions jointly and severally

liable for cigarette taxes to the fullest extent permitted by the U.S. Constitution.

Section 14: This section increases the tax on cigarettes by 50 mills or \$1.00 per pack of 20 cigarettes. The increase in this tax will go into the general fund.

Section 17: This section increases the tax on other tobacco products from 75% to 100% of the wholesale cost and also levies the tax on other tobacco products sold or imported into the state for personal consumption.

Section 18: This section requires that individuals that import other tobacco products into the state must have a license as a "buyer".

Section 19: This section requires that a fee of \$25 must be paid for a tobacco products "buyer" license

Section 20: This section requires distributors to provide information about the type of tobacco business they are conducting to the Department of Revenue.

Section 21: This section allows distributors and buyers to renew their tobacco product license each year for a fee of \$50 and \$25, respectively.

Section 22: This section requires individuals who import tobacco products for personal consumption to file a return each month indicating the amount and purchase price of the tobacco products and the tax due on those tobacco products.

Section 23: This section changes the definition of a "distributor" to include entities that sell cigarettes to individuals for personal consumption.

Section 24: This section changes the definition of "licensee" in the tobacco products statute to include the new buyer license type.

Section 25: This section provides a definition for "buyer" in the tobacco products statutes.

Section 26: This section allows a licensee to request that the department replace cigarette tax stamps that were lost or damaged in transit.

- Section 27:** This section allows licensees with a physical location in the state and who have been in full compliance with cigarette tax statutes for the preceding 5 years to reduce their bond requirement from 200% to 100% of their monthly purchases of tax stamps when payment is made on a deferred payment basis.
- Section 28:** This section allows in-state cigarette licensees to maintain unstamped cigarette inventories if the licensee is in the business of making cigarette sales to customers outside the state and the licensee is properly licensed in the other states where it makes sales.
- Section 29:** This section allows in-state cigarette licensees to claim a credit for cigarette tax stamps affixed to packages of cigarettes that are sold outside the state provided the licensee is properly licensed in the other states where it makes sales and the licensee provides proof acceptable to the department that the stamped cigarettes were not consumed in Alaska.
- Section 30:** This is the forfeiture section which allows seizure of assets used by a person when the person commits, supported by a showing of probable cause, the crime of misconduct involving unstamped cigarettes in the first degree under AS 43.50.640. This section further outlines the types of assets that may be seized, procedures to be used to seize such assets, and procedures to be used in disposing of seized assets.
- Section 31:** This section changes the definition of misconduct involving unstamped cigarettes in the first degree from sales of or possession with intent to sell 1,000 or more unstamped cigarettes to sales of or possession with intent to sell 5,000 or more unstamped cigarettes.
- Section 32:** This section changes the definition of misconduct involving unstamped cigarettes in the second degree from sales of one but fewer than 1,000 unstamped cigarettes to sales of one but fewer than 5,000 unstamped cigarettes and from possession of one but fewer than 10,000 unstamped cigarettes to possession of 401 but fewer than 10,000 unstamped cigarettes. This section also includes importation or possession of one but fewer than 401 unstamped cigarettes as misconduct involving unstamped cigarettes in the second degree if the cigarettes are not possessed for personal consumption.

- Section 33:** This section allows manufacturers to offer cigarette promotions in the state provided the promotion offered at the wholesale level is the same for all wholesalers who participate in the promotion and the promotion offered at the retail level is the same for all retailers who participate in the promotion.
- Section 34:** This section makes a technical change to AS 43.50.720 so that the language in that statute conforms to the changes made in section 38 of this bill.
- Section 35:** This section makes a technical change to AS 43.50.760(b) so that the language in that statute conforms to the changes made in section 38 of this bill.
- Section 36:** This section makes a technical change to AS 43.50.770 so that the language in that statute conforms to the changes made in section 38 of this bill.
- Section 37:** This section makes a technical change to AS 43.50.790(a) so that the language in that statute conforms to the changes made in section 38 of this bill.
- Section 38:** This section changes the calculation of cost of cigarettes as defined in the Unfair Cigarette Sales Act that went into effect January 1, 2004 as the result of the passage last session of SB 168. The Unfair Cigarette Sales Act prohibits all cigarette wholesalers and retailers from selling cigarettes below cost. This section modifies the Unfair Cigarette Sales Act by prohibiting wholesalers and retailers from reducing their cost by cash discounts received from the manufacturers. This section also requires wholesalers and retailers to obtain prior approval from the Department of Revenue before selling cigarettes at a cost below the amount posted by the Department of Revenue.
- Section 39:** This section repeals sections of the Unfair Cigarette Sales Act that conflict with the new language inserted in section 38.
- Section 40:** This section requires that a floor stock tax be paid by all persons in control or possession of cigarettes for resale at the effective date of this bill. A floor stock tax is the difference between the tax paid at the old rate and the tax due at the new tax rate. The floor stock tax applies to cigarettes only. The floor stock tax must be remitted to

the Department of Revenue in six sequential monthly installments with the first installment due no later than 30 days after the effective date of this bill. The floor stock tax is needed to reduce the amount of stockpiling by retailers and distributors and the windfall they will get by collecting, but not paying, tax at the new rate on the stockpiled cigarettes.

Section 41: This section provides an effective date of September 1, 2004.

State of Alaska
Epidemiology



Bulletin

Recommendations
and
Reports

Department of Health and Social Services

Joel Gilbertson, Commissioner

3601 C Street, Suite 540, PO Box 240249, Anchorage, Alaska 99524-0249 (907) 269-6000

24-Hour Emergency Number 1-800-478-0084

Division of Public Health

Doug Bruce, Director

<http://www.bkepi.org>

Section of Epidemiology

John Middaugh, MD, Editor

Volume No. 7 Number 4

November 4, 2003

Youth Tobacco Use Falls

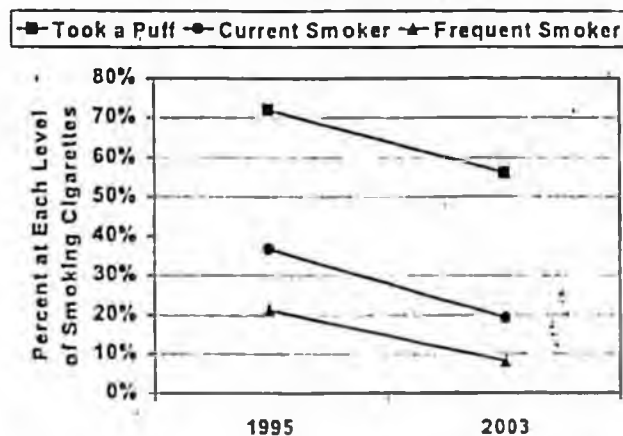
Results From the
2003 Youth Risk Behavior Survey

Smoking among Alaskan high school students has been cut in half since 1995, according to results of the 2003 Youth Risk Behavior Survey (YRBS).

Only 19 percent of the state's high school students say they have smoked at least one cigarette in the past month, down from 37 percent in 1995 (Figure 1). Frequent smoking, in which students report using cigarettes on at least 20 days in the previous month, fell from 21 percent in 1995 to just 8 percent. Just 56 percent of high school youth say they have even taken a single puff on a cigarette, down from 72 percent in 1995.

Figure 1. Percentage of High School Youth Who Ever Took a Puff or Are Current or Frequent Smokers By Year, Alaska YRBS, 2003

	1995	2003
Took a Puff	72%	56%
Current Smoker	37%	19%
Frequent Smoker	21%	8%



"Took a Puff" = took at least a puff of a cigarette in lifetime; "Current Smoker" = smoked on at least 1 out of the last 30 days; "Frequent Smoker" = smoked on at least 20 out of the last 30 days

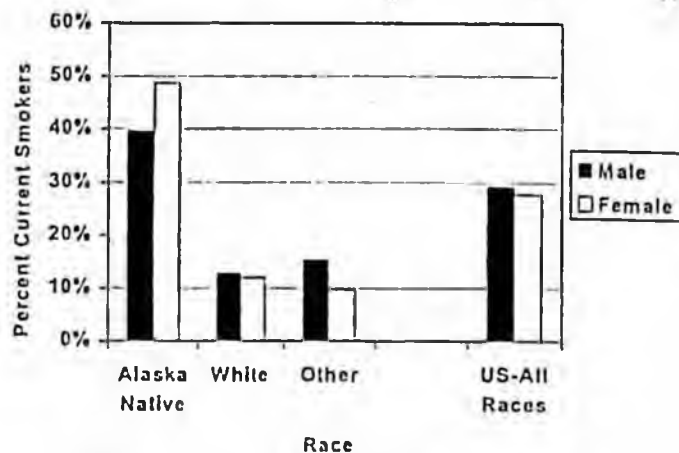
The YRBS, conducted jointly in Alaska by the Department of Health and Social Services and the Department of Education and Early Development, was administered to 1,500 Alaskan high school students who were randomly chosen from nearly every school district in the state. The 2003 YRBS is the first statistically valid statewide health survey of Alaskan youth since 1995.

While smoking rates have declined overall, the YRBS shows that smoking among Alaska Native youth far exceeds that seen in all other races. Approximately 49 percent of Alaska Native females and 40 percent of Alaska Native males say they have smoked at least once during the previous month (Figure 2). About one in five Alaska Native students of both sexes report smoking at least 20 days per month.

Figure 2. Percentage of High School Youth Who Are Current Smokers, By Sex and Race
Alaska YRBS (2003), US YRBS (2001)

	Alaska Native	White	Other Race
Male	40%	13%	15%
Female	49%	12%	10%

US YRBS, 2001 (all races)
males = 29%, females = 28%

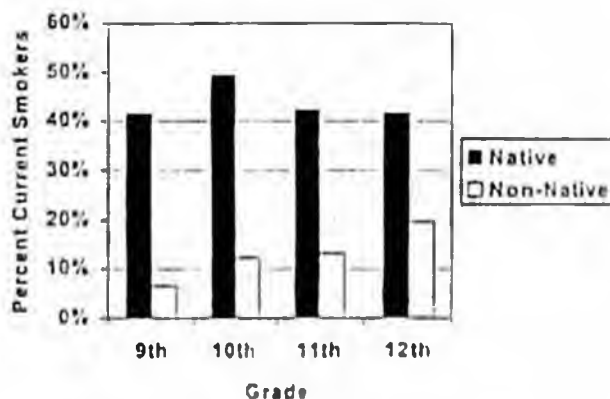


"Current Smoker" = smoked on at least 1 out of the last 30 days

Smoking among Alaska Native youth surpasses that of non-native youth at every grade level (Figure 3). While the likelihood of smoking increases among non-native youths as they progress through high school, it is already near maximum levels by the 9th grade among Alaska Natives.

Figure 3. Percentage of High School Youth Who Are Current Smokers By Race and Grade
Alaska YRBS, 2003

	9th	10th	11th	12th
Native	42%	50%	42%	42%
Non-Native	7%	12%	13%	20%

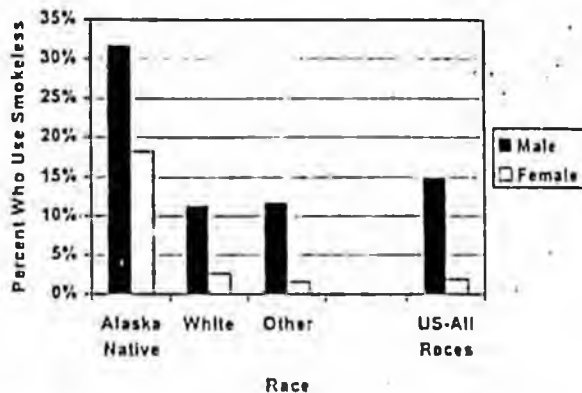


"Current Smoker" = smoked on at least 1 out of the last 30 days

The YRBS also shows that about 11 percent of Alaskan youth have used smokeless tobacco in the previous month. Smokeless tobacco use is especially high among Alaska Natives, where rates among boys are double the national average and rates among girls are nine times higher than the national norm (Figure 4).

