

ALASKA LEGISLATURE COMMITTEE FILES 1995-1996 8672

9046 SENATE STATE AFFAIRS ( )

1 under AS 37.15.583(a), enacted by sec. 2 of this Act, may be commenced and conducted.

2 \* Sec. 14. The provisions of AS 37.15.583(b), enacted by sec. 2 of this Act, take effect  
3 only if sec. 13 of this Act receives the two-thirds majority vote of each house required by  
4 art. IV, sec. 15, Constitution of the State of Alaska.

SENATE BILL NO. 207

IN THE LEGISLATURE OF THE STATE OF ALASKA  
NINETEENTH LEGISLATURE - SECOND SESSION

BY THE SENATE RULES COMMITTEE BY REQUEST OF THE GOVERNOR

Introduced: 1/8/96

Referred: CRA, STA, JUD, FIN

A BILL

FOR AN ACT ENTITLED

1 "An Act authorizing the issuance and sale of revenue bonds to fund public  
2 wastewater systems, nonpoint source water pollution control projects, including  
3 solid waste management systems, and estuary conservation and management  
4 projects; authorizing the use of the Alaska clean water fund to pay and secure  
5 the bonds and to pay costs related to issuance and administration of the  
6 bonds; authorizing certain measures to secure payment of the bonds; and  
7 amending Alaska Rule of Civil Procedure 3."

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

9     " Section 1. POLICY AND PURPOSES. The legislature finds that the expenditures,  
10 transfers, and applications of money, and the use of the public credit through the issuance of  
11 revenue bonds, as authorized by this Act, will serve a public purpose by allowing the  
12 financing of needed public water quality improvements substantially sooner than would  
13 otherwise be possible.

1 \* Sec. 2. AS 37.15 is amended by adding new sections to read:

2 ARTICLE 3A. ALASKA CLEAN WATER FUND BONDS.

3 Sec. 37.15.560. BOND AUTHORIZATION. (a) For purposes of providing  
4 part of the money to be used to provide financial assistance to Alaska municipalities  
5 and state agencies for the purposes stated in AS 46.03.032(d), including the costs of  
6 bond issuance and administration, the issuance and sale of revenue bonds of the state  
7 is authorized. The bonds are to be issued by the state bond committee, as provided  
8 in AS 37.15.560 - 37.15.605, as part of the Alaska clean water fund revolving loan  
9 fund program (AS 46.03.032), a public enterprise of the state. The net proceeds of the  
10 sale of the bonds, remaining after any payment of costs of issuance and administration,  
11 shall be paid into the Alaska clean water fund. Any accrued interest paid on the bonds  
12 shall be paid into the Alaska clean water fund, for transfer to the Alaska clean water  
13 fund revenue bond redemption fund (AS 37.15.565).

14 (b) The bonds do not constitute a general obligation of the state. No  
15 authorization by the voters of the state or the legislature is required.

16 (c) The state bond committee may enter into agreements with other state  
17 agencies as necessary or convenient to implement AS 37.15.560 - 37.15.605.

18 (d) The state bond committee may contract for the services of underwriters,  
19 paying agents, trustees, bond printers, rating agencies, bond insurance, credit  
20 enhancement providers, accountants, financial advisors, and bond counsel, and other  
21 services as are necessary to accomplish the bond issuance and sale.

22 Sec. 37.15.565. BOND REDEMPTION FUND. (a) There is established a  
23 special fund of the state, known as the "Alaska clean water fund revenue bond  
24 redemption fund," which is a trust fund for paying and securing the payment of the  
25 principal of and interest and redemption premium, if any, on the bonds and which shall  
26 be at all times completely segregated and set apart from all other funds of the state.  
27 The committee, on behalf of the state, may obligate and bind the state to set aside and  
28 pay into the bond redemption fund, on a monthly or other periodic basis, any part or  
29 parts of, or all of, or a fixed proportion of, or a fixed amount of the money in the  
30 Alaska clean water fund (AS 46.03.032) sufficient to pay the principal of and interest  
31 and redemption premium, if any, on the bonds and, if it considers it necessary, to set

1 aside and maintain reserves for this purpose. The bond redemption fund shall be  
2 drawn upon only for the purpose of paying the principal of and interest and redemption  
3 premium, if any, on the bonds, together with related trustee fees, if any.

4 (b) Money in the bond redemption fund may be invested in the same manner  
5 and on the same conditions as permitted for investment of money belonging to the  
6 state or held in the treasury under AS 37.10.070; however, the committee may agree  
7 with the bondholders to further limit these investments. Earnings on investments must  
8 be retained in the bond redemption fund.

9 (c) Separate accounts may be created in the bond redemption fund for the  
10 purposes of paying and securing the bonds. Such accounts may be combined for  
11 purposes of investment.

12 Sec. 37.15.570. BOND TERMS. (a) The bonds may be issued and sold at  
13 public or negotiated sale in the manner, in the amounts or series, and at the time or  
14 times that the committee determines. The bonds, or each series of them, shall be sold  
15 at the price and upon the terms, conditions, and covenants set by the committee, after  
16 considering market conditions. Interest rates may be fixed or variable.

17 (b) The bonds mature at the time or times fixed by the committee. The bonds  
18 may be subject to redemption before their fixed maturities, as determined by the  
19 committee, with or without a premium or premiums. The bonds may be in  
20 denomination determined by the committee; may be issued in fully or partially  
21 registered form; must be payable as to principal and interest at the place or places  
22 determined by the committee; must be signed on behalf of the state in the manner  
23 provided by the committee; must be issued under and subject to the terms, conditions,  
24 covenants, and protective features safeguarding payment of the bonds and relating to  
25 the funding of projects as found necessary by the committee, including covenants  
26 requiring the setting aside and maintenance of certain reserves to secure the payment  
27 of principal and interest, all under regulations and conditions of the committee.

28 (c) The committee may pledge to the payment of the principal of and interest  
29 on bonds issued by the committee part or all of the legally available money or other  
30 assets on hand in the Alaska clean water fund (AS 46.03.032); part or all of the  
31 revenue of the Alaska clean water fund, including federal capitalization grants, the

1 proceeds of loan repayments, and interest on money in the fund; the proceeds of the  
2 sale of bonds; and money on hand in the bond redemption fund. Revenue of the  
3 Alaska clean water fund, if so pledged, must be paid into the Alaska clean water fund.  
4 The committee may provide for the issuance of additional bonds, secured by a pledge  
5 of such money and revenue, ranking junior to, senior to, or on a parity with,  
6 outstanding bonds, upon conditions prescribed in the bond resolution. A pledge of  
7 loan repayments securing bonds may be made applicable to specific loans from the  
8 Alaska clean water fund or, on a pooled basis, to all loan repayments received.

9 (d) If the committee finds it reasonably necessary, the committee may select  
10 a trustee or trustees for the holders of the bonds or any series of them, for the  
11 safeguarding and disbursement of any of the money in the bond redemption fund  
12 created by AS 37.15.565, or for duties with respect to the enforcement, authentication,  
13 delivery, payment, and registration of the bonds as the committee may determine. The  
14 committee shall fix the rights, duties, powers, and obligations of the trustee or trustees.

15 (e) In its determination of all matters and questions relating to the issuance and  
16 sale of the bonds and the fixing of their maturities, terms, conditions, and covenants  
17 as provided in (a) - (d) of this section, the decisions of the committee shall be those  
18 that are reasonably necessary for the best interests of the state and its inhabitants and  
19 that will accomplish the most advantageous sale of the bonds, with due regard,  
20 however, for the continued funding under AS 46.03.032 of the categories of projects  
21 identified in AS 46.03.032(d). Any such decisions of the committee, as expressed in  
22 a bond resolution, are final and are conclusively deemed to comply with the  
23 requirements of AS 37.15.560 - 37.15.605 and AS 46.03.032.

24 (f) A bond resolution may provide that the bonds issued must contain a recital  
25 that they are issued under AS 37.15.560 - 37.15.605 and AS 46.03.032, and a bond  
26 containing this recital is conclusively considered to be valid and to have been issued  
27 in conformity with AS 37.15.560 - 37.15.605 and AS 46.03.032.

28 Sec. 37.15.573. BOND RESOLUTION. The committee shall authorize the  
29 issuance of bonds by adopting a resolution and shall prepare all other documents and  
30 proceedings necessary for the issuance, sale, and delivery of the bonds or any part or  
31 series of them. The bond resolution must fix the principal amount, denominations,

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1 date, maturities, manner of sale, place or places of payment, rights of redemption, if  
2 any, terms, form, conditions, and covenants of the bonds or each series of them. A  
3 bond resolution may state terms, conditions, amounts, and other limitations on loans  
4 to be made from the Alaska clean water fund (AS 46.03.032) from the relevant bond  
5 proceeds.

6 Sec. 37.15.575. STATE AID INTERCEPT. If a municipality is in default on  
7 the payment of principal or interest on a loan from the Alaska clean water fund  
8 (AS 46.03.032), the committee may provide written notice of default to any state  
9 agency that is the custodian of money that is payable to the municipality. If the  
10 committee determines to provide notice, a separate written notice shall be given in  
11 each instance of default. Notwithstanding any other provision of law, at any time after  
12 receipt of written notice of default, the agency head shall withhold payment of the  
13 money from the municipality. The agency head shall pay over the withheld money to  
14 the committee for deposit in the Alaska clean water fund for the purpose of paying or  
15 securing the principal and interest on the loan.

16 Sec. 37.15.580. PLEDGE OF THE STATE. The state pledges to and agrees  
17 with the holders of bonds issued by the committee under AS 37.15.560 - 37.15.605  
18 and AS 46.03.032 that the state will not limit or alter the rights and powers vested in  
19 the committee by AS 37.15.560 - 37.15.605 and AS 46.03.032 to fulfill the terms of  
20 any contract made by the committee with the holders, or in any way impair the rights  
21 and remedies of the holders until the principal amount of the bonds, together with the  
22 interest on them with interest on unpaid installments of interest, are fully met and  
23 discharged. The committee may include this pledge and agreement of the state in a  
24 contract with the holders.

25 Sec. 37.15.583. ENFORCEMENT BY BONDOWNER. (a) The owner or  
26 owners of not less than 10 percent of the aggregate principal amount of any series or  
27 issue of bonds or the trustee for the owners of the bonds or any series of them may,  
28 by appropriate proceedings in state court, require and compel the transfer, setting aside,  
29 and payment of money and the enforcement of all of the terms, conditions, and  
30 covenants as required and provided in AS 37.15.560 - 37.15.605, AS 46.03.032, and  
31 the bond resolution.

1 (b) A proceeding under (a) of this section may be commenced and conducted  
2 only in the Superior Court for the State of Alaska, First Judicial District at Juneau.

3 Sec. 37.15.585. AMOUNTS REQUIRED FOR PAYMENTS. The committee  
4 shall, before June 30 of each year or from time to time within the year, as appropriate,  
5 commencing with the year in which the bonds are issued, certify to the commissioners  
6 of revenue and environmental conservation the amounts required in the next ensuing  
7 fiscal year by the bond resolution or resolutions to be paid out of the Alaska clean  
8 water fund into the bond redemption fund and to be paid into and maintained in any  
9 reserve fund or account or any other fund or account created by the bond resolution  
10 or resolutions, and shall also certify to the commissioners the last date or dates upon  
11 which payments may be made.

12 Sec. 37.15.587. PURPOSES AND SUFFICIENCY OF REVENUE. The  
13 proceeds of bonds may be used for the purposes described in AS 46.03.032(d). Bonds  
14 may not be issued unless the committee first finds that revenue to be derived from  
15 repayment of loans from the Alaska clean water fund will be sufficient, together with  
16 other available money, to comply with all the covenants of the bond resolutions.

17 Sec. 37.15.590. REFUNDING. (a) The committee may refund the bonds or  
18 any part of them at or before their maturities or redemption dates by the issuance of  
19 refunding revenue bonds of the state, if in the opinion of the committee, refunding is  
20 advantageous to and in the best interests of the state and its inhabitants.

21 (b) The issuance of refunding bonds need not be authorized by the voters of  
22 the state or by an act of the legislature. The committee shall adopt the resolution or  
23 resolutions and prepare all other documents and proceedings necessary for the  
24 issuance, exchange or sale, and delivery of the refunding. All provisions of  
25 AS 37.15.560 - 37.15.605 and AS 46.03.032 applicable to revenue bonds are applicable  
26 to the refunding bonds and to the issuance, sale, or exchange of them, except as  
27 otherwise provided in this section.