Figure 4. Percentage of High School Youth Who Use Smokeless Tobacco, By Sex and Race
Alaska YRBS (2003), US YRBS (2001)

	Alaska Native	White	Other Race
Male	32%	11%	12%
Female	18%	3%	2%
US YRBS, 2001 (all races) males = 15%, females = 2%			

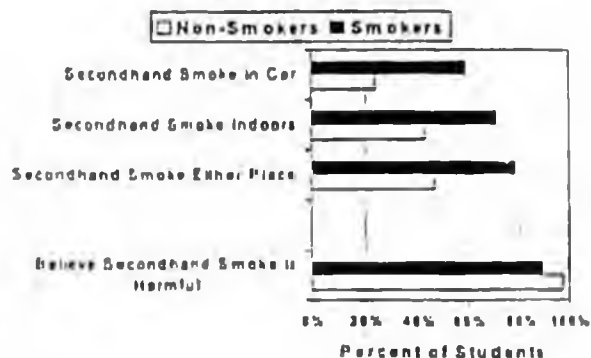


"Use Smokeless Tobacco" = used any smokeless tobacco product on at least 1 of the last 30 days

The YRBS confirms that youth exposure to environmental tobacco smoke in Alaska remains high, despite increased restrictions on smoking in public places. Nearly 50 percent of Alaskan youth who do not smoke say they have been exposed in the past week to secondhand smoke inside of buildings or cars (Figure 5). More than 95 percent of youth say they believe that secondhand smoke is harmful. This view was even expressed by 89 percent of those who smoke.

Figure 5. Percentage of High School Smokers and Non-Smokers Exposed to Secondhand Smoke in Past Week
Alaska YRBS, 2003

	Non-Smokers	Smokers
Secondhand Smoke in Car	24%	59%
Secondhand Smoke Indoors	43%	70%
Secondhand Smoke Either Place	47%	78%
Believe Secondhand Smoke is Harmful	98%	89%



Other findings from the 2003 YRBS bring to light important social and behavioral risk factors associated with youth smoking:

- Students who report that their parents never talk to them about school are almost twice as likely to smoke as students whose parents do talk with them about school (32 percent vs. 18 percent).
- Students who get mostly C's or worse in school are four times as likely to smoke as those who get mostly A's (32 percent vs. 8 percent).
- Students who do not participate in after-school activities are almost twice as likely to smoke as students who participate in one or more such activities per week (26 percent vs. 14 percent).
- Students older than 16 years of age who smoke are twice as likely to have used alcohol in the past month, and are four times as likely to have used marijuana during that time, compared to those who do not smoke (70 percent vs. 36 percent, and 62 percent vs. 16 percent, respectively.)
- Students older than 16 years of age who smoke are three times as likely to have ever used inhalants, and four times as likely to have ever tried cocaine, heroin, methamphetamine or ecstasy, compared to those who do not smoke (24 percent vs. 8 percent, and 43 percent vs. 11 percent, respectively.)
- Students older than 16 years of age who smoke are almost twice as likely to have had sex in the previous three months, compared to those who do not smoke (55 percent vs. 29 percent).
- Students who smoke are twice as likely to have been in a physical fight in the past year, and four times as likely to have been driving while intoxicated during the past 30 days, compared to those who do not smoke (46 percent vs. 22 percent, and 28 percent vs. 7 percent, respectively).

The steep drop in youth smoking was achieved after Alaska invested heavily in a comprehensive tobacco prevention and control program. This program thrives on the strong partnership between state government and the Alaska Tobacco Control Alliance, whose members include the Alaska Native Health Board, the American Cancer Society, the American Heart Association, and the American Lung Association of Alaska.

Components of the state tobacco program include:

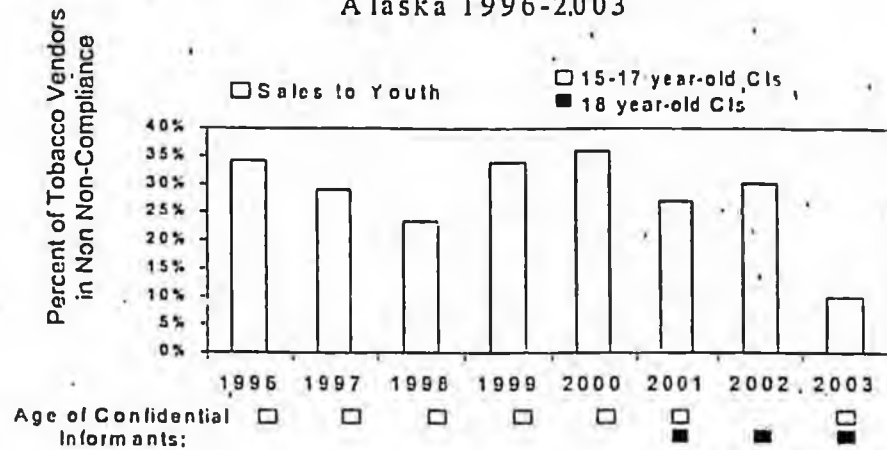
- An aggressive anti-tobacco media campaign aimed especially at curbing tobacco use by youth.
- A statewide excise tax designed to put tobacco products out of the reach of kids by boosting the price of cigarettes by \$1 per pack.
- Community-based advocacy programs that discourage the initiation of tobacco use by youth and promote the enactment of local ordinances that reduce environmental tobacco smoke exposure.
- Renewed efforts to reduce illegal sales of tobacco to youth through improved vendor training and increased enforcement actions across Alaska.

Last year, undercover sting operations found that more than 30 percent of Alaskan tobacco outlets were unlawfully selling cigarettes and other tobacco products to minors. During 2003, illegal sales to youth fell to 10 percent (Figure 6). Clean indoor air ordinances are now in force in Anchorage,

Juneau, Bethel, Barrow, Dillingham, Kenai and Soldotna. Many other smaller communities have adopted informal non-smoking policies.

Figure 6. Illegal Tobacco Sales to Youth and Age of Confidential Informants Alaska 1996-2003

Percent of Tobacco Vendors in Non-Compliance	
1996	34%
1997	29%
1998	24%
1999	34%
2000	36%
2001	27%
2002	30%
2003	10%



Tobacco-attributable disease in Alaska accounts for approximately 600 deaths per year, more than five times as many deaths as those caused by motor vehicle crashes, and nearly 100 times as many deaths as those caused by AIDS. Of the death toll due to tobacco, 120 lives are lost each year because of secondhand smoke. Beyond this, tobacco use accounts for more than \$260 million in direct and indirect medical costs in Alaska each year.

The persistently high levels of smoking among Alaska Native youth do not bode well for reducing racial disparities in the burden of chronic disease in Alaska. Lung cancer mortality among Alaska Natives, once rare, now exceeds that of non-natives (Figures 7 and 8). The high levels of smokeless tobacco use among Alaska Native youth are also worrisome, as continued use into adulthood will increase the likelihood of developing oral cancers, periodontal disease and other disorders.

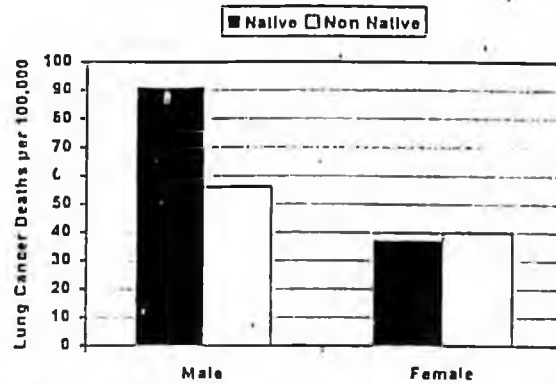
Reductions in youth smoking are critical in decreasing the long-term burden of heart disease, stroke, cancer and other chronic diseases in Alaska. Approximately three-quarters of smokers initiate tobacco use as adolescents.¹ Young people who are refusing to use tobacco today are unlikely to start smoking later in life.

Investments in tobacco prevention and control programs have a strong effect on reducing tobacco use, as long as programs can continue to dedicate significant and sustained resources to prevention activities.² Alaska currently spends approximately \$5.2 million per year on tobacco prevention and control, including \$3.1 million provided by the 1998 Master Settlement Agreement between states and the tobacco industry. This total falls short of the \$8.1 million minimum budget recommended by the federal Centers for Disease Control and Prevention for Alaska, and is well below the CDC's recommended spending level of \$16.5 million.

Figure 7. Lung Cancer Mortality Rates (per 100,000)
by Race and Sex
Alaska 1996-1999

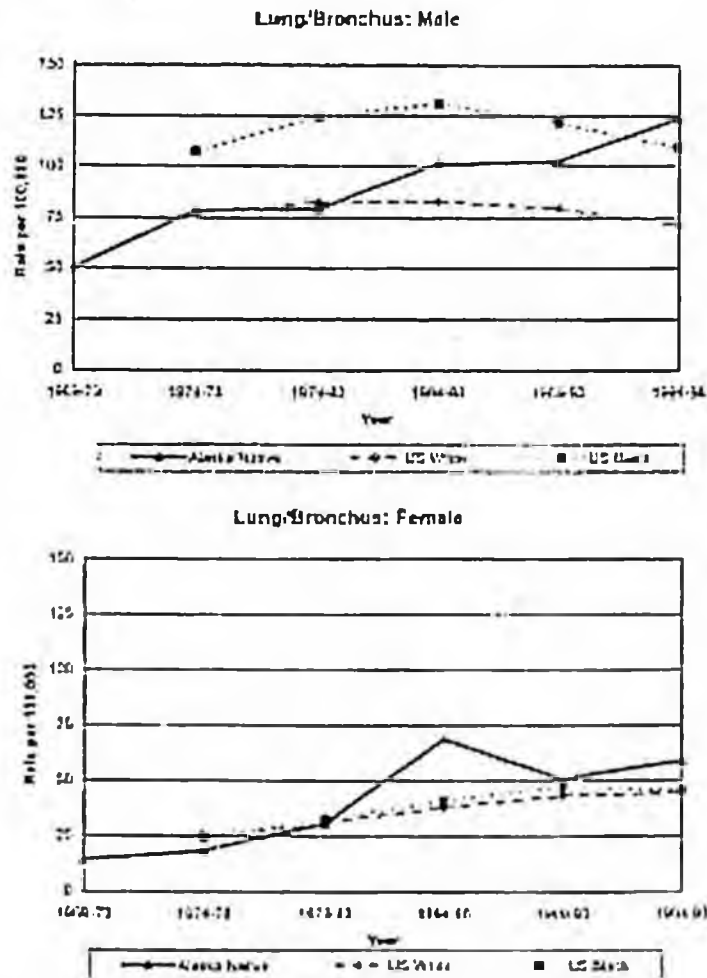
	Male	Female
Native	91.0	37.2
Non-Native	56.1	39.9

Data Source: Alaska Cancer Registry



Data Source: Alaska Cancer Registry

Figure 8. Cancer of Lung/Bronchus
Average Annual Age-Adjusted Cancer Incidence Rates
Alaska Natives 1969-1998 and US 1974-1997



(This figure provided by the Alaska Native Tribal Health Consortium Alaska Native Tumor Registry.)

¹ Substance Abuse and Mental Health Services Administration. (2003). *Results from the 2002 National Survey on Drug Use and Health: National Findings* (Office of Applied Studies, NHSDA Series H-22, DHHS Publication No. SMA 03-3836). Rockville, M.D.

² Farrelly MC, Pechacek TF, Chaloupka FJ. The impact of tobacco control program expenditures on aggregate cigarette sales: 1981-2000. *J Health Economics*. 2003;22:843-859.

State of Alaska
Epidemiology



Bulletin

Recommendations
and
Reports

State of Alaska, Section of Epidemiology
PO Box 240249
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CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
	Section 1. This section outlines the intent by the legislature to provide funding to tobacco control programs at minimum levels recommended by the U.S. Department of Health and Human Services from tobacco tax revenues collected by the state.	Section 1. This section outlines the intent by the legislature to provide funding to tobacco control programs at minimum levels recommended by the U.S. Department of Health and Human Services from tobacco tax revenues collected by the state.
	Section 2. This section increases the cigarette license fee for manufacturers from \$5 to \$50.	Section 2. This section increases the cigarette license fee for manufacturers from \$5 to \$50.
	Section 3. This section increases the cigarette license fee for vending machine operators from \$25 to \$50.	Section 3. This section increases the cigarette license fee for vending machine operators from \$25 to \$50.
Section 1. This section increases the cigarette license fee for direct-buying retailers from \$25 to \$50. This increase makes the license fee the same for distributors and direct-buying retailers who are engaged in substantially similar activities.	Section 4. This section increases the cigarette license fee for direct-buying retailers from \$25 to \$50. This increase makes the license fee the same for distributors and direct-buying retailers who are engaged in substantially similar activities.	Section 4. This section increases the cigarette license fee for direct-buying retailers from \$25 to \$50. This increase makes the license fee the same for distributors and direct-buying retailers who are engaged in substantially similar activities.
Section 2. This section is a technical correction to the wholesaler-distributor cigarette license type. This correction ensures that in-state individuals and retailers are not double taxed on product that is sold to them by an entity holding a wholesaler-distributor license.	Section 5. This section is a technical correction to the wholesaler-distributor cigarette license type. This correction ensures that in-state individuals and retailers are not double taxed on product that is sold to them by an entity holding a wholesaler-distributor license.	Section 5. This section is a technical correction to the wholesaler-distributor cigarette license type. This correction ensures that in-state individuals and retailers are not double taxed on product that is sold to them by an entity holding a wholesaler-distributor license.
Section 3. This section requires unlicensed entities that bring cigarettes into the state upon which a tax stamp is not affixed to pay the cigarette excise tax and remit it to the department each month.	Section 6. This section requires unlicensed entities that bring cigarettes into the state upon which a tax stamp is not affixed to pay the cigarette excise tax and remit it to the department each month.	Section 6. This section requires unlicensed entities that bring cigarettes into the state upon which a tax stamp is not affixed to pay the cigarette excise tax and remit it to the department each month.
	Section 7. This section allows individuals to personally transport up to 600 cigarettes (3 cartons) each month without incurring cigarette tax liability imposed by AS 43.50.090.	Section 7. This section allows individuals to personally transport up to 400 cigarettes (2 cartons) each month without incurring cigarette tax liability imposed by AS 43.50.090.

Comparison of CS SB 368, version I.A to CS HB 538, version S, & Special Session Draft Legislation
 Prepared: June 7, 2004, 11:45 AM

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
	<p>Section 8. This section changes the definition of a class A misdemeanor for violations of the cigarette shipping restrictions from one but fewer than 1,000 cigarettes to one but fewer than 5,000 cigarettes. This section changes the definition of a class C felony for violations of the cigarette shipping restrictions from 1,000 or more cigarettes to 5,000 or more cigarettes. The intention in raising the threshold for the class C felony is to make it consistent with the threshold for C felony theft (theft in the 2nd degree), which requires a value of \$500. The tax due on 5,000 cigarettes under this bill would be \$500.</p>	<p>Section 8. This section changes the definition of a class A misdemeanor for violations of the cigarette shipping restrictions from one but fewer than 1,000 cigarettes to one but fewer than 5,000 cigarettes. This section changes the definition of a class C felony for violations of the cigarette shipping restrictions from 1,000 or more cigarettes to 5,000 or more cigarettes. The intention in raising the threshold for the class C felony is to make it consistent with the threshold for C felony theft (theft in the 2nd degree), which requires a value of \$500. The tax due on 5,000 cigarettes under this bill (\$1.00 per pack increase) would be \$500.</p>
	<p>Section 9. This section provides that any person who violates the cigarette shipping restrictions is jointly and severally liable for the cigarette excise taxes and is required, as permitted by the U.S. Constitution, to collect and remit the cigarette excise taxes to the department. This section will enhance the ability of the Department to collect taxes from out-of-state sellers who violate the state's shipping laws. Current U.S. Supreme Court precedent (<i>Quill Corp. v. North Dakota</i>) requires some in-state physical presence before states can impose excise tax collection requirements on sellers. At some point in the future, however, Congress may overrule the <i>Quill</i> decision or the Court may reconsider it, at which point the State will be in a position to be able to collect tobacco taxes from out-of-state sellers that violate the</p>	<p>Section 9. This section provides that any person who violates the cigarette shipping restrictions is jointly and severally liable for the cigarette excise taxes and is required, as permitted by the U.S. Constitution, to collect and remit the cigarette excise taxes to the department. This section will enhance the ability of the Department to collect taxes from out-of-state sellers who violate the state's shipping laws. Current U.S. Supreme Court precedent (<i>Quill Corp. v. North Dakota</i>) requires some in-state physical presence before states can impose excise tax collection requirements on sellers. At some point in the future, however, Congress may overrule the <i>Quill</i> decision or the Court may reconsider it, at which point the State will be in a position to be able to collect tobacco taxes from out-of-state sellers that violate the</p>

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
	state's shipping law, even if such shippers have no physical presence in the state.	state's shipping law, even if such shippers have no physical presence in the state.
Section 4. This section is a technical correction to the definition of a "buyer" that ensures that an individual bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 10. This section is a technical correction to the definition of a "buyer" that ensures that an individual bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 10. This section is a technical correction to the definition of a "buyer" that ensures that an individual bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.
Section 5. This section is a technical correction to the definition of "direct-buying retailer" that ensures that a retailer bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 11. This section is a technical correction to the definition of "direct-buying retailer" that ensures that a retailer bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 11. This section is a technical correction to the definition of "direct-buying retailer" that ensures that a retailer bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.
Section 6. This section is a technical correction to the definition of "distributor" that ensures that a distributor bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 12. This section is a technical correction to the definition of "distributor" that ensures that a distributor bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.	Section 12. This section is a technical correction to the definition of "distributor" that ensures that a distributor bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.
Section 7. This section is a technical correction to the definition of "wholesaler-distributor" that ensures that entities outside the state who make sales of cigarettes into the state are properly licensed.	Section 13. This section is a technical correction to the definition of "wholesaler-distributor" that ensures that entities outside the state who make sales of cigarettes into the state are properly licensed.	Section 13. This section is a technical correction to the definition of "wholesaler-distributor" that ensures that entities outside the state who make sales of cigarettes into the state are properly licensed.
Section 8. This section increases the tax on cigarettes by 50 mills or \$1.00 per pack of 20. The increase in this tax will all go into the general fund.	Section 14. This section increases the tax on cigarettes by 50 mills or \$1.00 per pack of 20. The increase in this tax will all go into the general fund.	Section 14. This section increases the tax on cigarettes by 50 mills or \$1.00 per pack of 20. The increase in this tax will all go into the general fund.
	Section 15. This section allows individuals to personally transport up to 600 cigarettes (3 cartons) each month without incurring cigarette tax liability imposed by AS 43.50.190.	Section 15. This section allows individuals to personally transport up to 400 cigarettes (2 cartons) each month without incurring cigarette tax liability imposed by AS 43.50.190.

Comparison of CS SB 368, version I.A to CS HB 538, version S, & Special Session Draft Legislation

Prepared: June 7, 2004, 11:45 AM

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
	Section 16. This section requires 8.9% of annual cigarette tax revenues levied under AS 43.50.190(a) to be deposited in the tobacco use education and cessation fund.	Section 16. This section requires 8.9% of annual cigarette tax revenues levied under AS 43.50.190(a) to be deposited in the tobacco use education and cessation fund.
Section 9. This section increases the tax on other tobacco products from 75% to 100% of the wholesale cost and also levies the tax on other tobacco products sold or imported into the state for personal consumption.	Section 17. This section increases the tax on other tobacco products from 75% to 100% of the wholesale cost.	Section 17. This section increases the tax on other tobacco products from 75% to 100% of the wholesale cost and also levies the tax on other tobacco products sold or imported into the state for personal consumption.
Section 10. This section requires that individuals that import other tobacco products into the state must have a license as a "buyer".		Section 18. This section requires that individuals that import other tobacco products into the state must have a license as a "buyer".
Section 11. This section requires that a fee of \$25 must be paid for a tobacco products "buyer" license.		Section 19. This section requires that a fee of \$25 must be paid for a tobacco products "buyer" license.
Section 12. This section requires distributors to provide information about the type of tobacco business they are conducting to the Department of Revenue.		Section 20. This section requires distributors to provide information about the type of tobacco business they are conducting to the Department of Revenue.
Section 13. This section allows distributors and buyers to renew their tobacco products license each year for a fee of \$50 and \$25, respectively.		Section 21. This section allows distributors and buyers to renew their tobacco products license each year for a fee of \$50 and \$25, respectively.
Section 14. This section requires individuals who import tobacco products for personal consumption to file a return each month indicating the amount and purchase price of the tobacco products and the tax due on those tobacco products.		Section 22. This section requires individuals who import tobacco products for personal consumption to file a return each month indicating the amount and purchase price of the tobacco products and the tax due on those tobacco products.
		Section 23. This section changes the definition of a "distributor" to include entities that sell cigarettes to individuals for personal consumption.

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
Section 15. This section changes the definition of "licensee" in the tobacco products statutes to include the new "buyer" license type.		Section 24. This section changes the definition of "licensee" in the tobacco products statutes to include the new "buyer" license type.
Section 16. This section provides a definition for "buyer" in the tobacco products statutes.		Section 25. This section provides a definition for "buyer" in the tobacco products statutes.
Section 17. This section allows a licensee to request that the department replace cigarette tax stamps that were lost or damaged in transit.	Section 18. This section allows a licensee to request that the department replace cigarette tax stamps that were lost or damaged in transit.	Section 26. This section allows a licensee to request that the department replace cigarette tax stamps that were lost or damaged in transit.
Section 18. This section allows licensees with a physical location in the state and who have been in full compliance with cigarette tax statutes for the preceding 5 years to reduce their bond requirement from 200% to 100% of their monthly purchases of cigarette tax stamps when payment is made on a deferred payment basis.	Section 19. This section allows licensees with a physical location in the state and who have been in full compliance with cigarette tax statutes for the preceding 5 years to reduce their bond requirement from 200% to 100% of their monthly purchases of stamps when payment is made on a deferred payment basis.	Section 27. This section allows licensees with a physical location in the state and who have been in full compliance with cigarette tax statutes for the preceding 5 years to reduce their bond requirement from 200% to 100% of their monthly purchases of stamps when payment is made on a deferred payment basis.
Section 19. This section allows in-state cigarette licensees to maintain unstamped cigarette inventories if the licensee is in the business of making cigarette sales to customers outside the state and the licensee is properly licensed in the other states where it makes sales.	Section 20. This section allows in-state cigarette licensees to maintain unstamped cigarette inventories if the licensee is in the business of making cigarette sales to customers outside the state and the licensee is properly licensed in the other states where it makes sales.	Section 28. This section allows in-state cigarette licensees to maintain unstamped cigarette inventories if the licensee is in the business of making cigarette sales to customers outside the state and the licensee is properly licensed in the other states where it makes sales.
Section 20. This section allows in-state cigarette licensees to claim a credit for cigarette tax stamps affixed to packages of cigarettes that are sold outside the state provided the licensee is properly licensed in the other states where it makes sales and the licensee provides proof acceptable to the department that the stamped cigarettes were not consumed in Alaska.	Section 21. This section allows in-state cigarette licensees to claim a credit for cigarette tax stamps affixed to packages of cigarettes that are sold outside the state provided the licensee is properly licensed in the other states where it makes sales and the licensee provides proof acceptable to the department that the stamped cigarettes were not consumed in Alaska.	Section 29. This section allows in-state cigarette licensees to claim a credit for cigarette tax stamps affixed to packages of cigarettes that are sold outside the state provided the licensee is properly licensed in the other states where it makes sales and the licensee provides proof acceptable to the department that the stamped cigarettes were not consumed in Alaska.