28 (c) Refunding bonds may be issued in a principal amount sufficient to provide  
29 money for the advance or current refunding of all bonds to be refunded and interest  
30 on the refunded bonds and, in addition, for the payment of all costs of issuance and  
31 administration of the refunding bonds. These expenses also include the difference in

1 amount between the par value of the refunding bonds and any amount less than par for  
2 which the refunding bonds are sold; the premium, if any, necessary to be paid in order  
3 to call or retire the outstanding bonds and the interest accruing on them to date of the  
4 call or retirement; and other such costs. The committee is authorized to incur such  
5 expenses.

6 (d) The committee may contract with a refunding trustee to hold the proceeds  
7 of refunding bonds in trust until the proceeds, together with earnings on the proceeds,  
8 are applied to pay the principal of, premium, if any, and interest on the bonds to be  
9 refunded. Until the refunding bond proceeds are applied, the proceeds may be invested  
10 in direct obligations of, or obligations guaranteed by, the United States or any agency  
11 or corporation of the United States whose obligations constitute direct obligations of,  
12 or obligations guaranteed by, the United States.

13 Sec. 37.15.595. BONDS AS LEGAL INVESTMENTS. The bonds are legal  
14 investments for all banks, trust companies, savings banks, savings and loan  
15 associations, and other persons carrying on a banking business, all insurance companies  
16 and other persons carrying on an insurance business, and all executors, administrators,  
17 trustees, and other fiduciaries. The bonds may be accepted as security for deposits of  
18 all money of the state and its political subdivisions.

19 Sec. 37.15.600. STATUTORY CONSTRUCTION. AS 37.15.560 - 37.15.605  
20 shall be liberally construed in order to carry out the purposes for which they were  
21 enacted.

22 Sec. 37.15.603. REGULATIONS. The committee may adopt regulations  
23 necessary to implement the provisions of AS 37.15.560 - 37.15.605.

24 Sec. 37.15.605. DEFINITIONS. In AS 37.15.560 - 37.15.605,

25 (1) "bond redemption fund" means the Alaska clean water fund revenue  
26 bond redemption fund established in AS 37.15.565;

27 (2) "bond resolution" means the resolution or resolutions adopted by  
28 the committee under AS 37.15.573 authorizing the issuance of bonds;

29 (3) "bonds" means the Alaska clean water fund revenue bonds  
30 authorized in AS 37.15.560 - 37.15.605;

31 (4) "commissioner of revenue" means the principal executive officer

1 of the Department of Revenue as provided in AS 44.25.010, or a successor;

2 (5) "commissioner of environmental conservation" means the principal  
3 executive officer of the Department of Environmental Conservation as provided in  
4 AS 44.46.010, or a successor;

5 (6) "committee" means the state bond committee created in  
6 AS 37.15.110 or any other committee, body, department, or officer of the state that  
7 succeeds to the rights, powers, duties, and obligations of the state bond committee by  
8 lawful act of the legislature;

9 (7) "costs of issuance and administration" means all costs associated  
10 with issuance and administration of Alaska clean water fund revenue bonds and  
11 refunding bonds, including costs of bond printing, official statements, financial  
12 advisors, travel costs, rating agencies, bond insurance, letters of credit for credit  
13 enhancement, underwriters, legal services, paying agents, bond registrars, bond and  
14 escrow trustees, arbitrage rebate, and all other costs, including administrative costs,  
15 both direct and indirect.

16 \* Sec. 3. AS 46.03.032(a) is amended to read:

17 (a) There is established as a separate fund the Alaska clean water fund, which  
18 is distinct from any other money or fund in the treasury, and which consists of money  
19 appropriated by the legislature to meet federal matching requirements, federal  
20 capitalization grants, loan repayments, interest received from loan repayments, [AND]  
21 interest received from investment of money in the Alaska clean water fund, and the  
22 proceeds and accrued interest received from the sale of revenue bonds issued  
23 under AS 37.15.560 - 37.15.605 and secured by the Alaska clean water fund.  
24 Separate accounts may be created in the Alaska clean water fund. Such accounts  
25 may be combined for purposes of investment.

26 \* Sec. 4. AS 46.03.032(b) is amended to read:

27 del  
m/c (b) The provisions of this section shall be liberally construed in order to  
28 carry out the purposes for which they were enacted. The department shall  
29 administer the Alaska clean water fund consistent with the requirements of this  
30 section and AS 37.15.560 - 37.15.605.

31 \* Sec. 5. AS 46.03.032(c) is amended to read:

1 (c) The department may accept and make use of all capitalization grants  
2 provided by the federal government under 33 U.S.C. 1251 - 1387 (the federal Clean  
3 Water Act), as amended [BY P.L. 100-4].

4 \* Sec. 6. AS 46.03.032(d) is repealed and reenacted to read:

5 (d) Except as otherwise limited by federal law, the Alaska clean water fund  
6 may be used

7 (1) for the following categories of projects:

8 (A) planning, designing, building, constructing, and  
9 rehabilitating a public wastewater collection, treatment, or discharge system;

10 (B) implementing a management program for controlling water  
11 pollution from nonpoint sources under 33 U.S.C. 1329, including planning,  
12 designing, building, constructing, and rehabilitating a solid waste management  
13 system; and

14 (C) developing and implementing an estuary conservation and  
15 management program under 33 U.S.C. 1330;

16 (2) to provide the following types of financial assistance for the  
17 categories of projects listed in (1) of this subsection:

18 (A) making loans to municipalities and state agencies;

19 (B) buying or refinancing the debt obligations of a municipality  
20 or state agency;

21 (C) providing collateral security for or purchasing insurance for  
22 a municipal or state agency debt obligation; and

23 (3) to pay and secure the payment of the principal of and interest on  
24 revenue bonds issued by the state and to pay the costs of issuance and administration  
25 of the bonds, so long as the proceeds of the bond sale are deposited in the Alaska  
26 clean water fund.

27 \* Sec. 7. AS 46.03.032(f) is repealed and reenacted to read:

28 (f) The department

29 (1) may spend money from the Alaska clean water fund to pay

30 (A) the costs of administering the fund; and

31 (B) the costs of the department in conducting activities under

1 this section and AS 37.15.560 - 37.15.605, including the costs of issuance and  
2 administration as defined in AS 37.15.605;

3 (2) shall spend money from the Alaska clean water fund to pay

4 (A) into the bond redemption fund (AS 37.15.565), and into any  
5 other bond redemption fund or account created by a relevant bond resolution,  
6 the amount certified by the state bond committee under AS 37.15.585; and

7 (B) the costs of the state bond committee in conducting activities  
8 under this section and AS 37.15.560 - 37.15.605, including the costs of  
9 issuance and administration as defined in AS 37.15.605.

10 \* Sec. 8. AS 46.03.032(g) is amended to read:

11 (g) A municipality or state agency wishing to borrow money from the Alaska  
12 clean water fund shall demonstrate to the satisfaction of the department that it [THE  
13 MUNICIPALITY]

14 (1) has sufficient legal authority to incur the debt for which it is  
15 applying; and

16 (2) will establish and maintain a dedicated source of revenue or other  
17 acceptable revenue source for repayment of the loan and sufficient reserves for the  
18 loan as may be necessary.

19 \* Sec. 9. AS 46.03.032(j) is amended to read:

20 (j) Except as necessary to comply with the covenants of a bond resolution  
21 under AS 37.15.573, a [A] loan made by the department shall be made according to  
22 the standards, criteria, and procedures established by regulations under this section.  
23 A loan made from the Alaska clean water fund may be subject to the state aid  
24 intercept provisions of AS 37.15.575. Except as necessary to comply with the  
25 covenants of a bond resolution under AS 37.15.573, in [IN] making a loan from the  
26 Alaska clean water fund for a solid waste management system [FACILITY], the  
27 department shall give priority to a project that will alleviate severe health or  
28 environmental concerns in the community or region proposing the system  
29 [FACILITY]. In addition, the department may consider

30 (1) the extent of local or regional support for the proposed system  
31 [FACILITY]; and

1 (2) the extent to which the applicant can demonstrate that the full range  
2 of solid waste management options has been reasonably considered and that the  
3 proposed system [FACILITY] is consistent with the promotion of the solid and  
4 hazardous waste management practices established in AS 46.06.021 [IN THE  
5 FOLLOWING ORDER OF PRIORITY:

- 6 (A) WASTE SOURCE REDUCTION;  
7 (B) RECYCLING OF WASTE;  
8 (C) WASTE TREATMENT; AND  
9 (D) WASTE DISPOSAL].

10 \* Sec. 10. AS 46.03.032(k) is amended to read:

11 (k) The department shall prepare reports required by the federal government  
12 in conjunction with federal capitalization grant award conditions. The department  
13 shall also prepare reports and notices, including notices of default, required by  
14 the state bond committee in conjunction with bonds issued under AS 37.15.560 -  
15 37.15.605. The department shall also prepare a biennial report on the Alaska clean  
16 water fund and notify the legislature that it is available on or before the first day of  
17 each first regular session of the legislature.

18 \* Sec. 11. AS 46.03.032(o) is amended to read:

19 (o) In this section.

20 (1) "solid waste management system [FACILITY]" includes capital  
21 improvements and equipment used for the purpose of solid and hazardous waste source  
22 reduction, recycling, treatment, or disposal;

23 (2) "state agency" means a department, authority, public  
24 corporation, instrumentality, or other administrative unit of the executive branch  
25 of state government.

26 \* Sec. 12. AS 46.03.032 is amended by adding a new subsection to read:

27 (p) Regulations adopted by the department under this section that would affect  
28 issuance or repayment of revenue bonds under AS 37.15.560 - 37.15.605 may not be  
29 inconsistent with those statutes or with regulations adopted by the state bond  
30 committee under those statutes. To the extent that regulations adopted by the  
31 department are inconsistent with AS 37.15.560 - AS 37.15.605, with regulations

1 adopted by the state bond committee under those statutes, or with the covenants of a  
2 bond resolution adopted under AS 37.15.573, the provisions of AS 37.15.560 -  
3 37.15.605, the regulations adopted under those statutes, and the covenants of the bond  
4 resolution govern.

5 \* Sec. 13. The provisions of AS 37.15.583(b), enacted by sec. 2 of this Act, have the effect  
6 of changing Alaska Rule of Civil Procedure 3 by limiting, to the Superior Court for the State  
7 of Alaska, First Judicial District at Juneau, the venue district in which a proceeding under  
8 AS 37.15.583(a), enacted by sec. 2 of this Act, may be commenced and conducted.

9 \* Sec. 14. The provisions of AS 37.15.583(b), enacted by sec. 2 of this Act, take effect  
10 only if that subsection receives the two-thirds majority vote of each house required by art. IV,  
11 sec. 15, Constitution of the State of Alaska.

TONY KNOWLES  
GOVERNOR



STATE OF ALASKA  
OFFICE OF THE GOVERNOR  
JUNEAU

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207

January 8, 1996

The Honorable Drue Pearce  
President of the Senate  
Alaska State Legislature  
State Capitol  
Juneau, AK 99801-1182

Dear President Pearce:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill to authorize the state bond committee to issue and sell state revenue bonds to fund public wastewater treatment systems, solid waste management systems, nonpoint source water pollution control projects, and estuary conservation and management projects. This bill also authorizes the Department of Environmental Conservation to use the Alaska clean water fund, a revolving loan fund, as security for the payment of the principal and interest on the bonds, provided the bond proceeds are deposited in the fund. By using the fund as security for the bonds, the state will be able to leverage or increase the amount of money in the fund that is available to municipalities and state agencies for water pollution control projects.

Section 2 of the bill provides the legal framework for the bond issuance and sale. This section is patterned after the international airports revenue bonds statutes, and establishes a cooperative relationship between DEC, which administers the Alaska clean water fund, and the state bond committee, which will administer the bond program. The bill requires the state bond committee to conduct its activities in the best interests of the state and its inhabitants, in a manner that will accomplish the most advantageous sale of the bonds, with due regard for the continued funding of projects under the Alaska clean water fund program.