Comparison of CS SB 368, version I.A to CS HB 538, version S, & Special Session Draft Legislation
 Prepared: June 7, 2004, 11:45 AM

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
<p>Section 21. This section allows for the seizure of assets used by a person when the person commits, or the state has probable cause to believe that the person has committed, a violation of the Cigarette Tax Act. This section further outlines the types of assets that may be seized, procedures for seizing assets, and procedures for the disposition of assets after they are seized. This section further provides that assets used as sole transportation in a village cannot be seized.</p>	<p>Section 22. This section allows for the seizure of assets used by a person when the person commits, or the state has probable cause to believe that the person has committed, the felony of misconduct involving unstamped cigarettes or stamps in the first degree. This section further outlines the types of assets that may be seized, procedures for seizing assets, and procedures for the disposition of assets after they are seized.</p>	<p>Section 30. This section allows for the seizure of assets used by a person when the person commits, or the state has probable cause to believe that the person has committed, the felony of misconduct involving unstamped cigarettes or stamps in the first degree. This section further outlines the types of assets that may be seized, procedures for seizing assets, and procedures for the disposition of assets after they are seized.</p>
<p>Section 22. This section changes the definition of misconduct involving unstamped cigarettes in the first degree from sales of or possession with intent to sell 1,000 or more unstamped cigarettes to sales of or possession with intent to sell 5,000 or more unstamped cigarettes.</p>	<p>Section 23. This section changes the definition of misconduct involving unstamped cigarettes in the first degree from sales of or possession with intent to sell 1,000 or more unstamped cigarettes to sales of or possession with intent to sell 5,000 or more unstamped cigarettes.</p>	<p>Section 31. This section changes the definition of misconduct involving unstamped cigarettes in the first degree from sales of or possession with intent to sell 1,000 or more unstamped cigarettes to sales of or possession with intent to sell 5,000 or more unstamped cigarettes.</p>
<p>Section 23. This section changes the definition of misconduct involving unstamped cigarettes in the second degree from sales of, or possession with the intent to sell, one but fewer than 1,000 unstamped cigarettes to sales of, or possession with the intent to sell, one but fewer than 5,000 unstamped cigarettes.</p>	<p>Section 24. This section changes the definition of misconduct involving unstamped cigarettes in the second degree from sales of one but fewer than 1,000 unstamped cigarettes to sales of one but fewer than 5,000 unstamped cigarettes and from possession of one but fewer than 10,000 unstamped cigarettes to possession of <u>601</u> but fewer than 10,000 unstamped cigarettes. This section also includes importation or possession of one but fewer than <u>601</u> unstamped cigarettes as misconduct involving unstamped cigarettes in the first degree if the cigarettes are not possessed for personal consumption.</p>	<p>Section 32. This section changes the definition of misconduct involving unstamped cigarettes in the second degree from sales of one but fewer than 1,000 unstamped cigarettes to sales of one but fewer than 5,000 unstamped cigarettes and from possession of one but fewer than 10,000 unstamped cigarettes to possession of <u>401</u> but fewer than 10,000 unstamped cigarettes. This section also includes importation or possession of one but fewer than <u>401</u> unstamped cigarettes as misconduct involving unstamped cigarettes in the first degree if the cigarettes are not possessed for personal consumption.</p>

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
Section 24. This section allows manufacturers to offer cigarette promotions in the state provided the promotion offered at the wholesale level is the same for all wholesalers who participate in the promotion and the promotion offered at the retail level is the same for all retailers who participate in the promotion.	Section 25. This section allows manufacturers to offer cigarette promotions in the state provided the promotion offered at the wholesale level is the same for all wholesalers who participate in the promotion and the promotion offered at the retail level is the same for all retailers who participate in the promotion.	Section 33. This section allows manufacturers to offer cigarette promotions in the state provided the promotion offered at the wholesale level is the same for all wholesalers who participate in the promotion and the promotion offered at the retail level is the same for all retailers who participate in the promotion.
Section 25. This section makes a technical change to AS 43.50.720 so that the language in that statute conforms to changes made in Section 28 of this bill.	Section 26. This section makes a technical change to AS 43.50.720 so that the language in that statute conforms to changes made in Section 30 of this bill.	Section 34. This section makes a technical change to AS 43.50.720 so that the language in that statute conforms to changes made in Section 38 of this bill.
Section 26. This section makes a technical change to AS 43.50.760(b) so that the language in that statute conforms to changes made in Section 28 of this bill.	Section 27. This section makes a technical change to AS 43.50.760(b) so that the language in that statute conforms to changes made in Section 30 of this bill.	Section 35. This section makes a technical change to AS 43.50.760(b) so that the language in that statute conforms to changes made in Section 38 of this bill.
Section 27. This section makes a technical change to AS 43.50.770 so that the language in that statute conforms to changes made in Section 28 of this bill.	Section 28. This section makes a technical change to AS 43.50.770 so that the language in that statute conforms to changes made in Section 30 of this bill.	Section 36. This section makes a technical change to AS 43.50.770 so that the language in that statute conforms to changes made in Section 38 of this bill.
	Section 29. This section makes a technical change to AS 43.50.790(a) so that the language in that statute conforms to changes made in Section 30 of this bill.	Section 37. This section makes a technical change to AS 43.50.790(a) so that the language in that statute conforms to changes made in Section 38 of this bill.
Section 28. This section changes the calculation of cost of cigarettes as defined in the Unfair Cigarette Sales Act that went into effect January 1, 2004 as the result of the passage last session of SB 168. The Unfair Cigarette Sales Act prohibits all cigarette wholesalers and retailers from selling	Section 30. This section changes the calculation of cost of cigarettes as defined in the Unfair Cigarette Sales Act that went into effect January 1, 2004 as the result of the passage last session of SB 168. The Unfair Cigarette Sales Act prohibits all cigarette wholesalers and retailers from selling	Section 38. This section changes the calculation of cost of cigarettes as defined in the Unfair Cigarette Sales Act that went into effect January 1, 2004 as the result of the passage last session of SB 168. The Unfair Cigarette Sales Act prohibits all cigarette wholesalers and retailers from selling

Comparison of CS SB 368, version I.A to CS HB 538, version S, & Special Session Draft Legislation

Prepared: June 7, 2004, 11:45 AM

CSSB 368 Version I.A (As passed by Senate)	CSHB 538 Version S (House L&C)	Special Session Tobacco Tax Bill (Draft)
cigarettes below cost. This section modifies the Unfair Cigarette Sales Act by prohibiting wholesalers and retailers from reducing their cost by cash discounts received from manufacturers. This section also requires wholesalers and retailers to obtain prior approval from the Department of Revenue before selling cigarettes at a cost below the amount posted by the Department of Revenue.	cigarettes below cost. This section modifies the Unfair Cigarette Sales Act by prohibiting wholesalers and retailers from reducing their cost by cash discounts received from the manufac urers. This section also requires wholesalers and retailers to obtain prior approval from the Department of Revenue before selling cigarettes at a cost below the amount posted by the Department of Revenue.	cigarettes below cost. This section modifies the Unfair Cigarette Sales Act by prohibiting wholesalers and retailers from reducing their cost by cash discounts received from the manufacturers. This section also requires wholesalers and retailers to obtain prior approval from the Department of Revenue before selling cigarettes at a cost below the amount posted by the Department of Revenue.
Section 29. This section repeals sections of the Unfair Cigarette Sales Act that conflict with the new language inserted in Section 28.	Section 31. This section repeals sections of the Unfair Cigarette Sales Act that conflict with the new language inserted in Section 30.	Section 39. This section repeals sections of the Unfair Cigarette Sales Act that conflict with the new language inserted in Section 38.
Section 30. This section requires that a floor stock tax be paid by all persons in control or possession of cigarettes for resale at the effective date of this bill. A floor stock tax is the difference between the tax paid at the old rate and the tax due at the new tax rate. The floor stock tax applies to cigarettes only. The floor stock tax must be remitted to the Department of Revenue in six sequential monthly installments with the first installment due no later than 30 days after the effective date of this bill. The floor stock tax is needed to reduce the amount of stockpiling by retailers and distributors and the windfall they will get by collecting, but not paying, tax at the new rate on the stockpiled cigarettes.	Section 32. This section requires that a floor stock tax be paid by all persons in control or possession of cigarettes for resale at the effective date of this bill. A floor stock tax is the difference between the tax paid at the old rate and the tax due at the new tax rate. The floor stock tax applies to cigarettes only. The floor stock tax must be remitted to the Department of Revenue in six sequential monthly installments with the first installment due no later than 30 days after the effective date of this bill. The floor stock tax is needed to reduce the amount of stockpiling by retailers and distributors and the windfall they will get by collecting but not paying tax at the new rate on the stockpiled cigarettes.	Section 40. This section requires that a floor stock tax be paid by all persons in control or possession of cigarettes for resale at the effective date of this bill. A floor stock tax is the difference between the tax paid at the old rate and the tax due at the new tax rate. The floor stock tax applies to cigarettes only. The floor stock tax must be remitted to the Department of Revenue in six sequential monthly installments with the first installment due no later than 30 days after the effective date of this bill. The floor stock tax is needed to reduce the amount of stockpiling by retailers and distributors and the windfall they will get by collecting but not paying tax at the new rate on the stockpiled cigarettes.
Section 31. The section provides an effective date of July 1, 2004.	Section 33. The section provides an effective date of July 1, 2004.	Section 41. The section provides an effective date of September 1, 2004.

CAMPAIGN For TOBACCO-FREE Kids®

BENEFITS FROM A CIGARETTE TAX INCREASE IN ALASKA

Current State Cigarette Tax: 1 Dollar Per Pack (12th among all states)

Smoking-caused costs in state per taxed pack sold: \$6.38

Average retail price per pack: \$4.34 (state share from excise and sales taxes: \$1.00)

Total state Medicaid program smoking costs each year: \$60 million

State cigarette tax revenue each year: \$40.4 million (2002)

Last Alaska Cigarette Tax Increase: 10/01/97

Projected Benefits From Increasing the State Cigarette Tax By 1 Dollar Per Pack

- New state cigarette tax revenues each year: \$30.7 million
- New sales tax revenues: State has no sales tax.
- Pack sales decline in state: -4.6 million
- Percent decrease in youth smoking: 15.0%
- Increase in total number of kids alive today who will not become smokers: 9,100
- Number of current adult smokers in the state who would quit: 4,500
- Number of smoking-affected births avoided over next five years: 1,300
- Number of current adult smokers saved from smoking-caused death: 900
- Number of kids alive today saved from premature smoking-caused death: 2,900
- 5-Year healthcare savings from fewer smoking-affected pregnancies & births: \$1.6 million
- 5-year healthcare savings from fewer smoking-caused heart attacks & strokes: \$1.8 million
- Long-term healthcare savings in state from adult & youth smoking declines: \$146.3 million

These projections provide careful estimates of the new revenues and public health benefits the state would obtain from the cigarette tax increase above and beyond what it would get if it does not raise the tax. These projections are fiscally conservative because they include a generous adjustment for lost state pack sales (and tax revenues) from new tax avoidance efforts after the tax increase by continuing in-state smokers. The projections are also based on research findings that a 10% cigarette price increase reduces youth smoking rates by 6.5%, adult rates by 2%, and total consumption by 4%, and assume that the state tax will keep up with inflation. Nevertheless, cigarette tax increases both reduce smoking levels and increase state revenues because the increased tax per pack brings in more new revenue than is lost from the decrease in the number of packs sold. Sales tax rate is 0.0%. Kids stopped from smoking and dying are from all kids alive today. Long-term savings accrue over lifetimes of persons who stop smoking or never smoke because of tax increase.