SPONSOR STATEMENT

The Honorable Drue Pearce

January 8, 1996

Page 2

Sections 3-12 of the bill amend the clean water fund loan program to clarify the statute. It authorizes DEC to use the fund to secure state-issued bonds and to make other amendments necessary to acknowledge the bond-issuance and repayment process.

I urge your prompt consideration and passage of this bill.

Sincerely,

A handwritten signature in cursive script, appearing to read "Tony Knowles".

Tony Knowles  
Governor



SENATE BILL 207  
HOUSE BILL 401

DEPARTMENT OF ENVIRONMENTAL CONSERVATION BILL SUMMARY

This bill will authorize the State Bond Committee to issue and sell State revenue bonds to provide funds for the Department of Environmental Conservation (DEC) to offer low-interest loans to municipalities. The municipalities would use these funds to finance the construction of public wastewater treatment systems, solid waste management systems, nonpoint source water pollution control projects and estuary conservation and management projects. DEC already operates the Alaska clean water fund, a revolving loan program that is funded by federal grants and State appropriations. The demand for these subsidized loans has been growing with the increase in federal requirements placed upon the local communities and the concurrent reduction in State revenues in the last few years. It is estimated that the demand for loans will exhaust the available supply of funds by the summer of 1998.

One solution to this problem is to leverage the Alaska clean water fund, that is, to increase the amount of money available to finance water pollution control projects by using the fund as collateral to secure State-issued revenue bonds. Programs similar to this proposal are currently in place in 21 states. Communities collect user fees for their sewerage and solid waste projects to provide the money to make their annual loan payments to the Department. Under this leveraging concept, the annual loan repayments would be used to pay back the bond investors. Nationwide, in the six years of operation of the clean water loan funds, there has never been a loan default. With such an excellent repayment history, the program risk is very small. A sizable corpus of money in the fund would provide extra security for the bonds and would also result in lower program costs which could be passed onto the municipalities. If this bill could be enacted this session, an adequate amount would be available in the corpus to accomplish this. Delays in passage will reduce the amount available to leverage and minimize the effectiveness of the legislation.

This type of bond sales program has been previously authorized to the State bond committee. In fact, this legislation is patterned after the statute created for the International Airport bond sales done by the committee for the Department of Transportation. The State bond committee has the expertise to properly conduct a bond sales issue. DEC has the expertise to properly run the clean water fund program. This legislation provides a simple, efficient method to assist the incorporated communities of the State by ensuring that low-cost loans for essential projects will be available well into the future, while reducing the demand for general-funded capital projects.

# LEVERAGING THE CLEAN WATER FUND

FEDERAL CAPITALIZATION GRANTS  
STATE APPROPRIATIONS



loans

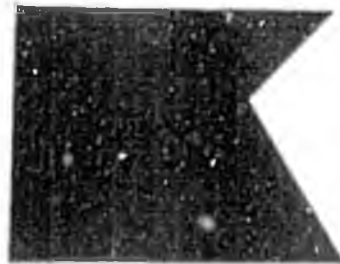
repayments



bond proceeds

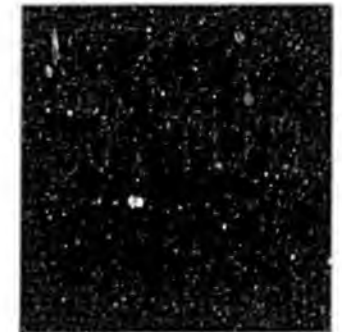
BRF

1 bond issuance costs  
2 annual bond payments



1 issue bonds

2 annual bond payments



## LEVERAGING THE CLEAN WATER FUND

The upper part of the accompanying chart demonstrates how the Alaska Clean Water Fund (ACWF) currently operates:

- Federal capitalization grants & State appropriations (20% of federal grant amount) are deposited into the ACWF.
- ADEC administers the ACWF, providing loans to fund sanitation projects.
- Repayment of loan principal and interest is deposited into the ACWF to provide the basis for funding more community projects.
- Department of Revenue maintains the ACWF account and invests the unobligated balance, with the earnings also deposited into the ACWF.

The bottom portion of the chart illustrates the effects of leveraging on management of the ACWF:

- The ACWF balance will be pledged as collateral for revenue bonds. Costs of bond issuance are moved from the ACWF to the Bond Redemption Fund (BRF).
- The BRF will pass these funds to the State Bond Committee (SBC) who will then issue the bonds and sell them to investors.
- Bond proceeds from investors will be deposited into the ACWF. The proceeds will fund additional loans for projects. The loan repayments will produce the bond principle and interest payments.
- The SBC and the Trustee will make bond principle and interest payments from the ACWF and the BRF.

**SENATE BILL 207  
HOUSE BILL 401**

**DEPARTMENT OF ENVIRONMENTAL CONSERVATION BILL SUMMARY**

This bill will authorize the State Bond Committee to issue and sell State revenue bonds to provide funds for the Department of Environmental Conservation (DEC) to offer low-interest loans to municipalities. The municipalities would use these funds to finance the construction of public wastewater treatment systems, solid waste management systems, nonpoint source water pollution control projects and estuary conservation and management projects. DEC already operates the Alaska clean water fund, a revolving loan program that is funded by federal grants and State appropriations. The demand for these subsidized loans has been growing with the increase in federal requirements placed upon the local communities and the concurrent reduction in State revenues in the last few years. It is estimated that the demand for loans will exhaust the available supply of funds by the summer of 1998.

One solution to this problem is to leverage the Alaska clean water fund, that is, to increase the amount of money available to finance water pollution control projects by using the fund as collateral to secure State-issued revenue bonds. Programs similar to this proposal are currently in place in 21 states. Communities collect user fees for their sewerage and solid waste projects to provide the money to make their annual loan payments to the Department. Under this leveraging concept, the annual loan repayments would be used to pay back the bond investors. Nationwide, in the six years of operation of the clean water loan funds, there has never been a loan default. With such an excellent repayment history, the program risk is very small. A sizable corpus of money in the fund would provide extra security for the bonds and would also result in lower program costs which could be passed onto the municipalities. If this bill could be enacted this session, an adequate amount would be available in the corpus to accomplish this. Delays in passage will reduce the amount available to leverage and minimize the effectiveness of the legislation.

This type of bond sales program has been previously authorized to the State bond committee. In fact, this legislation is patterned after the statute created for the International Airport bond sales done by the committee for the Department of Transportation. The State bond committee has the expertise to properly conduct a bond sales issue. DEC has the expertise to properly run the clean water fund program. This legislation provides a simple, efficient method to assist the incorporated communities of the State by ensuring that low-cost loans for essential projects will be available well into the future, while reducing the demand for general-funded capital projects.

## LOAN SPECIFIC INFORMATION

Community Served	Project Name	Project Number	Loan Amount	Agreement Date	Interest Rate	Amortization Period
<b>Loans made during FY 90</b>						
Anchorage	Eagle River	127011	\$7,759,380	10/31/89	4.65%	20 years
Homer	STP	409011	\$4,750,000	9/5/89	4.80%	20 years
Kachemak City	STP	451011	\$450,000	7/25/89	4.54%	20 years
<b>Loans made during FY 91</b>						
Anchorage	Campbell Creek	12702	\$2,238,607	12/17/90	4.84%	20 years
Nome	STP	627011	\$788,421	4/19/91	4.56%	20 years
<b>Loans made during FY 92</b>						
Anchorage	Eagle River Inc.	127011	\$3,000,000	9/6/91	4.65%	20 years
Cordova	Sewer Rehab	261011	\$735,310	9/24/91	4.42%	20 years
Anchorage	Campbell Creek II	127031	\$453,141	6/30/92	4.31%	20 years
Nome	Icy View	627021	\$2,000,000	6/30/92	4.31%	20 years
Seward	Lowell Point	769011	\$924,000	6/30/92	4.31%	20 years
<b>Loans made during FY 93</b>						
Seward	Dairy Hill	769021	\$40,000	11/23/92	4.75%	20 years
Juneau	Belt Press	445011	\$255,501	10/9/92	4.64%	15 years
Juneau	Back Loop Sewer	445021	\$1,620,500	2/2/93	4.56%	10 years
Anchorage	Pl. Woronzol	127041	\$2,443,128	4/26/93	4.24%	20 years
Juneau	Channel Drive	445031	\$536,000	6/7/93	4.23%	10 years
<b>Loans made during FY 94</b>						
Sitka	I&I	783011	\$2,000,000	8/17/93	4.04%	20 years
Juneau	Goat Hill	445041	\$166,000	12/23/93	4.05%	10 years
Bristol Bay	Leader Creek	183011	\$2,235,321	3/1/94	4.11%	20 years
<b>Loans made during FY 95</b>						
Craig	Wastewater	265011	\$1,000,000	9/14/94	4.45%	20 years
Anchorage	Regional Landfill	127051	\$10,062,000	12/2/94	4.74%	20 years
Anchorage	Girdwood Wastewater	127061	\$2,500,000	4/24/95	4.17%	20 years
<b>Loans made during FY 96</b>						
Nome	Solid Waste	627031	\$2,000,000	7/19/95	3.99%	20 years
Anchorage	Eagle River TID	127071	\$2,500,000	10/30/95	3.86%	20 years
Anchorage	Miscellaneous Projects	127081	\$3,015,000	1/12/96	3.74%	20 years

## Alaska Clean Water Fund

### Project List

July 6, 1995

Municipality	Project Title	Score	Amount	Cumulative
Projects to be Funded from Existing EPA Capitalization Grant				
Statewide	Planning and Design		\$614,287	\$614,287
Anchorage	Merrill Field Leachate Collection System		\$4,875,000	\$5,489,287
Yakutat	Wastewater Treatment Plant	85	\$200,000	\$5,689,287
Bristol Bay	King Salmon, Phase II	67	\$4,769,413	\$10,458,700
Klawock	STP Upgrade and Int.	46	\$1,500,000	\$11,958,700

## Alaska Clean Water Fund

### Project List

July 6, 1995

Municipality	Project Title	Score	Amount	Cumulative
Projects Seeking Funding from FFY 96/97 Capitalization Grant				
DEC	Administrative Costs		\$578,240	\$578,240
Juneau	Goat Hill Sewer Phase II	73	\$770,000	\$1,348,240
Kodiak	Wastewater Treatment Plant Project	70	\$4,880,500	\$6,228,740
Bristol Bay Borough	Borough Landfill Expansion	69	\$285,000	\$6,513,740
Homer	East Trunk-STP to Lake Street	67	\$626,000	\$7,139,740
Bristol Bay Borough	King Salmon Sewer Phase III	67	\$1,576,265	\$8,716,005
Anchorage	Middle Fish Creek Trunk	65	\$3,000,000	\$11,716,005

**Alaska Clean Water Fund  
Project Planning List  
July 6, 1995**

<b>Municipality</b>	<b>Project Title</b>	<b>Score</b>	<b>Amount</b>	<b>Cumulative</b>
Craig	Wastewater Plant Reconstruction	66	\$4,000,000	\$4,000,000
Unalaska	Solid Waste Facility, Phase I	66	\$3,500,000	\$7,500,000
Anchorage	C-5-7 Trunk R&R	65	\$3,000,000	\$10,500,000
Nome Joint Utility	Wooden Utilidor Upgrade	63	\$2,000,000	\$12,500,000
Valdez	Robe River Subdivision Sewer Interceptor	54	\$5,024,900	\$17,524,900
Petersburg	Scow Bay Sewer Extension, Final Phase	54	\$2,064,000	\$19,588,900
Petersburg	Sludge De-watering Facility	53	\$1,115,000	\$20,703,900
Fairbanks	Wastewater Sludge Disposal	47	\$9,500,000	\$30,203,900
North Slope	Anaktuvuk Pass Sewer	47	\$3,000,000	\$33,203,900
North Slope	Point Hope Sewer Project	47	\$3,000,000	\$36,203,900
North Slope	Point Lay Sewer Project	47	\$3,000,000	\$39,203,900
North Slope	Wainwright Sewer Project	47	\$3,000,000	\$42,203,900
Fairbanks	Ft. Wainwright Interceptor Rehabilitation	47	\$800,000	\$43,003,900
Unalaska	Wastewater Secondary Treatment	46	\$9,000,000	\$52,003,900
Unalaska	Primary Wastewater Treatment Facility	46	\$7,500,000	\$59,503,900
Anchorage	Pt. Woronzof Incinerator	42	\$6,000,000	\$65,503,900
Dillingham	Northeastern Townsite Sewer	37	\$898,976	\$66,402,876
Dillingham	Area 5 Phase I & II	37	\$1,390,505	\$67,793,381
Dillingham	Area 4 Phase I & II	34	\$2,011,280	\$69,804,661
Sand Point	Harbor Sewer Extension	34	\$300,000	\$70,104,661
Fairbanks	Van Horn & South Cushman Sewer	33	\$900,000	\$71,004,661
North Pole	Highway Park/Badger-Hurst Sewer	29	\$2,850,000	\$73,854,661
Fairbanks	International Industrial Ave. Sewer, Ext.	29	\$850,000	\$74,704,661
Fairbanks	E.M. Jones Sewer Extension, Phase I	29	\$2,600,000	\$77,304,661
Fairbanks	Industrial Park Sewer Ext.	29	\$850,000	\$78,154,661

January 23, 1996

SENATE BILL 207  
HOUSE BILL 401

SECTIONAL ANALYSIS

Introduction

Senate Bill 207 (the bill) and its counterpart, House Bill 401, will authorize the state bond committee (committee), which consists of the commissioners of the Departments of Administration, Commerce and Economic Development, and Revenue, to issue and sell state revenue bonds to fund public wastewater treatment systems, solid waste management systems, nonpoint source water pollution projects, and estuary conservation management projects. The bill authorizes the Department of Environmental Conservation (DEC) to use the Alaska clean water fund (fund), a revolving loan fund, as security for the payment of the principal and interest on the bonds, provided the bond proceeds are deposited in the fund.