Sources. Chaloupka, F., "Macro-Social Influences: Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine & Tobacco Research*, 1999, and other price studies at <http://igger.uic.edu/~fic> and www.uic.edu/orgs/impact09n. Orzechowski & Walker, *Tax Burden on Tobacco*, 2002. USDA Economic Research Service, www.ers.usda.gov/Briefing/tobacco. State tax offices. Farrell, M. et al., "Cigarette Smuggling Revisited," U.S. Centers for Disease Control & Prevention (CDC), in press. CDC, *State Highlights 2002: Impact and Opportunity, April 2002*, www.cdc.gov/tobacco/StateHighlights.htm. Miller, P., et al., "Birth and First-Year Costs for Mothers and Infants Attributable to Maternal Smoking," *Nicotine & Tobacco Research* 3(1): 25-35, February 2001. Lightwood, J. & S. Glantz, "Short-Term Economic and Health Benefits of Smoking Cessation - Myocardial Infarction and Stroke," *Circulation* 96(4): 1089-1096, August 19, 1997, <http://circ.ahajournals.org/cgi/content/full/96/4/1089>. Hodgson, T., "Cigarette Smoking and Lifetime Medical Expenditures," *The Millbank Quarterly* 70(1), 1992. U.S. Census. Nat'l Center for Health Statistics.

For more information, see the Campaign fact sheets - including *Raising State Tobacco Taxes Always Reduces Tobacco Use (& Always Increases State Revenues)* - at <http://tobaccofreekids.org/research/factsheets/index.php?CategoryID=18> and <http://tobaccofreekids.org/reports/prices>.

National Center for Tobacco-Free Kids 10.30.03 / Eric Lindblom, October 30, 2003

CAMPAIGN FOR TOBACCO-FREE KIDSSM

RAISING CIGARETTE TAXES REDUCES SMOKING, ESPECIALLY AMONG KIDS (AND THE CIGARETTE COMPANIES KNOW IT)

The cigarette companies have opposed tobacco tax increases by arguing that raising cigarette prices would not reduce adult or youth smoking. But the companies' internal documents, disclosed in the tobacco lawsuits, show that they know very well that raising cigarette prices is one of the most effective ways to prevent and reduce smoking, especially among kids.

- RJ Reynolds: *If prices were 10% higher, 12-17 incidence [the percentage of kids who smoke] would be 11.9% lower.*¹
- Philip Morris: *It is clear that price has a pronounced effect on the smoking prevalence of teenagers, and that the goals of reducing teenage smoking and balancing the budget would both be served by increasing the Federal excise tax on cigarettes.*²
- Philip Morris: *Jeffrey Harris of MIT calculated . . . that the 1982-83 round of price increases caused two million adults to quit smoking and prevented 600,000 teenagers from starting to smoke. . . . We don't need to have that happen again.*³
- Philip Morris: *A high cigarette price, more than any other cigarette attribute, has the most dramatic impact on the share of the quitting population. . . . price, not tar level, is the main driving force for quitting.*⁴

The companies have even publicly admitted the effectiveness of tax increases to deter smoking in their required filings with the U.S. Securities and Exchange Commission.

- Philip Morris: *[I]ncreases in excise and similar taxes have had an adverse impact on sales of cigarettes. Any future increases, the extent of which cannot be predicted, could result in volume declines for the cigarette industry. [10-Q Report, May 11, 2001.]*
- Loews/Lorillard Tobacco: *Significant increases in federal and state excise taxes on cigarettes . . . have, and are likely to continue to have, an adverse effect on cigarette sales. [Loews (parent corporation of the Lorillard cigarette company) 10-K Report, March 31, 1999.]*
- R.J. Reynolds: *[S]ubstantial increases in state and federal excise taxes on cigarettes. . . have had and will likely continue to have an adverse effect on cigarette sales. [10-Q Report, August 1, 2001.]*

Economic Research On Cigarette Tax Increases Reducing Smoking

Numerous economic studies in peer-reviewed journals have documented that cigarette tax or price increases reduce both adult and underage smoking. The general consensus is that every 10 percent increase in the real price of cigarettes will reduce overall cigarette consumption by approximately three to five percent and reduce the number of kids who smoke by about six or seven percent.⁵ Research studies have also made the following related findings:

- Among all adults or all youths, cigarette price increases work even more effectively to prevent and reduce smoking among males, Blacks, Hispanics, and lower-income persons.⁶
- Higher taxes on spit tobacco reduce its use, particularly among young males.⁷

- Kids do not smoke more marijuana if they reduce their cigarette smoking. In fact, cigarette price increases not only reduce youth smoking but also reduce both the number of kids who smoke marijuana and the amount of marijuana consumed by continuing regular users.⁸

Expert Conclusions on Cigarette Prices and Smoking Levels

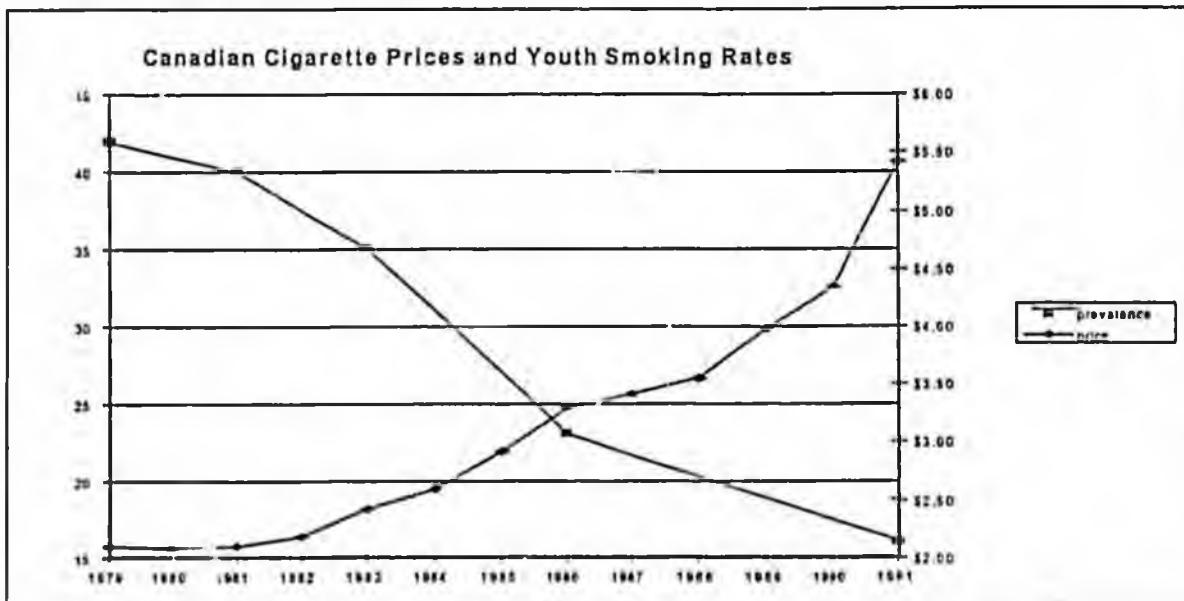
- The 2000 U.S. Surgeon General's Report, *Reducing Tobacco Use*, found that increasing the price of tobacco products would decrease the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases would lead to "substantial long-term improvements in health." From its review of existing research, the report concluded that raising tobacco taxes is one of the most effective tobacco prevention and control strategies.⁹
- The 1999 World Bank report *Curbing The Tobacco Epidemic: Governments and the Economics of Tobacco Control* carefully evaluated existing research and data, worldwide, and concluded that "the most effective way to deter children from taking up smoking is to increase taxes on tobacco. High prices prevent some children and adolescents from starting and encourage those who already smoke to reduce their consumption."¹⁰
- Wall Street tobacco industry analysts have long recognized the powerful role increased cigarette taxes and rising cigarette prices play in reducing U.S. smoking levels. For example, a December 1998 "Sensitivity Analysis on Cigarette Price Elasticity" by Credit Suisse First Boston Corporation settled on a "conservative" estimate that cigarette consumption will decline by four percent for every 10 percent increase in price.
- In its 1998 report, *Taking Action to Reduce Tobacco Use*, the National Academy of Sciences' Institute of Medicine concluded that "the single most direct and reliable method for reducing consumption is to increase the price of tobacco products, thus encouraging the cessation and reducing the level of initiation of tobacco use."¹¹
- A National Cancer Institute Expert Panel reported in 1993 that "a substantial increase in tobacco excise taxes may be the single most effective measure for decreasing tobacco consumption," and "an excise tax reduces consumption by children and teenagers at least as much as it reduces consumption by adults."

Increasing U.S. Cigarette Prices and Declining Consumption

Although there are many other factors involved, comparing the trends in cigarette prices and overall U.S. cigarette consumption from 1970 to 2001 shows that there is a strong correlation between increasing prices and decreasing consumption (see chart below). While U.S. cigarette prices are largely controlled by the cigarette companies' price-setting decisions, from 1970 to 2002, the federal tax on cigarettes also increased from eight cents to 39 cents per pack and the average state cigarette tax increased from 11 to 44 cents per pack. Without these federal and state tax increases, U.S. cigarette prices would be much lower and U.S. smoking levels would be much higher.



The Canadian Experience. From 1979 to 1991 real prices in Canada increased from \$2.09 to \$5.42 and smoking among 15 to 19 year olds fell from 42 to 16 percent. As the President of the Canadian Tobacco Manufacturers Council then admitted to a legislative committee, "there is no question that consumption is down measurably over the last five years, and there is no question in our minds that taxes have been a significant factor."¹² But when Canada subsequently reduced its cigarette taxes (to reduce tax-avoidance smuggling supported by the cigarette companies), youth smoking immediately increased for the first time in nearly fifteen years.¹³



For more information, please go to the Campaign's special website page on tobacco taxes at <http://tobaccofreekids.org/reports/prices>

- ¹ R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase" RJR Document No. 501988846 -8849, September 20, 1982, www.rjtdocs.com.
- ² Philip Morris Research Executive Myron Johnslon, "Teenage Smoking and the Federal Excise Tax on Cigarettes," PM Document No. 2001255224, September 17, 1981, www.pmdocs.com.
- ³ Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," PM Document No. 2022216179, September 3, 1987, www.pmdocs.com.
- ⁴ Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," PM Doc. 2045447810, March 4, 1993, www.pmdocs.com.
- ⁵ See, e.g., Tauras, J., et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001, and other price studies at www.uic.edu/oros/impacteen. Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999, and other price studies at <http://tigger.uic.edu/~fic>; Chaloupka, F. & R. Pacula, "An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies," National Bureau of Economic Research, Working Paper 6541, April 1998, <http://tigger.uic.edu/~fic>. Emery, S., et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001. Evans, W. & L. Huang, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998, www.bsos.umd.edu/econ/evans/wrkpap.htm. Harris, J. & S. Chan, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2) 3-12, February 1998, www.mit.edu/people/jeffrey.
- ⁶ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups – United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29): 605-609 July 31, 1998, www.cdc.gov/mmwr; Chaloupka & Pacula, April 1998.
- ⁷ Chaloupka, F., J. Tauras & M. Grossman, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2): 503-16, October 1997, <http://tigger.uic.edu/~fic>.
- ⁸ Chaloupka, F., et al., *Do Higher Cigarette Prices Encourage Youth to Use Marijuana?*, National Bureau of Economic Research, Working Paper No. 6939, February 1999, <http://tigger.uic.edu/~fic>. Farrelly, M., et al., "The Joint Demand for Cigarettes and Marijuana: Evidence from the National Household Surveys on Drug Abuse," *Journal of Health Economics* 20: 51-68, 2001. See, also, Campaign for Tobacco Free Kids fact sheet, *Smoking and Other Drug Use*, <http://tobaccofreekids.org/research/factsheets/pdf/0106.pdf>.
- ⁹ Available at www.cdc.gov/tobacco/smpage.htm.
- ¹⁰ Available at <http://www1.worldbank.org/tobacco/reports.htm>.
- ¹¹ Available at www.nap.edu/books/0309060389/html/index.html.
- ¹² Bill Neville, President, Canadian Tobacco Manufacturers Council, testifying before Legislative Committee F on Bill C-10, *An Act to Amend the Excise Tax Act and the Excise Act*, September 26, 1991.
- ¹³ Canadian Cancer Society, et al., *Surveying the Damage: Cut Rate Tobacco Products and Public Health in the 1990s*, October 1999, www.nsr-a-dnf.ca/english/oct99taxrep.html.

CAMPAIGN For TOBACCO-FREE Kids[®]

STATE CIGARETTE TAX RATES & RANK, DATE OF LAST INCREASE, ANNUAL PACK SALES & REVENUES, AND RELATED DATA

30 states, DC, and Puerto Rico have implemented or passed higher cigarette tax rates since 1/1/2002, but 14 states have not increased their tax for at least ten years, five of those have not increased their tax since the 1980s, and Kentucky and Virginia have not made any increase for more than 30 years. As time passes, inflation erodes the real value of state tobacco tax rates and revenues, as they account for increasingly small portions of the total retail price of a pack of cigarettes. Cigarette tax increases can quickly restore state tobacco tax revenues to historical levels or higher -- while also reducing state smoking levels and related costs and saving lives.

Overall State Average: 70.5 cents per pack. Major Tobacco State Average: 12.4 cents per pack. Other State Average: 78.2 cents per pack.

State	Cigarette Tax Per Pack	National Rank (1 = high)	Date of Last State Tax Increase	FY 2002 Cigarette Pack Sales (millions)	FY 2002 Cigarette Tax Revenue (millions)	Retail Price Per Pack With All Taxes	CDC State Smoking Costs Per Pack Sold	Adult Smokers	Youth Smoking Rate	Adult Smoking Rate	Adult Smoking Rank (1=low)
All States	\$0.70.5 avg.	///	///	20.4 billion	\$8.4 billion	\$3.72	\$7.18	48 million	28.1%	22.8%	///
Alabama	\$0.16.5	47th	7/1/84	378.5	\$61.7	\$3.15	\$7.33	794,359	23.7%	23.9%	30
Alaska	\$1.00	12th	10/1/97	40.4	\$40.4	\$4.34	\$6.38	113,852	33.9%	26.1%	44
Arizona	\$1.18	11th	11/26/02	276.1	\$158.6	\$4.44	\$8.35	809,192	19.0%	21.5%	12
Arkansas	\$0.59	26th	6/1/03	234.8	\$76.8	\$3.70	\$6.46	510,216	34.7%	25.6%	40
California	\$0.87	19th	1/1/99	1,234.90	\$1,065.2	\$4.11	\$11.38	4,234,953	21.6%	17.2%	2
Colorado	\$0.20	43rd	7/1/86	292.6	\$56.2	\$3.01	\$6.21	716,904	25.3%	22.4%	19
Connecticut	\$1.51	1st	3/15/03	227.4	\$149.8	\$4.74	\$9.16	533,786	25.6%	20.8%	8
Delaware	\$0.55	29th	7/31/03	113.4	\$27.0	\$2.98	\$4.32	147,842	24.2%	25.1%	38
Washington, DC	\$1.00	12th	1/1/03	25.4	\$16.3	\$4.14	\$16.02	95,070	14.7%	20.8%	9
Florida	\$0.33.9	41st	7/1/90	1,277.30	\$426.3	\$3.33	\$8.26	2,775,609	19.0%	22.5%	22
Georgia	\$0.37	37th	4/1/71	666.2	\$76.5	\$3.01	\$6.38	1,426,081	23.7%	23.7%	29
Hawaii	\$1.30	7th	7/1/03	62.6	\$62.6	\$4.57	\$10.15	188,649	24.5%	20.6%	7
Idaho	\$0.57	27th	6/1/03	83.6	\$23.4	\$3.38	\$6.03	182,210	19.1%	19.7%	3
Illinois	\$0.98	17th	7/1/02	885.2	\$464.3	\$4.02	\$8.53	2,165,027	34.0%	23.6%	27
Indiana	\$0.55.5	28th	7/1/02	742.1	\$110.3	\$3.52	\$5.14	1,239,174	31.6%	27.5%	47
Iowa	\$0.36	38th	6/1/91	249.7	\$88.0	\$3.22	\$6.40	486,776	32.7%	22.2%	15
Kansas	\$0.79	20th	1/1/03	208.8	\$47.9	\$3.75	\$6.98	438,544	26.1%	22.2%	16
Kentucky	\$0.03	50th	7/1/70	572.5	\$16.0	\$2.89	\$4.88	941,508	40.0%	30.9%	51
Louisiana	\$0.36	38th	7/1/02	433.3	\$98.1	\$3.21	\$7.57	805,796	33.3%	24.8%	37
Maine	\$1.00	12th	10/1/01	102.4	\$94.1	\$4.12	\$8.46	233,684	24.8%	24.0%	32
Maryland	\$1.00	12th	6/1/02	301	\$202.7	\$3.95	\$10.03	839,287	23.7%	21.3%	10
Massachusetts	\$1.51	1st	7/24/02	354	\$269.0	\$4.8	\$12.52	955,260	26.0%	19.7%	4
Michigan	\$1.25	9th	8/1/02	780.1	\$577.3	\$4.34	\$7.70	1,887,068	27.6%	25.7%	41
Minnesota	\$0.48	34th	7/1/92	352.8	\$166.1	\$3.49	\$7.22	806,434	28.9%	22.2%	17
Mississippi	\$0.18	45th	6/1/85	261.5	\$44.0	\$3.15	\$6.96	525,646	23.6%	25.4%	39
Missouri	\$0.17	46th	10/1/93	558.3	\$92.0	\$2.94	\$6.37	1,079,387	30.3%	25.9%	42
Montana	\$0.70	22nd	5/1/03	67.3	\$11.7	\$3.49	\$6.86	147,197	28.5%	21.9%	13

* Pack prices reflect the temporary 65-cent reduction in Marlboro and three other brands initiated in January 2003 by Philip Morris, but they do not fully reflect retail-based discounting and promotions by the major cigarette companies.

State Cigarette Tax Rates & Rank, Date of Last Increase And Related Data / 2

State	Cigarette Tax Per Pack	National Rank (1 = high)	Date of Last State Tax Increase	FY 2002 Cigarette Pack Sales (millions)	FY 2002 Cigarette Tax Revenue (millions)	Retail Price Per Pack With All Taxes	CDC State Smoking Costs Per Pack Sold	Adult Smokers	Youth Smoking Rate	Adult Smoking Rate	Adult Smoking Rank (1=low)
Nebraska	\$0.64	24th	10/1/02	132.4	\$43.5	\$3.82	\$7.19	257,248	29.0%	20.4%	5
Nevada	\$0.35	40th	7/1/89	173.1	\$58.8	\$3.26	\$6.64	401,344	25.2%	27.0%	46
New Hampshire	\$0.52	33rd	7/1/99	166.7	\$84.1	\$3.33	\$4.63	223,220	25.3%	24.1%	34
New Jersey	\$1.50	3rd	7/1/02	495.2	\$391.5	\$4.64	\$9.69	1,347,607	24.5%	21.3%	11
New Mexico	\$0.91	18th	7/1/03	95.4	\$19.5	\$3.98	\$7.75	313,203	36.2%	23.9%	31
New York	\$1.50	3rd	4/3/02	884.4	\$1,052.8	\$5.65	\$12.83	3,343,006	26.8%	23.4%	26
North Carolina	\$0.05	49th	8/1/91	806.6	\$38.8	\$3.02	\$5.90	1,576,084	27.8%	25.9%	43
North Dakota	\$0.44	35th	7/1/93	43.4	\$19.1	\$3.52	\$7.82	106,379	35.3%	22.1%	14
Ohio	\$0.55	29th	7/1/02	1,101.00	\$257.3	\$3.51	\$6.66	2,344,750	33.4%	27.7%	48
Oklahoma	\$0.23	42nd	6/1/87	352.8	\$57.1	\$3.09	\$6.01	736,789	24.0%	23.8%	50
Oregon	\$1.28	8th	11/1/02	231.3	\$155.0	\$3.80	\$7.58	527,849	22.0%	20.5%	6
Pennsylvania	\$1.00	12th	7/15/02	1,067.40	\$320.1	\$3.95	\$7.50	2,221,373	27.6%	24.6%	36
Rhode Island	\$1.50	3rd	7/1/03	79.1	\$78.1	\$4.65	\$8.15	192,119	24.8%	24.0%	33
South Carolina	\$0.07	48th	7/1/77	396.2	\$25.4	\$3.00	\$6.52	786,621	36.0%	26.2%	45
South Dakota	\$0.53	32nd	4/1/03	57.1	\$17.5	\$3.49	\$6.84	123,692	33.0%	22.4%	20
Tennessee	\$0.20	43rd	7/15/02	593.6	\$75.3	\$3.26	\$7.01	1,046,946	32.4%	24.4%	35
Texas	\$0.41	36th	7/1/90	1,244.30	\$497.5	\$3.49	\$7.79	3,367,139	24.7%	22.5%	23
Utah	\$0.69.5	23rd	5/6/02	91	\$47.1	\$3.73	\$5.99	201,425	8.3%	13.3%	1
Vermont	\$1.19	10th	7/1/03	57	\$24.5	\$4.11	\$6.18	103,332	23.7%	22.4%	21
Virginia	\$0.02.5	51st	9/1/66	662.1	\$15.0	\$2.95	\$5.57	1,201,557	NA	22.5%	24
Washington	\$1.42.5	6th	1/1/02	269.5	\$306.6	\$4.82	\$10.25	989,943	28.0%	22.6%	25
West Virginia	\$0.55	29th	5/1/03	199.5	\$32.6	\$3.37	\$7.02	396,478	39.2%	28.2%	49
Wisconsin	\$0.77	21st	10/1/01	408.3	\$288.8	\$3.89	\$7.14	942,801	27.1%	23.6%	28
Wyoming	\$0.60	25th	7/1/02	46.1	\$5.1	\$3.50	\$5.27	81,010	28.4%	22.2%	18
USA/U.S. Gov't	39	///	1/1/02	21.25 billion	\$7.0 billion	\$3.72	\$7.18	49 million	28.5%	22.8%	NA

Sources: CDC, *State Highlights 2002: Impact and Opportunity*, April 2002, www.cdc.gov/tobacco/StateHighlights.htm; Orzechowski & Walker, *Tax Burden on Tobacco*, 2002. Smoking costs per pack sold = CDC estimates of state smoking-caused health costs and lost productivity per taxed packs sold in each state in 2001. Youth smoking rates most recent available; in bold type from the Youth Tobacco Surveillance (YTS); in italics from state-specific surveys; and in regular type from Youth Risk Behavioral Surveillance (YRBS). Because of different surveys and years, youth-smoking rankings cannot be done. From the start of 1998 to the end of 2001, the major cigarette companies increased their prices by more than \$1.25 per pack. Major tobacco states are KY, VA, NC, SC, GA, TN. State averages do not include Puerto Rico (which is larger than more than 20 states & DC, based on population). Taxed Pack Sales include all cigarette sales on which cigarette taxes were collected. Total USA pack sales include sales of cigarettes on which federal but not state taxes are collected (e.g., sales to Indian Tribes and military bases) and includes sales in Puerto Rico and other U.S. territories not listed above. Cigarette prices include federal and state cigarette taxes and state sales taxes but not local cigarette or sales taxes (unless they are uniform throughout the state), except for New York City, which contains roughly half the population of NY State and increased its local tax from 8 cents to \$1.50 per pack 7/1/02. AK, DE, MT, NH & OR have no state sales tax; CO has a sales tax but it does not apply to cigarettes; and AL, GA & MO do not apply their sales tax to the portion of retail cigarette prices that is the state's cigarette excise tax.