The Alaska clean water fund and the proposed bond program are designed to comply with requirements for participation in a federal matching grant program under the Clean Water Act and, therefore, do not present any problem under the dedicated funds prohibition of the State Constitution.

By using the Alaska clean water fund as security for the bonds, the state will be able to leverage or increase the amount of money in the fund that is available to municipalities and state agencies for water pollution control projects.

Section 1. Section 1 of the bill recognizes that the proposed bond program is an appropriate use of the public credit, and that it will serve a public purpose by allowing public water pollution control projects to be financed and constructed much sooner than would otherwise be possible. This statement of the policies and purposes underlying the bill will also reflect the legislature's

intent that the bonds to be issued are revenue bonds.

Section 2.

This section of the bill will create a new article, article 3A, in Title 37, the public finance title of the Alaska Statutes.

Sec. 37.15.560. BOND AUTHORIZATION - Authorizes the state bond committee to issue and sell revenue bonds to raise money to be deposited in the Alaska clean water fund. This section characterizes the Alaska clean water fund as a public enterprise of the state and the proposed bonds as revenue bonds. Under the Alaska Constitution, state-issued revenue bonds do not require voter approval. This section authorizes the committee to enter into agreements and perform those functions that are normally required to accomplish the task of issuing and selling bonds.

Sec. 37.15.565. BOND REDEMPTION FUND - A bond redemption fund is established. This is a standard financing technique for making it easier and more accountable to perform the many functions necessary in the bond issuance and sales process. Also, to provide accountability for any future principal and interest payments and any premium redemptions on the bonds. The state bond committee will be responsible for administering the bond redemption fund, and may invest the proceeds of the bond redemption fund according to the 'prudent investor' standards established in AS 37.10.070, providing the earnings on these investments are retained in the bond redemption fund.

Sec. 37.15.570. BOND TERMS - The state bond committee may issue, sell, or redeem the bonds so as to achieve the greatest advantage for the State. The committee can make decisions based upon the market conditions, and does not require approval of another agency to execute these decisions. The committee will decide the level of security required from the Alaska clean water fund and the portion of the fund that will provide this collateral security. The committee may appoint a trustee to perform all necessary functions. The committee must give due regard to the continued funding of projects under the

Alaska clean water fund, including applicable state and federal requirements. Any such decisions made by the committee and expressed in a bond resolution are conclusively deemed to comply with the requirements of the legislation pertaining to the bond program.

Sec. 37.15.573. BOND RESOLUTION - The committee must adopt a bond resolution to issue bonds. The resolution will contain those terms and conditions necessary to identify and define the bonds and the bond sales process.

Sec. 37.15.575. STATE AID INTERCEPT - This section defines the procedure for allowing the State to intercept or garnish other legitimate sources of State aid should a community default on a loan from this fund. This paragraph is included in the legislation to enhance investor confidence in the program, improve the bond rating, and ultimately, lower program costs.

Sec. 37.15.580. PLEDGE OF THE STATE - This provision recognizes that the state may not alter the terms and conditions of a bond resolution by subsequent executive or legislative action.

Sec. 37.15.583. ENFORCEMENT BY BONDOWNER - To resolve any disagreements between the bondowners and the committee, 10 percent or more of the bondowners of any series or issue can bring suit in state superior court in Juneau. The ten percent threshold was selected to discourage frivolous litigation.

Sec. 37.15.585. AMOUNTS REQUIRED FOR PAYMENTS - Each year the committee will inform the commissioners of the departments of Environmental Conservation and Revenue of the amounts needed in that year to pay for the bonds. The notice will be given at this time so that the departments will be able to incorporate these numbers into their financial planning for the next fiscal year.

Sec. 37.15.587. PURPOSES AND SUFFICIENCY OF REVENUE - Bond proceeds will be used to build projects that are eligible under the clean water fund program. The committee will not issue bonds unless there is enough security available in the fund to make it prudent to issue the bonds.

Sec. 37.15.590. REFUNDING - If it is in the best interests of the State, the committee may refund all or some of the bonds. The committee will follow the defined procedures to conduct the refunding process. The committee may appoint a trustee to conduct this process. The trustee may invest funds in short-term federal instruments until the refunding proceeds are needed.

Sec. 37.15.595. BONDS AS LEGAL INVESTMENTS - The bonds are legal investments and can be traded and sold between institutions and persons. The State may accept them as security for the State and Municipal debts.

*Deleted by [unclear]*  
Sec. 37.15.600. STATUTORY CONSTRUCTION - The statute is to be liberally construed to give effect to the public purpose of providing for the financing and construction of public water pollution control projects.

Sec. 37.15.605. REGULATIONS - The committee can adopt regulations to implement this program.

Sec. 37.15.605. Definitions - This sections contains the definitions applicable to the bond program.

Section 3 - 12. Sections 3 - 12 of the bill amend AS 46.03.032, the statute that establishes the Alaska clean water fund.

Section 3. AS 46.03.032(a) - The Alaska clean water fund statute is amended to allow the fund to receive money from the sale of bonds and this money may be placed in a special account of the fund.

Section 4. AS 46.03.032(b) - The provisions of the Alaska clean water fund statute are to be given liberal interpretation to further their purpose of providing financing for the construction of water pollution control projects. The DEC will administer the fund consistent with the state and federal requirements applicable to the fund and with the requirements of the bond legislation.

Section 5. AS 46.03.032(c) - This section makes a technical correction in the citation of the Clean Water Act, to follow the proper citation form and to refer to the Clean Water Act as amended.

Section 6. AS 46.03.032(d) - This section reorganizes the existing statute into a more understandable form. [It also authorizes use of the fund to secure state-issued bonds,] and authorizes use of the fund to pay the principal and interest on the bonds and the costs of issuing and administering the bonds. The proceeds of the bond sale must be deposited into the fund.

Section 7. AS 46.03.032(f) - This section also reorganizes the existing statute into a more logical format and allows DEC to spend money from the fund to administer the bond program.

*modified title*  
Section 8. AS 46.03.032(g) - The existing statute is amended to allow a [state agency] to receive loans from the fund. Currently, only municipalities may do this. Nationwide it has been recognized that the state environmental agencies that normally run the clean water funds don't always have authority over all environmental situations. This is especially true for nonpoint source pollution problems that affect plant and animal populations that would normally be considered part of the jurisdiction of the Departments of Natural Resources or Fish and Game. [Allowing DEC to make loans to other state agencies will provide a tool to enable these organizations to cooperatively address these interagency environmental problems.] Also, the section is amended to make it clear that the potential borrowers will demonstrate their credit-worthiness prior to loan commitment.

Section 9. AS 46.03.032(j) - This section amends the existing statute to accommodate the references to the bond issuance program. Some technical changes are also made to reference AS 46.06.021, the solid waste statute that establishes project priorities, rather than repeat them in full in the Alaska clean water fund statute.

Section 10. AS 46.03.032(k) - In addition to the reports the department already prepares for the program, DEC will prepare reports necessary for the committee.

Section 11. AS 46.03.032(o) - The definitions section includes one technical change in the terminology used to refer to solid waste management projects and adds a new definition for the term ["state agency."] *"Other qualified entities"*

Section 12. AS 46.03.032(p) - This new subsection provides that any inconsistencies between any regulations adopted by the state bond committee under Title 37 and those adopted by DEC under Title 46 involving the Alaska clean water fund program will be resolved in favor of the Title 37 regulations.

Section 13. Clarifies that the portion of this legislation that is entitled ENFORCEMENT BY BONDOWNER would affect a change in Civil Procedure 3 and require all actions to be filed in Superior Court in Juneau.

Section 14. Recognizes that in order for all actions to be filed in Superior Court in Juneau, the second part of the paragraph that is entitled ENFORCEMENT BY BONDOWNER must receive a two-thirds majority vote of each house; otherwise that portion will not take effect.

**SB**

**210**

# LEGAL SERVICES

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## MEMORANDUM

May 5, 1996

**SUBJECT:** Amendment K.1 to CSSB 210(STA) (Work Order No. 9-LS1314\K.1)

**TO:** Senator Bert Sharp

**FROM:** Jack Chenoweth  
Legislative Counsel 

With respect to the amendment, please be advised:

Until a few weeks ago, based on a very old Opinion of the Attorney General, I would have cautioned you as a matter of course that this proposal to dedicate the tax increment constituted a violation of the dedicated fund prohibition of article IX, section 7. Now, as a result of recent further research by Legislative Counsel Mike Ford, I believe that conclusion is not so certain.

The drafting of the amendment reflects the possibility that the dedication might not be found unconstitutional.

Under AS 43.50.140, the proceeds derived from the original tobacco tax are required to be paid into the school fund. This fund avoids the constitutional prohibition against dedicated funds contained in Article IX, sec. 7, of the Alaska Constitution because the fund existed at the time the Alaska Constitution was ratified by the voters. Specifically, the Alaska Constitution provides that the dedicated funds prohibition does not "prohibit the continuance of any dedication for special purposes existing upon the date of ratification of this section by the people of Alaska." The two main motivations for the ban on dedicated funds are to maintain the potential of flexibility in budgeting and to ensure that the legislature does not abdicate its responsibility in making budget decisions. Fairbanks v. Convention & Visitors Bureau, 818 P.2d 1153, at 1158 (Alaska 1991).

A question was raised as to whether the Alaska Constitution allows the legislature to change the amount of the tax, without affecting the status of the school fund as an exception to the dedicated fund rule. In 1959, the Attorney General issued opinion No. 7, that concluded that the "legislature has no power to raise or lower the dedication by increasing or decreasing the tax or license fee or the rate thereof which is set aside." 1959 Opinion No. 7, at page 5.

Senator Bert Sharp

May 5, 1996

Page 2

This conclusion is, however, contradicted by the minutes of the constitutional convention. In discussing the language in Article IX, sec. 7, at the constitutional convention, the question arose as to the effect of this section regarding a change to the rate of taxation in a dedicated fund. The committee with the responsibility for writing Article IX was the committee on Finance and Taxation. The spokesman for that committee was Barrie M. White. The following discussion with Delegate White and other delegates illustrates the intent of the framers of the Alaska Constitution:

R. RIVERS: May I make a correction? When I was illustrating the gas tax about the going up to six, no that would be wrong, because absolutely allowing allocations as exist at the time this constitution is ratified would fix the ceiling. I am sure, as to how high they could go. I'll call this the closing, if you wish, Mr. McCutcheon. But certainly they could go through. Now, when Mr. Taylor read my proposed amendment, he said "allocations allowed at the time this goes into effect" and he may have inadvertently omitted "continuance of". All I'm objecting to is this "continuance of". I'm in accord with their idea of not letting any more allocations come along, but when you say "continuance of" allocations I immediately think of the rate of allocations as well as the subject matter. Now if they are only going to allow allocations on particular subjects that are now covered by allocations then I have no quarrel with them whatsoever but I am sure that's not the intent of the Committee. The Committee intends to allow such rates of allocations as will exist when this constitution is ratified but no one may go beyond those rates in the future and if they ever drop down, this continuance business does not allow them to re-enact.

PRESIDENT EGAN: Mr. McCutcheon.

MCCUTCHEON: Mr. President, if as Mr. Rivers deduces, the terminology of this sentence means that the rates are frozen. The principle behind this sentence is not that the rates are frozen, it is the principle of allocating earmarked funds. It is not a matter of percentage wise, it is a theory of earmarked funds and I can't see his argument in this by striking out "continuance". He proposes that this is going to cure the proposition of a freeze. He thinks it is a freeze. It is not a freeze in any respect of the word as far as I can see; it is a matter of a theory of earmarked funds and doesn't have anything to do with dollar and cents or percentages.

PRESIDENT EGAN: Mr. Victor Rivers.

V. RIVERS: Mr. President, I would like to ask the Committee what their intent was on that. I would like to hear what they say.

PRESIDENT EGAN: Do you wish to answer that, Mr. White?

WHITE: I think I can answer for all the Committee on that, Mr. Rivers. It is not the intent of the Committee that this be interpreted to mean a freeze in any way, shape, or form. The Committee feels that the objections raised by Mr. Rivers are covered by the existing language. The reason the Committee resists the deletion of the words "continuance of" is that it would then mean that the legislature could discontinue a presently earmarked fund next year and then 50 years from now bring it back into being. We do not intend that that be the case.

V. RIVERS: If you are not freezing an amount, could they raise an existing allocation under this? On the gasoline tax could they raise that to six per cent according to your thinking on this?

WHITE: Certainly they could.

V. RIVERS: If they lowered it down to three could they then re-enact two more after that?

WHITE: The Committee intends that this not have any reference to rates at all. The Committee intends that this apply to the allocation of particular taxes to a particular propose and no more than that.

V. RIVERS: I just wanted this in the record. Now if they wipe it out altogether, discontinue it, it's gone forever, is that right?

WHITE: That is right.

V. RIVERS: But if you discontinue half of it, you can raise it back up?

WHITE: That would mean that.

(Emphasis added). This discussion indicates a clear intent on the part of the delegates to allow a change to the rate of taxation without affecting the status of a dedication of the proceeds of the tax. While the intent of the constitutional framers has weight, the final decision on interpretation of the Alaska Constitution rests with the Alaska Supreme Court. It is possible that the court would disagree with the intent expressed in the constitutional minutes and find that any change to the rate of tobacco taxation destroys the status of the school fund as an exception the dedicated fund rule. Nonetheless, comments by delegates to the constitutional convention do have some bearing on the decision making process of the Alaska Supreme Court. In Starr v. Hagglund, 374 P.2d 316, 319 (Alaska 1962), the court stated that

Senator Bert Sharp

May 5, 1996

Page 4

opinions of individual members of the constitutional convention are not considered to be a safe guide in ascertaining the purpose of a majority of the convention when adopting a particular provision. But reports of committees and statements of chairmen of such committees stand on more solid footing and may be resorted to in determining the intent of the enacting body.

(Emphasis added) Therefore, the comments of Mr. White, as chairman of the committee on finance and taxation, may be persuasive to the court as to this legislature's ability to raise the rate of a dedicated tax without destroying the dedication.

JBC:glc

96-277.glc

A M E N D M E N T

OFFERED IN THE SENATE

BY SENATOR SHARP

TO: CSSB 210(STA)

1 Page 1, line 4, through page 2, line 2:

2 Delete all material and insert:

3 \*\* Section 1. AS 43.50.190 is amended to read:

4 Sec. 43.50.190. ADDITIONAL TAX LEVY ON CIGARETTES. (a) There  
5 is levied an excise tax of 62 mills [12 MILLS] on each cigarette imported or acquired  
6 in this state.

7 (b) The tax levied by this section is in addition to the tax levied by  
8 AS 43.50.010 - 43.50.180. The tax shall be administered and collected in the same  
9 manner as the tax levied by AS 43.50.010 - 43.50.180 [, EXCEPT THAT RECEIPTS  
10 FROM THE TAX SHALL BE DEPOSITED IN THE GENERAL FUND]. The  
11 penalties provided in AS 43.05 apply to the tax levied in this section.

12 • Sec. 2. AS 43.50 is amended by adding a new section to read:

13 Sec. 43.50.195. DISPOSITION OF PROCEEDS. The proceeds derived from  
14 the payment of taxes under AS 43.50.190 shall be paid into the "school fund"  
15 established in AS 43.50.140.

16 • Sec. 3. AS 43.50.195 is repealed and reenacted to read:

17 Sec. 43.50.195. DISPOSITION OF PROCEEDS. The proceeds derived from  
18 the payment of taxes under AS 43.50.190 shall be paid into the general fund and may  
19 be appropriated for a purpose described in AS 43.50.140."

20 Renumber the following bill sections accordingly.

21 Page 2, line 13:

22 Delete "This Act takes"

23 Insert "Sections 1, 2, and 4 of this Act take"

1 Page 2, following line 13:

2 Insert a new bill section to read:

3 "• Sec. 6. Section 3 of this Act takes effect on the date that a final order is entered  
4 declaring AS 43.50.195, enacted by sec. 2 of this Act, unconstitutional as a violation of  
5 art. IX, sec. 7, Constitution of the State of Alaska."

**SAVING LIVES**

**and raising revenue**

**THE CASE FOR MAJOR  
TOBACCO TAX INCREASES  
IN ALASKA**

**Protect kids. Tax tobacco.**

## Executive Summary

*"Cigarette taxes ... are the most effective way to discourage tobacco use among young people. ... Increasing the cigarette tax could be one of the most important public health measures this country has ever taken."*

— former Surgeon General C. Everett Koop, appointed by President Ronald Reagan

**N**OTHING KILLS LIKE TOBACCO. In Alaska, one out of five deaths is caused by tobacco. In the United States, smoking kills almost 420,000 people per year — more than AIDS, alcohol, car accidents, fires, cocaine, heroin, murders, and suicides *combined*. Worldwide, tobacco kills 3 million people per year — someone every 10 seconds.

- **Tobacco use is the leading cause of death in Alaska.** When used as intended, tobacco kills.
- **Adults don't start smoking — kids do.** Almost all tobacco victims become addicted to nicotine as teens or younger. Nicotine is regarded by many authorities to be as addictive as heroin or cocaine. If we can stop kids from getting addicted, we can prevent needless disease and death later in life.
- **Tobacco companies spend over \$6 billion a year — about \$16.5 million each day — on advertising and promotion in the United States.** Tobacco industry advertising is very effective at reaching children. About 91% of 6 year olds recognize the Old Joe Camel cartoon character, about the same percentage that recognize the Disney Channel-Mickey Mouse logo.
- **Education alone does not work.** For many years, education has been the primary strategy to reduce tobacco use among children. Nevertheless, recent surveys show that smoking among youth is increasing.
- **Increasing tobacco taxes is widely recognized as the single most effective way to reduce tobacco consumption among children.** Children are price sensitive consumers. Research shows that a cigarette price increase of 10% can be expected to reduce consumption by an equal or greater amount by children. A \$1 per pack tax increase would reduce youth smoking in Alaska by an estimated 32%.
- **Tobacco taxation is an efficient and appropriate means to offset the enormous costs caused by tobacco.** Alaska's Long Range Financial Planning Commission concluded that a \$1 per pack increase in the state's cigarette tax would raise \$42 million in new revenues in the first year.
- **Alaska's current tobacco tax is below the national average, even though Alaska has one of the highest rates of tobacco-related death in the nation.** Nor have tobacco taxes in Alaska kept pace with inflation. In 1964, the year that the first Surgeon General's report on smoking and health was released, the state tax comprised 24% of the retail price of cigarettes. Today it is only 14%.
- **The public supports tobacco taxes.** A January 1996 statewide survey found that 74% of Alaskans support an increase of \$1 per pack in the state excise tax on cigarettes.

## Why Single Out Tobacco?

*"If, in the United States, five 727s with 200 people crashed every day of every week of every month of every year, sooner or later someone would say, 'We've got to do something about this.'"*

— Dr. John Allen (past president)  
American Lung Association

**T**OBACCO IS A UNIQUE PRODUCT BECAUSE OF THE STAGGERING TOLL IT TAKES ON THE LIVES OF MILLIONS. Each year, tobacco kills more Americans than AIDS, alcohol, car accidents, fires, illegal drugs, murders, and suicides *combined*. It is the only legal product that when consumed exactly as the manufacturer intends, causes addiction, disease, and death.

- **Tobacco is unique in the number of Americans it kills.** Each year 419,000 Americans die from smoking. That's 1,100 Americans each day, one every 75 seconds. One of every five deaths in the U.S. — and in Alaska — are caused by tobacco. Tobacco kills more than *one out of three long-term users*, half of whom die in middle age.
- **Virtually all new users of tobacco products are children.** Almost 90% of all smokers started before the age of 19. The average age of initiation is 14.5 years. Adults don't start smoking — kids do. The same is true of smokeless tobacco use.
- **Tobacco is unique because it is harmful to all users at all doses.** There is no safe level of tobacco use. Smoking just two cigarettes a day doubles one's risk of lung cancer and increases the risk of heart disease and stroke.
- **Tobacco use produces no health benefits.** Unlike some food products which provide nutritional benefit but also contribute to the risk of heart disease under certain circumstances, tobacco provides no nutritional benefit and is harmful under all circumstances. Unlike alcohol, tobacco kills even when used in "moderate" amounts.
- **Tobacco smoke kills users and non-users alike.** The American Heart Association estimates that 52,000 deaths a year are caused by exposure to second-hand smoke, making environmental tobacco smoke the third leading cause of death in the nation (behind active smoking and alcohol abuse). Viewed another way, this means that for every eight smokers that the tobacco industry kills, it takes one non-smoker with them.
- **Tobacco is unique because it contains nicotine, a highly addictive drug.** Researchers widely regard nicotine to be as addictive as heroin or cocaine. Withdrawal from nicotine addiction is like withdrawal from other highly addictive substances: difficult and painful. Seventy percent of smokers say they want to quit, and millions try to quit each year, but only 2.5% succeed in any given year.

# Tobacco Taxes and Kids

*"There is widespread agreement ... that few measures exhibit the speed and magnitude of impact achieved by increasing taxation on tobacco products. [I]ncreasing tobacco excise taxes must be considered an essential and primary component of any comprehensive tobacco control program."*

— *The Impact of Cigarette Excise Taxes on Smoking Among Children and Adults*  
National Cancer Institute (August 1993)

**E**VERY DAY IN THE UNITED STATES, ABOUT 3,000 CHILDREN JOIN THE RANKS OF CIGARETTE SMOKERS. The average age is 14.5 years old. Of these 3,000 new smokers, we can expect that 30 will be murdered, 60 will die in traffic accidents, and 1,000 will be killed from smoking.

- **Adults don't start smoking — kids do.** Some 89% of adults who smoke began using cigarettes by or at age 18. If children can be dissuaded from smoking they almost always lose interest by the time they reach 19, greatly reducing their chance of premature death.
- **Youth smoking and smokeless tobacco use rates in Alaska are higher than the national average.** In 1989, 23% of high school seniors in Alaska reported that they smoked daily. Eighteen percent of 12th grade boys reported daily use of chewing tobacco.
- **As tobacco taxes are increased, youth consumption will drop.** Research shows that a price increase of 10% in cigarettes can be expected to produce a 10% decrease in consumption by youth. A substantial part of the decline is a result of children who will not initiate smoking at higher prices.
- **Children are more influenced by tobacco prices than adults.** Children who smoke may not yet be addicted, and generally have less disposable income. A significant price increase in tobacco products will discourage kids from starting to smoke, while encouraging current smokers to quit or cut back.
- **Experience in Canada demonstrates that increased tobacco taxes will substantially reduce smoking among kids.** During the 1980s, Canada raised tobacco taxes from rates comparable to current U.S. rates to about \$3 (U.S.) per pack. Between 1981-1991, teen smoking declined by more than 60% in Canada while it remained relatively constant in the U.S. (See Figure 1.)
- **In 1994, the Alaska Department of Health and Social Services recommended a \$2 per pack increase in state cigarette taxes as part of its Cancer Control Plan.** The research team concluded: "Preventing tobacco use by children is the key challenge in tobacco use reduction, and a substantial excise tax increase is our strongest weapon. No other measure can have as great an impact on the public's health and that of our children."