For more information on state cigarette taxes and the benefits from increasing them, see the Campaign's website at <http://tobaccofreekids.org/reports/prices>. For more state-specific data, see the Campaign website at: <http://tobaccofreekids.org/reports/settlements> and <http://tobaccofreekids.org/research/factsheets>.



June 22, 2004

The Honorable Pete Kott
Speaker of the House of Representatives
716 W. 4th Ave.
Anchorage, AK 99501

Dear Speaker Kott:

The American Cancer Society strongly supports the governor's call to pass a full and immediate one-dollar per pack increase in Alaska's cigarette tax, along with an accompanying increase in the non-cigarette tobacco product tax, during the special session.

The Society recognizes tobacco taxes as one of the most effective ways to reduce youth smoking and save lives. We have seen evidence of this fact across the nation as well as here in Alaska. There is no longer any doubt that tobacco taxes are a proven means to reduce tobacco use and save lives. Now is the time to act on this crucial policy issue.

The mission of the American Cancer Society is to eliminate cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer. We clearly recognize the devastating impact of cancer on Alaskans. Cancer is currently the second leading cause of death for all Alaskans and the leading cause of death for Alaska Natives. Research shows that one-third of all cancers are tobacco-related and almost all tobacco-users first become addicted as children. By increasing the state's tobacco tax, with its known correlation to reducing youth smoking, we are taking a critical step in stemming the tide of rising health care costs to the state and needless death and disability in our communities.

The American Cancer Society urges the legislature to adopt this critical public health measure as soon as possible to save lives and protect the health of our children.

Sincerely,

A handwritten signature in black ink, appearing to read "Emily E. Nenon", with a long horizontal line extending to the right.

Emily E. Nenon
Alaska Advocacy Manager

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FOLLOWING
DOCUMENT(S)
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ASSOCIATION[®]**
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Seattle Mortgage

(907) 276-LUNG
1-800-LUNGUSA
500 W. Int'l Airport Rd., #A
Anchorage, Alaska 99518-1105
www.aklung.org
Fax: (907) 565-5587

June 22, 2004

Representative Pete Kott
State Capitol, Room 208
Juneau, AK 99801-1182

Fax: 907-465-2819

Re: Increasing the State Tobacco Tax

Dear Representative Kott:

The American Lung Association of Alaska is pleased to support Governor Murkowski's bill to raise Alaska's Tobacco Tax. This measure represents a win, win, win solution for Alaska that reduces smoking, raises much-needed revenue and has strong support from voters.

Studies show that higher cigarette **taxes are one of the most effective ways to reduce smoking** among both youth and adults. A Department of Revenue study shows Alaska's tobacco consumption dropped substantially in response to the 1997 tobacco price increase. Among younger children the report estimated a 30 percent reduction in smoking.

At the same time the 1997 tobacco tax increase generated approximately 30 million per year in new state revenue. The 2004 **\$1 tax increase would generate approximately 36 million per year.**

There is **strong public support** for substantially increased state tobacco taxes. A recent poll completed for Alaskans for Tobacco-Free Kids shows 67 percent support among Alaskan voters for a \$1.00 per pack increase in tobacco taxes.

The tobacco tax increase would **save thousands of Alaska lives**, reduce health care costs and generate much needed revenue. All measures of success the American Lung Association of Alaska can enthusiastically support.

Sincerely,

Christie Garbe, CEO
American Lung Association of Alaska



June 18, 2004

Dear Legislators,

We the undersigned medical professionals and members of the Alaska Association of Family Practice Physicians support legislation to increase Alaska's tobacco tax by \$1.00 to be implemented fully and immediately.

An increase in the tobacco tax is a critical part of overall tobacco control program. Alaska has had tremendous success in reducing youth smoking; we can continue the trend by raising the cost of cigarettes and maintaining our effective tobacco control programming. An increase in the tobacco tax is a sound public health decision. With an increase in the tax, we will prevent thousands of kids from picking up their first cigarette.

Please act expediently during the special legislative session to protect Alaskan families from the devastating effects of tobacco addiction.

*Protect Alaska's families.
Pass the tobacco tax.*

Name, Affiliation, and Community.

mary lou Kelsey Honora Medical Clinic Homer, AK

Paul Shepley - Quinn, MD Chapel Hill, NC

[Signature] MD Calverton, WA

[Signature] MD Kerman CA

[Signature] MD Honora Medical

[Signature] Seldovia Village, Trochu AK

[Signature] Anchorage, AK

[Signature] Anchorage AK

[Signature] Edmonds, WA

[Signature] Anchorage AK



June 18, 2004

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Name, Affiliation and Community

[Handwritten signature] physician NC
[Handwritten signature] GA

[Handwritten signature] Anchorage, AK

[Handwritten signature] MONROE, NJ

[Handwritten signature] MT.

[Handwritten signature] Edison, NJ

HAYDÉE SMYCZEK, EDISON, NJ

[Handwritten signature] Anch, AK

[Handwritten signature] New London, CT "Tar Wars"

[Handwritten signature] New London, CT



June 18, 2004

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Name, Affiliation, and Community

Richard St. Rube, MD Chester, Neb.

William A. Fox Fort Worth, TX

John M. ... Tacoma, Wash.

Joseph B. Burt Anchorage, AK 99501

Christina P. ... Wasilla, AK 99

Harold T. Hansen Kenai, Alaska 99611

Dwight W. ... Anchorage AK 9950

Linda Luy, MD Fort Worth, TX



June 18, 2004

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Name, Affiliation, and Community.

<i>Steve D</i>	<i>Minneapolis MN</i>
<i>Howard M. Hodges MD</i>	<i>Americus GA.</i>
<i>Edith W. [unclear]</i>	<i>Orlando, FL.</i>
<i>Jeffrey Kim</i>	<i>Anchorage AK</i>
<i>Victoria Haight</i>	<i>Juneau, AK</i>
<i>Asham B. Reddy</i>	<i>Newport WA</i>
<i>Jerry M. Coery</i>	<i>Baltimore Ohio</i>
<i>Costa Ody</i>	<i>Sitka AK</i>
<i>Drew [unclear]</i>	<i>Bellvue, WA</i>



June 18, 2004

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Name, Affiliation, and Community.

HAROLD JOHNSTON MD Anchorage

FRED HEIDRICH MD Seattle

MACIE POOLE MD SC

WILL D... MD SC

[Signature] MD SC

John Everson, PA-C Sitka AK

Green, Thomas F./MD. Anchorage

Jim V... MN

Valerie Bengel MD Santa Cruz CA



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Name, Affiliation, and Community

[Signature] MD SEARHC - Sitka, AK

Joseph E. Ollivier PA-C Twin Falls, ID

Wendell Williams M Huntington Beach, CA

Keri Lundberg SEARHC Sitka, AK

Peter J. Hansen RN Kenai, AK

Chris Peters Klawock, AK



June 18, 2004

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families.
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Name, Affiliation, and Community.

Anne Saper *St Louis Falls MI*

William Hoyle *Americus, GA*

Caron Hunk *Julia AK*

Rick Entwain *Pullman WA.*

J. Birnes *SEARCH²
Angeon AK*



June 18, 2004

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Name, Affiliation, and Community.

- Margon D. Kelly 311 Peterson SITKA AK 99833
- Ann Marie B. Smyke, M.D. 1070 S. MADRID AVE KEMAN, CA 93631
- Mary Lee Keegan Box 820 Kenai AK 99611
- Kent Olsen 1503 Audubon, WILSON, TX 75070
- Vicki Black, M.D. 329 W. 25th, Yakima WA 99201
- Roger A. King MD Box 1350 Petersburg AK 99833
- Elizabeth Roll PO Box 923 Bethel AK 99550
- Dorothy Kunsler ADOY KUNSLER BOX 4394, HOMER, AK 99603
- DAVE BAINES 11101 SNOWLINE DR ANCHORAGE 99507
- Ada Vespa 2201 Duway St Anch 99502



June 18, 2004

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Please act expediently during the special legislative session to protect Alaskan families from the devastating effects of tobacco addiction.

Name, Affiliation, and Community.

Jay Goodhue 2201 Devoy Ct Anch 99507
Jeff Young 6 Pleasant View Circle Daytona Beach FL 32117
Steve Gage 409 Hembree Selkirk AK

SB 1001



FRANK H. MURKOWSKI
GOVERNOR
GOVERNOR@GOV.STATE.AK.US

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STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

June 21, 2004

The Honorable Gene Therriault
President of the Senate
Alaska State Legislature
State Capitol, Room 111
Juneau, AK 99801-1182

Dear President Therriault:

Under the authority of article III, section 18 of the Alaska Constitution, I am transmitting a bill that increases the cigarette excise tax by \$1.00 a pack and makes other changes in our current statutes. The tax on "other tobacco products" such as smokeless tobacco would be increased from 75 percent to 100 percent of the wholesale cost.

Passage of these tax increases is supported by the health benefits alone. Tobacco is the number one preventable cause of death, disability, and chronic illness in Alaska. It is public health enemy number one. I want these tax increases to reduce consumption of tobacco products in Alaska. Such a decrease will benefit adult smokers who decide to quit, teenagers and pre-teens who decide to quit or not start smoking, and Alaskans that choose not to smoke but suffer the ill effects of second hand smoke.

Current estimates are that passage of the cigarette tax should result in a 15 percent drop in illegal teen smoking. A 15 percent drop in youth smoking rates from current levels translates into 1,800 lives saved from premature death due to tobacco addiction. My hope is that even more Alaska teens decide not to try smoking or break their addiction to cigarettes.

Among current adult smokers, 3,500 will quit smoking because of the tax, and of those, 800 will be saved from a smoking-caused death. Smoking among expectant mothers would also be reduced significantly; resulting in 850 babies being spared from exposure to maternal smoking prior to delivery during the next five years.

Alaska Natives should particularly benefit from reduced smoking. While smoking rates are declining within the U.S. general population, the rate of smoking is unchanged among Alaska Native adults and, at 44 percent, is

COMMITTEE COPY

The Honorable Gene Therriault

June 21, 2004

Page 2 of 2

almost double that of non-Natives. Currently, 44 percent of Alaska Native high school students smoke almost four times the rate among non-Native students. Lung cancer, the leading cause of cancer deaths, is increasing at an alarming rate among Alaska Natives of both sexes. Cardiovascular disease, including heart disease and stroke, is also linked with tobacco use, and kills approximately 120 Alaska Natives each year.

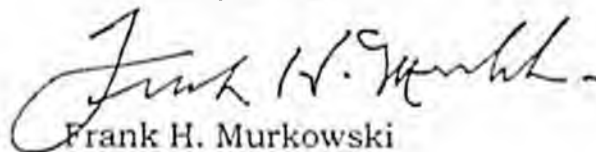
In order to ensure we achieve these health benefits, I have included language that earmarks part of the tax revenues for the smoking education, tobacco use prevention, and tobacco control program. At the level I have included, Alaska would become one of five states that fund tobacco cessation programs at or above the level recommended by the Centers for Disease Control.

I have also included a significant increase in the tax on smokeless tobacco. Other forms of tobacco such as chew or cigars also present serious risks to the health of users. For example, smokeless tobacco users may be up to twice as likely as non-users to die from heart disease and other cardiovascular conditions due to increased blood pressure.