Figure 1: Real cigarette prices and cigarette smoking among Canadians age 15 to 19



# Tobacco Taxes and the Economy

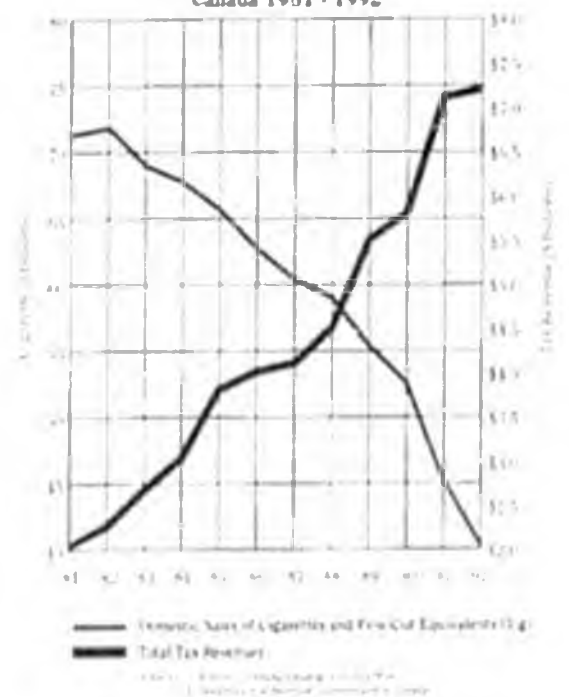
*"State tobacco tax revenues are up. Monies collected from the tobacco tax are on target... . This is good news. Cigarette consumption in Michigan is down, as was expected and predicted by health and treasury officials. ... Reduced consumption is also good news. ... [M]illions of dollars in health care costs for smoking related disease will be saved as a result of reduced consumption."*

— Douglas B. Roberts, Michigan State Treasurer (July 1995)  
Statement regarding Michigan tobacco tax increase to 75 cents per pack

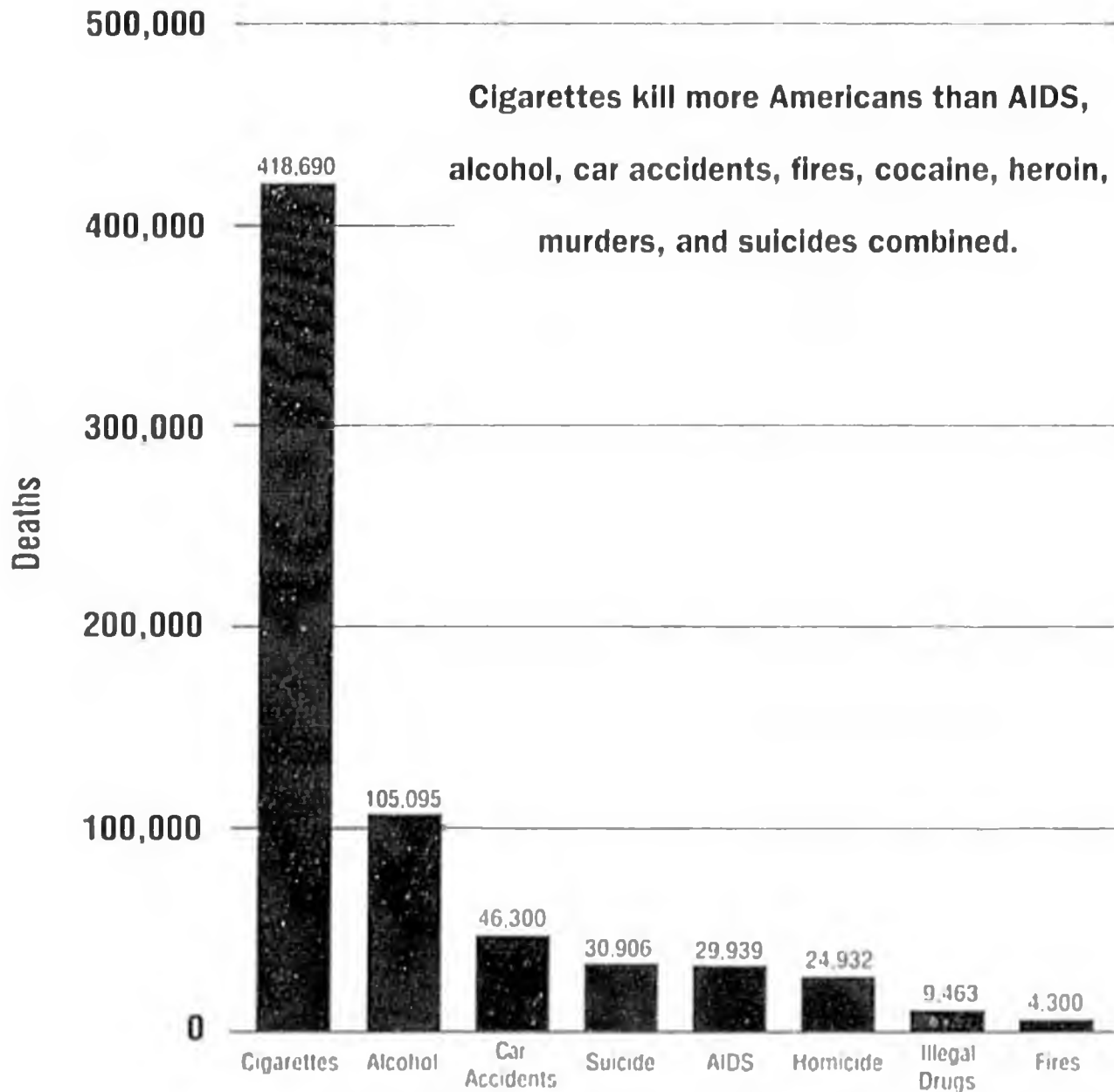
**S**MOKING CAUSES MORE THAN \$50 BILLION IN DIRECT HEALTH CARE COSTS EACH YEAR, according to the U.S. Centers for Disease Control and Prevention. Economic productivity losses add another \$50 billion, bringing the total cost of smoking to \$100 billion per year.

- In Alaska, smoking is responsible for 23% of all deaths among Alaskans age 35 and older. Direct health care costs attributed to smoking in 1991 for Alaskans in this age group were \$45.6 million. An additional \$82 million was lost due to indirect costs (lost productivity), bringing the total economic impact to \$127.6 million. For every dollar that's collected in tobacco taxes, the Alaskan economy loses \$7 from the impacts of smoking.
- Smokers use 50% more sick leave and use the health care system 50% more than non-smokers.
- Current and former smokers generate an estimated \$501 billion in excess health care costs over the course of their lives, even though smokers die an average of 12 to 15 years younger than non-smokers.
- Non-smokers pay for 75% of all government expenditures on smoking-related health care through taxes. Of the \$50 billion in U.S. health care expenditures caused directly by smoking in 1993, \$22 billion was paid for by government funds.
- The Alaska Long Range Financial Planning Commission has estimated that a tobacco tax increase of \$1 per pack on cigarettes and a comparable increase in taxes on other tobacco products would raise approximately \$43 million annually. The Commission concluded: "This tax increase will dramatically lower teenage smoking and reduce tobacco use by adults, both of which will reduce the State's future expenditures on health care costs."
- Tobacco tax increases result in increased revenue and reduced consumption. (See Figure 2.) This is because for most of the population a 10% price increase will result in about a 4% sales decline (with higher declines among kids). The net effect of a tobacco tax increase is that more money gets spent on fewer cigarettes, resulting in major health *and* revenue gains.
- Increased tobacco taxes offer a win-win-win opportunity, simultaneously preventing tobacco addiction and death, reducing health care costs, and raising revenue.

Figure 2. Cigarette Sales Versus Tobacco Tax Revenue Canada 1981 - 1992



# Nothing Kills Like Tobacco



Source: Centers for Disease Control and Prevention, U.S. Dept. of Health and Human Services, 1990 data

# Tobacco Tax Rates in Other States

## STATE CIGARETTE EXCISE TAX RATES in cents per pack of 20, as of January 1, 1996

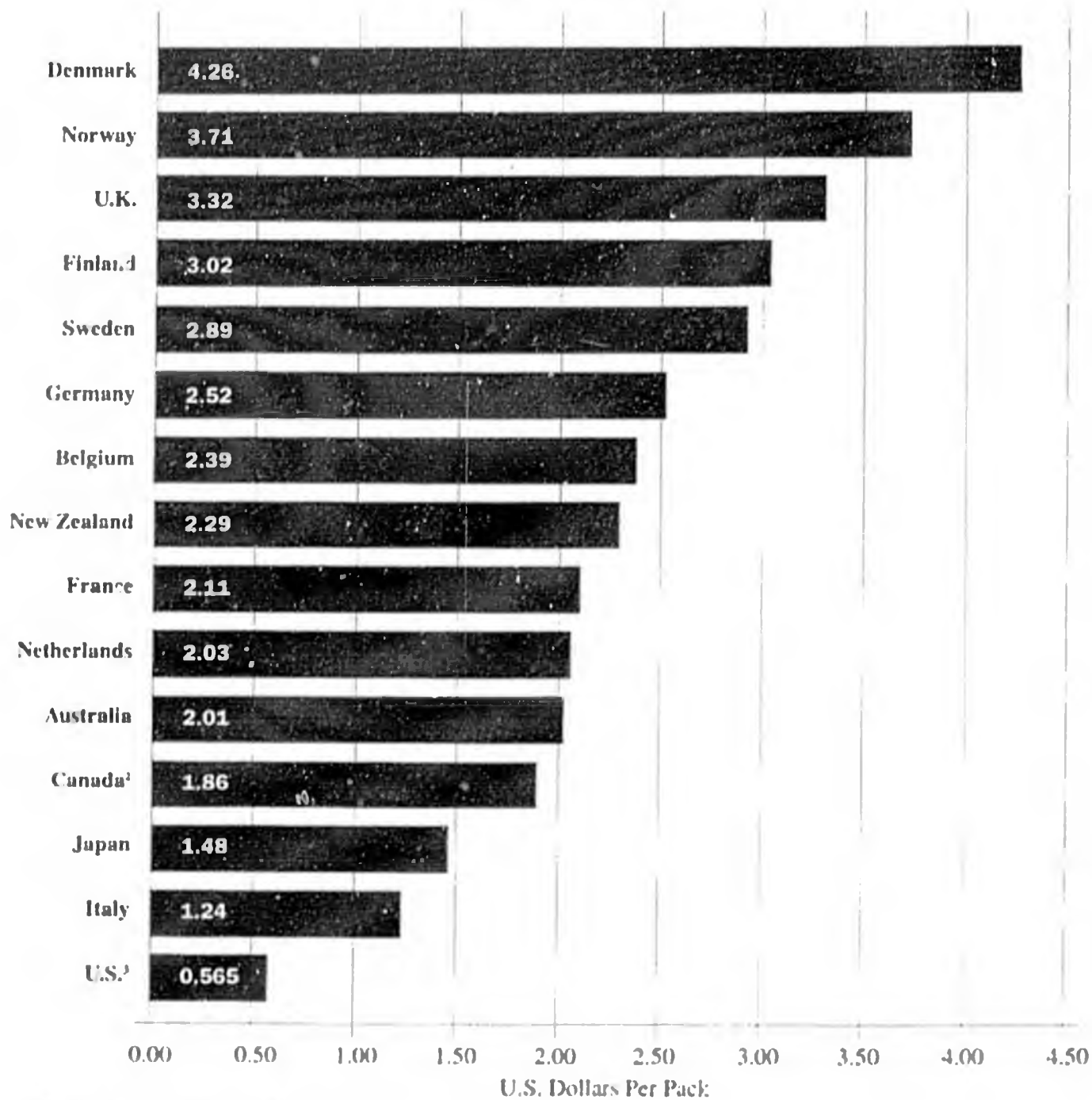
Washington*	81.5	Pennsylvania	31.0
Michigan	75.0	Alaska	29.0**
District of Columbia	65.0	Idaho	28.0
Hawaii	60.0	Utah	26.5
Arizona	58.0	New Hampshire	25.0
New York	56.0	Delaware	24.0
Rhode Island	56.0	Kansas	24.0
Massachusetts	51.0	Ohio	24.0
Connecticut	50.0	Oklahoma	23.0
Minnesota	48.0	New Mexico	21.0
Illinois	44.0	Colorado	20.0
North Dakota	44.0	Louisiana	20.0
Vermont	44.0	Mississippi	18.0
Wisconsin	44.0	Montana	18.0
Texas	41.0	Missouri	17.0
New Jersey	40.0	West Virginia	17.0
Oregon	38.0	Alabama	16.5
California	37.0	Indiana	15.5
Maine	37.0	Tennessee	13.0
Iowa	36.0	Georgia	12.0
Maryland	36.0	Wyoming	12.0
Nevada	35.0	South Carolina	7.0
Nebraska	34.0	North Carolina	5.0
Florida	33.9	Kentucky	3.0
South Dakota	33.0	Virginia	2.5
Arkansas	31.5		

\* Washington tax increases by 1c on 7/1/96.