There is also an important fiscal benefit in this bill. The new revenues generated by the tax increases will help reimburse a portion of the approximately \$270 million in annual costs for direct medical expenses and lost productivity attributed to tobacco use in Alaska. The financial burden all Alaskans are stuck with because some Alaskans smoke should be reduced. This bill targets users and asks them to pay a bit more of the costs they impose on all Alaskans. I believe many Alaskans would argue they should not be stuck with any costs for someone else's voluntary choice to use a dangerous product.

Given the health impact, cost savings, and revenue to be generated from the proposed tobacco tax, I urge your support for this legislation.

Sincerely yours,



Frank H. Murkowski
Governor

Enclosure

SB

10002

SFIN

FILE

SB 1002

was referred to the
Senate Finance
Committee

No hearing was held
on this bill

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
Bill Version: SB 1002
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): 06/21/04 Dept. Affected: _____
Title: Workers' Compensation BRU: Alaska Court System
Component: Appellate Courts
Sponsor: Governor
Requester: Governor Component No. _____

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services		186.1	186.1	186.1	186.1	186.1
Travel						
Contractual		2.4	2.4	2.4	2.4	2.4
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	188.5	188.5	188.5	188.5	188.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		188.5	188.5	188.5	188.5	188.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	188.5	188.5	188.5	188.5	188.5

Estimate of any current year (FY2004) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

Work draft 04-0172 makes several changes to the way the Department of Labor and Workforce Development (the agency) and the Alaska Court System resolve workers' compensation disputes and appeals. Most important for purposes of the court's fiscal note is that appeals from the newly-created Workers' Compensation Appeals Commission (commission) will bypass the superior court and go directly to the supreme court.

The court system does not believe that the creation of the new commission will result in a decrease in the number of workers' compensation cases that are appealed to the court system each year. However, bypassing the superior court will lead to a significant increase in the number of these appeals that go to the supreme court. This is because the superior court resolves about 75% of the workers' compensation cases appealed to the court system.

Prepared by: Doug Wooliver Administrative Attorney Phone 907-264-8265
Division: Alaska Court System Date/Time 6/21/04 10:44 AM
Approved by: Stephanie Cole Administrative Director by Doug Wooliver Date 06/21/04
Agency: Alaska Court System

FISCAL NOTE #1

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1002

ANALYSIS CONTINUATION

Of the yearly average of 36 appeals filed with the superior court, only 9 (25%) are further appealed to the supreme court. Because the bill bypasses the superior court the supreme court anticipates that it will see all 36 cases.

Although the removal of these cases from the superior court will ease the workload of that court, the reduction is only slightly more than an average of one case a year per judge. Although this will allow judges some additional time to focus on other cases, it is not a significant enough reduction to produce a cost savings. However, an additional 27 cases a year for the supreme court would represent a greater than 10% increase in its civil caseload.

In order to mitigate the impact of these additional cases the court will hire a central staff attorney with expertise in workers' compensation law to research the record and the legal issues associated with each of the workers' compensation cases. This assistance should reduce the time required to resolve these cases and lessen the impact they will have on other matters before the court.

Additionally, this note reflects the costs of an administrative assistant to assist the attorney and an additional clerical position to handle the increased paper work and to interact with the agency in the preparation of the records on appeal.

This note conservatively assumes that the number of cases appealed to the court system will not grow above the current average of 36 cases a year. Should that average increase the court system may be back before the legislature with a request for additional funding.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 1002
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Dept. Affected: Administration
Title An Act ... establishing a Workers' Compensation Appeals Commission BRU Centralized Administrative Services
Sponsor Rules Committee Component Office of Administrative Hearings
Requester Governor Component No. 2771

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	681.1	681.1	681.1	681.1	681.1
Travel	0.0	8.4	8.4	8.4	8.4	8.4
Contractual	0.0	98.6	78.6	78.6	78.6	78.6
Supplies	0.0	38.4	2.8	2.8	2.8	2.8
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	826.5	770.9	770.9	770.9	770.9

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						
1007 I/A Receipts	0.0	826.5	770.9	770.9	770.9	770.9
TOTAL	0.0	826.5	770.9	770.9	770.9	770.9

Estimate of any current year (FY2004) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time		8	8	8	8	8
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This legislation transfers a number of functions from the Division of Workers' Compensation and the former Workers' Compensation Board to the new Commission (all within the Department of Labor and Workforce Development) and the Office of Administrative Hearings (in the Department of Administration). The fiscal note displays the net change in costs within the Department of Administration. Changes include:

Personal Services:

The costs of six (6) partially exempt administrative law judge positions. Costs are based upon ranges and advanced steps for administrative law judges in order to cover the basic administrative law judge qualifications as well as the level of workers' compensation experience mandated by the bill.

Prepared by: Eric Swanson, Director Phone 465-5655
Division: Administrative Services Date/Time 6/21/04 3:17 PM
Approved by: Ray Matiasowski, Commissioner Date 6/21/2004
Agency: Administration

FISCAL NOTE #2

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 1002

ANALYSIS CONTINUATION

Additionally, two (2) Administrative Clerk III position are created to provide clerical support for the administrative law judges.

Travel:

Planned travel includes 6 trips to Juneau for administrative law judges.

Contractual:

Includes annual recurring leased space cost and the estimated first year build out costs for adequate space to conduct hearings and confidential work. Other costs include estimated annual phone and equipment charges and administrative overhead.

Supplies:

Includes the cost of computer purchases, office furniture, and other one time costs necessary to establish the office and annual consumable supply costs.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 3
Bill Version: SB 1002
(S) Publish Date: 6/22/04

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
Title: An Act...establishing a Workers' Compensation Appeals Commission RDU: Work Comp Appeals Comm (new)
Sponsor: Rules Committee Component: Workers' Compensation Appeals Commission (new)
Requester: Governor Component Number: new#

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.0	(553.3)	(553.3)	(553.3)	(553.3)	(553.3)
Travel	0.0	28.0	28.0	28.0	28.0	28.0
Contractual	0.0	918.5	810.4	810.4	810.4	810.4
Supplies	0.0	10.4	10.4	10.4	10.4	10.4
Equipment	0.0	11.6	0.0	0.0	0.0	0.0
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	415.2	295.5	295.5	295.5	295.5

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1157)	0.0	18.0	18.0	18.0	18.0	18.0
----------------------------------	------------	-------------	-------------	-------------	-------------	-------------

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1157 Workers Safety Account		415.2	295.5	295.5	295.5	295.5
TOTAL	0.0	415.2	295.5	295.5	295.5	295.5

Estimate of any current year (FY2004) cost: None

Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time		-5	-5	-5	-5	-5
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

See attached.

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Division: Workers' Compensation Division
Approved by: Greg O'Claray, Commissioner
Agency: Department of Labor and Workforce Development

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Date/Time 6/21/04 3:39 PM
Date 6/21/2004

FISCAL NOTE #3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: SB 1002

ANALYSIS (continued)

This legislation establishes a Workers' Compensation Appeals Commission and replaces the Alaska Workers' Compensation Board effective July 1, 2005. It also transfers a number of functions from the Division of Workers' Compensation and the former Workers' Compensation Board to the new Commission (all within the Department of Labor and Workforce Development) and the Office of Administrative Hearings (in the Department of Administration). The fiscal note displays the net change in costs within the Department of Labor and Workforce Development associated with these changes. Changes include:

	Existing WC Division	New WC Appeals	Net Change
Personal Services	(809.2)	255.9	(553.3)
Travel	(36.8)	64.8	28.0
Contractual	(70.7)	989.2	918.5
Supplies	(8.6)	19.0	10.4
Equipment		11.6	11.6
Total	(925.3)	1,340.5	415.2

New Workers' Compensation Appeals Commission budget component:

Operating Expenditures:

Personal Services: The Appeals Commission is comprised of 4 new positions and 4 volunteer members:

	<u>Range</u>
Commission, Chair	27 A
Commission, Member	-
Commission, Member	-
Commission, Member	-
Commission, Member	-
Admin. Services Mgr./ Commission Clerk	19 A
Admin. Clerk III	10 A/B
Admin. Clerk II	8 A/B

The personal services costs of \$255.9 are associated with the above positions. An administrative manager position is included to assist the chair in fulfilling the diverse "court clerk," budget/fiscal, and organizational administration functions assigned under the bill.

Travel: Appeals Commission travel costs of \$64.8 have been minimized by basing the Commission and holding all its appeals hearings in Anchorage. Commission administrative staff are also located in Anchorage. Planned travel includes 3 trips to Juneau for the Commission chair and Commission Clerk/Administrative Manager. Commission travel also includes both actual travel costs associated with the four citizen Commission members attending appeals proceedings and a \$200/day stipend payable for each day spent on Commission business.

Contractual: Under the bill the Commission will request Administrative Law Judges employed by the Office of Administrative Hearings to conduct the initial hearings previously done by Workers' Compensation Board hearing panels and Workers' Compensation Hearing Officers. The Commission is expected to incur \$828.5 in contractual costs for Administrative Law Judge services. Those costs are based upon ranges and advanced steps for Administrative Law Judges in order to cover the basic Administrative Law Judge qualifications as well as the level of workers' compensation experience mandated by the bill.

FISCAL NOTE #3

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL VERSION: SB 1002

ANALYSIS: (continued)

A reduction in the total numbers of hearing officers (currently eight authorized Workers' Compensation Hearing Officers versus expected six Administrative Law Judges) is based upon a reasonably expected increase in productivity. That increase would result from 1) the increased experience and qualifications justifying Range 24 and advanced step pay and 2) a lessening of turnover associated with upgrading the positions. Also, a reduction is supported by one substantive change in the bill that removes the need for review of Compromise & Release agreements involving injured workers represented by an attorney licensed to practice in the State of Alaska.

The bill also requires that Appeals Commission offices be "physically separate" from those of the Workers' Compensation Division. The Commission's contractual budget includes one-time costs of achieving the mandated physical separation of \$52.5 for its Anchorage offices. Those costs include demolition, construction, staff relocation, and voice and data line wiring.

Supplies and Equipment: A budget of \$10.4 for general office supplies and \$11.6 for equipment is necessary to operate the Appeals Commission.

New Fees/Fines:

The bill authorizes the Appeals Commission to charge a \$100.00 fee for the filing of an appeal. This is expected to amount to a yearly total of approximately \$6,000.00 payable to the Workers' Safety and Compensation Administration Account.

The bill also allows the Appeals Commission to order the parties to an appeal to pay for its costs of preparing the appeal file. At \$200.00 per appeal that could be expected to total \$12,000.00 per year payable to the Workers' Safety Account.

The bill also authorizes the Division of Workers' Compensation to seek the imposition of civil penalties against employers that violate the statutory requirement to insure or properly self-insure for their employees' workers' compensation benefits. Appeals Commission hearing examiners would be authorized to award penalties up to a maximum of \$100.00 per day per employee. Based upon FY 2003 statistics penalties totaling \$217,900.00 could have been assessed for each day the 189 identified, uninsured employers failed to insure the workers' compensation benefits of their 2,179 employees. It is unclear whether these penalties under AS 23.30.080 were intended to be considered as penalties under "this section" (AS 23.05.067). Due to the speculative nature of these penalties, and the uncertainty of their collectability and qualification for inclusion, no adjustment to the Workers' Safety and Compensation Administration Account is currently included.

Existing Workers' Compensation budget component:

Operating Expenditures:

Personal Services: The Workers' Compensation Division and the Workers' Compensation Board would delete the following positions:

	Range
Chief of Adjudication	23 B
Workers' Compensation Hearing Officer	21 M
Workers' Compensation Hearing Officer	21 K
Workers' Compensation Hearing Officer	21 F
Workers' Compensation Hearing Officer	21 B/C
Workers' Compensation Hearing Officer	21 B/C
Workers' Compensation Hearing Officer	21 B/C
Workers' Compensation Hearing Officer	21 A
Workers' Compensation Officer II	18 K
14 Workers' Compensation Board Members -----	