\*\*Alaska's tax last raised in 1989.

*See back for international tobacco excise tax rates.*

**TAXES ON CIGARETTES<sup>1</sup>**  
**IN MAJOR INDUSTRIALIZED NATIONS**  
 (as of March 22, 1995)



<sup>1</sup> Data based on pack of 20 cigarettes

<sup>2</sup> Average of provinces

<sup>3</sup> Average of 32.5 cents in state taxes and across-the-board 24 cents in federal tax

International data provided by the Non-Smokers' Rights Association of Canada and U.S. data extracted from *The Tax Burden on Tobacco*, Tobacco Institute, 1994, list produced by the Tobacco Tax Policy Project, American Cancer Society.

# The Tobacco Industry

*"The evidence is unequivocal — the U.S. public has been duped by the tobacco industry. No right-thinking individual can ignore the evidence. We should all be outraged... ."*

— Journal of the American Medical Association (July 1995)

**N**ICOTINE ADDICTION IS BIG BUSINESS IN AMERICA. Total net profits of the major tobacco companies in the United States approach \$7 billion annually. These companies spend over \$6 billion a year on advertising and promotion alone — \$16.5 million per day. Only automobiles are more heavily promoted. The most damning information and insights regarding the tobacco industry come from within the industry itself:

- **On addiction** — In public, the industry denies that tobacco is addictive. In April 1994, in testimony before Congress, the heads of the nation's seven largest tobacco companies argued that nicotine is not addictive. William I. Campbell, who was then president of Philip Morris, stated: "I really don't accept that smoking is addictive." In private, however, the tobacco industry has long acknowledged the obvious:

***"We are, then, in the business of selling nicotine, an addictive drug."***

So wrote Addison Yeaman, General Counsel to the Brown & Williamson Tobacco Co., in an internal memo more than three decades ago (1963). In recent years, tobacco company documents show that the industry has been using ammonia-based additives to boost the impact of nicotine in cigarettes. "With ammonia, you get a bigger jag with less nicotine because it is absorbed faster..." acknowledged John Kreisher, formerly of the industry-funded Council for Tobacco Research.

- **On marketing to kids** — Tobacco industry executives have known for years that almost all new smokers are kids, and that the tobacco companies must appeal to children to maintain profitability. From *Planning Assumptions and Forecast for the Period 1977-1986 for R.J. Reynolds Tobacco Company* (March 15, 1976):

***"Evidence is now available to indicate that the 14-18 year-old group is an increasing segment of the smoking population. RJR-T must soon establish a successful new brand in this market if our position in the industry is to be maintained over the long term."***

The document was stamped "secret."

- **On tobacco industry tactics** — Victor Crawford, a former state senator from Maryland who later became a tobacco lobbyist, is now one of the industry's most knowledgeable critics. As a tobacco lobbyist, Crawford was paid up to \$200 per hour to buttonhole old colleagues and get them to back off on tobacco legislation. This all changed when he was diagnosed with throat cancer, a result of heavy smoking. Crawford says:

***"[A]nything goes... [the tobacco companies will use] ... any marketing gimmick, any trick, to make you want to smoke."***

Crawford speaks out against not only the dangers of tobacco, but also about industry marketing to teenagers. "It's too late for me," Crawford says, "but it's not too late for you. ... Don't let anybody fool you."

# Answering the Opposition



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**T**HE TOBACCO INDUSTRY ARGUES AGAINST INCREASED TOBACCO TAXES for the very same reason that doctors, nurses, health professionals, and other public interest organizations advocate for them — increased tobacco taxes reduce smoking and addiction among children.

A variety of arguments have been advanced by the tobacco industry regarding increased tobacco taxes. Presented below are some of those arguments and responses.

## 1. Argument: "The public doesn't want more taxes."

In fact, there is broad public support for major tobacco tax increases. As stated by former President Ronald Reagan's U.S. Surgeon General, C. Everett Koop: "Polls show that ... Republicans and Democrats, young and old, men and women [all] support a large cigarette tax." In Alaska, a 1996 statewide survey (Mathematica) found that 74% of respondents support a \$1 per pack tax increase. The support was consistent among conservatives, liberals, and moderates. Even 55% of the tobacco users surveyed support the tax increase.

Martilla & Kiley (April 1993) found that a majority of American voters in every region of the country of every age, income, and education level favored increasing tobacco taxes by \$2 per pack. Support was strong among both Republicans (63%) and Democrats (66%). Even leading tobacco-producing states such as Georgia, Kentucky, South Carolina and Virginia strongly supported tax increases. A CNN poll (March 1993) found that 83% of the voting public favors increasing tobacco taxes. A *Wall Street Journal*, NBC news poll found that 70% of adults support a \$2 per pack tax increase. Polls in other states confirm the same thing. Michigan residents recently passed a referendum to raise cigarette taxes 50 cents per pack (to 75 cents/pack) and the state legislature subsequently enacted the increase into law.

## 2. Argument: "The legislature should cut spending, not raise taxes."

The proposal to increase tobacco taxes is fundamentally a matter of health policy. Increased tobacco taxes will prevent addiction among children and save lives. Even if there were no "fiscal gap" in Alaska, a tobacco tax increase is justified to protect and promote the public health.

With state oil revenue declining, it is clear that State spending will be cut. Both the Legislature and the Administration have pledged to cut spending. But even after making extremely deep cuts, some level of taxation will still be needed to support basic services. Because tobacco taxes protect kids and save lives they enjoy broad public support and have been endorsed by all major health organizations, including the American Cancer Society, American Heart Association, and American Lung Association.

(continued on back)

**3. Argument: "Tobacco taxes are regressive."**

If there is an undue burden being placed upon the poor, it is the disease caused by tobacco — the heart attacks, strokes, and cancer which rob families of their wage earners. The notion that tobacco taxes will hurt lower income individuals is a misleading excuse to keep tobacco taxes low. Since there is evidence that the poor quit smoking in larger numbers in response to price increases, they will benefit to a greater extent than more affluent socio-economic groups. Finally, can it be considered *progressive* to perpetuate addiction, disease and early death?

**4. Argument: "Taxes should not be used for social engineering."**

All taxes produce changes in social behavior. State legislatures and local governments routinely influence social behavior through tax policy. Property taxes discourage property ownership. Sales taxes discourage retail sales. Capital gains taxes discourage profit taking and reinvestment. Oil taxes reduce resource development. Any tax that is levied produces a social and behavioral response. So long as there is a need for taxes to support basic services, it is reasonable to identify those taxes that will have a positive impact. Tobacco taxes will reduce disease and save lives, recover costs now inappropriately paid for by the public at large, and reduce long-term health care costs. In fact, today's low level of taxation — which does not reflect the huge costs of tobacco use paid for by society as a whole — amounts to "social engineering" by default.

**5. Argument: "It doesn't make sense that a government would use tax revenues from an activity it is trying to discourage."**

In fact, it is possible to have it both ways, as many governments have proven. From a health standpoint, it would be ideal if a tobacco tax increase could completely eliminate tobacco use. The fact is that even while tobacco taxes effectively reduce tobacco consumption, they also raise substantial new revenue. In Canada and New Zealand, as well as California and Michigan, significant tobacco tax increases have produced consistent results — revenues are up and consumption is down. Simply stated, more money is spent on fewer cigarettes. The Alaska Department of Revenue projects that a \$1 per pack cigarette tax increase in Alaska would yield new revenue of \$42 million in the first year after taking into account reduced tobacco consumption as a result of price increases. In its final report, the Long Range Financial Planning Commission also pointed out another fiscal benefit of tobacco taxation: By reducing tobacco-related health care expenditures, more money is left to pay for other public services.

**6. Argument: "Tobacco tax increases will lead to smuggling."**

The tobacco industry greatly exaggerates the concern of smuggling. In Alaska, the potential for cross-border smuggling of Canadian cigarettes is non-existent — even with a \$1 per pack increase in taxes, cigarettes would still be cheaper in Alaska than in Canada. Large scale smuggling through other avenues, such as military bases, is also not realistic, as such an operation would be easy to detect.

**7. Argument: "Tobacco taxes are unfair."**

Tobacco taxes are fundamentally a user fee and tobacco users are currently not paying their own way. In Alaska, for every dollar collected in tobacco tax revenue, the Alaskan economy loses \$7 due to smoking-related health care costs and lost productivity — \$2.26 for every pack of cigarettes sold. Increased tobacco taxes are justified for several reasons: 1) tobacco taxes are the most effective way to prevent young people from becoming addicted to nicotine; 2) smokers cost the general public in the form of added health care costs; and 3) most smokers want to quit, and raising the price of tobacco products provides an added incentive.

For more information on **SAVING LIVES and raising revenue**, contact:



Alaska Division, Inc.  
1057 W. Fireweed Lane, Suite 204  
Anchorage, AK 99503  
907-277-8696

American Heart  
Association

*Fighting Heart Disease  
and Stroke*



Alaska  
Affiliate

2330 E. 42nd Avenue  
Anchorage, AK 99508  
907-563-3111



1057 W. Fireweed Lane, Suite 201  
Anchorage, AK 99503  
907-276-5864

Alaska Native  
Health Board



1345 Rudakof Circle, Suite 206  
Anchorage, AK 99508  
907-337-0028

Ann  
File  
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**POSITION STATEMENT ON HB 431  
Additional Tax on Tobacco Products**

**Representative Jeannette James -  
Room 102, Capitol Building  
Juneau, Ak. 99801  
March 6, 1996**

JM

I have always been a non-smoker and have a strong dislike for smoking. You would think that I would jump at the chance to impose any amount of taxes on cigarettes and tobacco products, but I am not in favor of HB431. I am in support of efforts to reduce the number of smokers in general and especially those underage. It is true, habits and addictions that are acquired while a person is still growing are nearly impossible to break. I also understand that raising the price has shown in other areas of the U.S. and in Canada, to reduce the number of young smokers. But, I believe we need a comprehensive plan if we are truly going to make a real difference, part of which could be a tax program. Smoking is a terrible habit and extremely dangerous for a persons health. In Alaska, I don't believe that implementing this tax will, by itself, accomplish the desired goal.....and may cause other problems as unintended consequences.

"The Alaska Native Community-Oriented Tobacco Project" implemented a program in three villages from 1991 to 1994. They accomplished some success by implementing a program to stop children from smoking in the school, with the family and in the community. They were able to, (1) reduce the amount of recent tobacco use by children in grades 2-6 by 10%, (2) reduce by 10% the number who perceived themselves as smokers in the future, and (3) increase by 10% the number of children who report that their family talked about tobacco issues. Their project was very successful in two out of three villages where the program was tried. In the village where their goals were not reached, fewer family or community interventions were implemented. They concluded that, "The massive problem of tobacco use in Alaska will not be 'fixed' with a small Band-Aid."

It is interesting to note that all legislative surveys relating to the Long Range Financial Planning Commission's report indicate a large percentage of people would support "sin taxes", that is increasing taxes on tobacco and alcohol, but.....they say no to any new motor fuels tax. Does it make a difference who pays the tax before people support it? I think it does! It is easy to support a tax that someone else pays, and easy to rationalize that it is for their own good!

A letter I received from Jeanne Monk and Ron Gleason, co-facilitators of the Mayor's Task Force on Youth in Juneau said, "A statewide survey conducted in January 1996 found that 74% of the respondents support a \$1 a pack tax increase.....86% of the

respondents support the tax increase if it will prevent or reduce smoking among children and teenagers." Since the amount of smokers statewide is determined to be about 28%, it looks to me like those who don't smoke are willing to tax those who do and that 12% (86% - 74%) support the tax as a way to stop young people from smoking. The numbers would tend to indicate the other 74% support is for the money it will bring in.

Certainly I am willing to support a program that will stop children from taking up smoking. But this tax proposal is discriminatory and I fear it would collect from those less able to pay. If we need more money in the coffers, then we should all pay some!

People who are already addicted to smoking will not quit because it costs more. The net result will be that they will then have less money for food and other basic needs. According to a 1995 DHSS Youth Risk Behavior Survey 5.1% of high school age smokers stole their cigarettes and 18.6% of middle school age smokers stole them. (see attached charts) I fear making them more expensive will cause more stealing or black market availability. It is interesting to see these charts which indicates where these young people get their cigarettes.

We can make a difference if we enforce the law which makes it illegal to sell cigarettes to minors or for a minor to be in possession of tobacco products. HB365 will do that and I am a co-sponsor on that bill. This law would allow a person under the age of 19, working in cooperation with a peace officer, to make a controlled purchase of a product containing tobacco in order to obtain evidence of the violation of AS 11.76.100, (selling to a minor). In Juneau a group of concerned citizens have been working in this area. I understand as well that they have penalties for youth caught smoking. I am pleased to know there are those who would take an active role in these efforts. As long as we sit idly by and do nothing to enforce the laws already on the books and take the easy way out by enforcing a tax, we will never be able to get control over this issue.

Particularly in the bush areas, young people will stop smoking when it is not socially acceptable to do so and also when the parents understand that it is dangerous to their health. The 1991 Surgeon General's report "Preventing Tobacco Use Among Young People" concludes in part, "Adolescents with lower levels of school achievement, fewer resistance skills, friends who use tobacco and lower self-images are more likely to use tobacco. If the parents use tobacco, then the children are more likely to use tobacco. Community-wide efforts, which include tax increases, reduced access, mass media campaigns and school-based programs are successful in reducing adolescent use of tobacco." I believe if we are serious about addressing the adolescent smoking issue, we will put forth a comprehensive plan of which a tax increase is only a part and funds collected ought to be used to finance the rest of the plan. Using the tax as a method of beefing up our financial position as stated in the Long Range Financial Plan is not being honest about the reasons for the tax.

State of Alaska Epidemiology Bulletin, dated January 12, 1996 indicates that in Alaska the highest smoking prevalence is found in the Bush region, and the lowest in the Urban

region. A table indicating the percentages of men and women smokers both Alaska Native and All Races is reproduced here and extended to include the calculation excepting Alaska Natives:

	Alaska Natives who smoke	All Races who smoke	All other except Alaska Natives, who smoke
Men	46.5%	28.1%	24.73%
Women	39.3%	25.0%	22.47%

The fiscal note filed by the Income and Excise Division indicates an additional \$33.4 million could be expected if this tax were implemented this year. Using the above numbers to determine how much of this tax would be paid by Alaska Natives, \$20.6 Million would come from them.

I believe there is an economic unbalance already existing for Alaska Natives both living in the Bush and Urban areas, and it seems this is an **unfair** tax on them. I believe there are much better ways to encourage non-smoking among these people. People tend to live a healthier life style when they see real purpose and opportunity in their life.

Please note that those adolescents that are vulnerable to tobacco use have a greater need for building self esteem. Tobacco use is a symptom of other needs. Just removing the tobacco will not make the other needs go away. These young people need more attention than just taking tobacco away. These same children tend to have more problems, not because they use tobacco products, but because of other weaknesses. They need our total support. If we are going to help these children make a good place for themselves in society and live a healthy life style, we need to help the **whole** child. I understand the argument, "if just one child could be saved," but everything has its price and this price is too high!

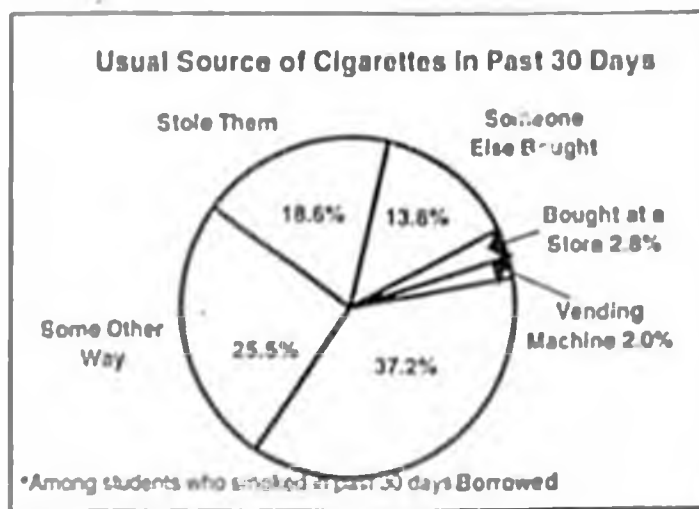
I have received many letters and POM's urging me to support this piece of legislation (and some in opposition, too.) I have tried here to explain to you my reasons for opposing the bill. I am willing and will support some comprehensive plan of which the main goal is to reduce smoking, but I don't believe HB431 is the right approach and in fact, I believe it will cause more problems than it solves.....and besides it is **not fair!**

**THE FOLLOWING CHARTS WERE TAKEN FROM 1995 ALASKA  
YOUTH RISK BEHAVIOR SURVEY (YRBS)  
DATE FEBRUARY 1996**

**Where are Students Getting Cigarettes?**

The most common way middle school students obtain cigarettes is by borrowing them from someone else (37.2% of smokers); very few middle school smokers purchased cigarettes themselves at a store or vending machine in the 30 days prior to the survey.

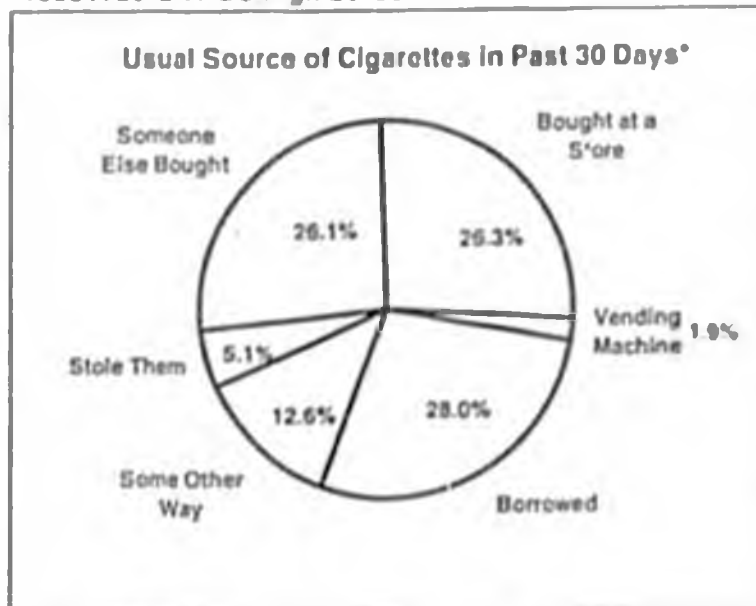
1995 Alaska YRBS-Middle School Results



**Where are Students Getting Cigarettes?**

During the 30 days prior to the survey, most Alaska high school students obtained cigarettes in the following ways: borrowed from someone else, someone else bought the cigarettes, or the student purchased his/her own cigarettes. Few use vending machines.

1995 Alaska YRBS-High School Results



\*\*\*\*\*

3/26/96

CSSB 210 (STA)

1. Remove indexing.
2. Intent language:

It is the intent of the legislature that, subject to appropriation, 10% of these new tax revenues shall be utilized for establishing an aggressive anti-tobacco campaign targeting children and administered by Department of Health and Social Services. Further, it is also the intent of the legislature that, subject to appropriation, an additional 10% of these new revenues shall be utilized by Department of Public Safety and as pass-through grants to municipalities to detect and prosecute those who purchase or otherwise supply tobacco to children.

SB 210/SB 234 - TOBACCO TAX

SB 234 - Tobacco Taxes

By Senate Rules by Request of LRFPC  
Referred STA, JUD, FIN

Increases excise tax on cigarettes from current 12 mils to graduated scale of 62 mils through 6/30/99, to 86 mils plus additional 12 mils each three year period after 6/30/2005. Also increases excise tax on smokeless tobacco from current 25 percent of wholesale to 100%.

		<u>School Fund</u>	<u>GF</u>
<u>Current tax = \$ .29</u>		<u>\$ .05</u>	<u>\$ .24</u>
10/1/96	= \$1.29	\$ .05	\$1.24
7/1/99	= \$1.53	\$ .05	\$1.48
7/1/02	= \$1.77	\$ .05	\$1.72
7/1/05	= \$2.01	\$ .05	\$1.96

SB 210 - Tobacco Tax

By Sen. Ellis  
Referred to STA, FIN

Identical to SB 234; further adds a CPI tax adjustment where warranted and provide a public notice of change.

Both bills have an effective date of 10/1/96.

.....  
3/26/96

CSSB 210 (STA)

1. Remove indexing.

Intent language: 10% of new revenue should be used for aggressive anti-tobacco campaign targeting children and 10% for enforcement grants to Albany to detect and prosecute those who purchase or otherwise apply tobacco to kids. *Albany*

1st administration by DISS *of Albany Albany*

2nd to \_\_\_\_\_ DPS *Albany Albany*

*Albany Albany*

The anti smoking campaign will be administered  
by DHEW. 15% of revenues should be allocated  
to DHEW as a source - through grant to states to  
implement? Start: percentage

Ajin Ellis's  
Tobacco Bill

Need CS to remove  
"indexing"

Intent language  
saying 10% of new  
revenue should be used  
for aggressive anti-tobacco  
campaign targeting kids  
and 10% for enforcement  
grants to ~~monitor~~ to select

Prosecute those  
who purchase or otherwise  
supply tobacco  
to kids.

1st Admin by  
DHS

2nd to of the  
DPS

3/26/96

CSSB 210 (STA)

1. Remove indexing.

Intent language: 10% of new revenue should be used for aggressive anti-tobacco campaign targeting children and 10% for enforcement grants to THC to detect and prosecute those who purchase otherwise apply tobacco to kids.

1st administration by DHSS

2nd to Yes Tancer <sup>#52025</sup> DPS

*pro. tobacco - grants  
allowance, etc*

# CORRECTION

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



Rev. 6/98

Central Microfilm Services  
Department of Education  
State of Alaska

3/26/96

CSSB 210 (STA)

1. Remove indexing.

Intent language: 10% of new revenue should be used for aggressive anti-tobacco campaign targeting children and 10% for enforcement grants to Michigan to detect and prosecute those who purchase otherwise apply tobacco to kids.

1st administration by DHSS

2nd to Michigan # 5 DPS

*part. in rev. share to grant  
allocate revenue, etc.*

**Response to Representative Jeannette James'****POSITION STATEMENT ON HB 431  
Additional Tax on Tobacco Products**

**by Anne M. Walker, Executive Director, Alaska Native Health Board  
March 12, 1996**

Yesterday I was stunned to read a position statement on House Bill 431 released by Representative Jeannette James that contains so many falsehoods and inaccuracies and misconceptions about Alaska Native people that I feel compelled to respond.

House Bill 431, introduced by Representative Con Bunde (R-Anchorage), would raise the state cigarette tax to \$1.29 per pack and the tax on other tobacco products to 100% of the wholesale price.

The Alaska Native Health Board strongly supports this legislation and has joined with the American Cancer Society, American Lung Association, and American Heart Association to lead a campaign for its passage. Our support is based on research which shows that a major increase in tobacco taxes is the single most effective and efficient tool we have to reduce tobacco use, especially among kids. The National Cancer Institute has stated that "tobacco taxation must be considered an essential and primary component of any comprehensive tobacco control program."

Despite the overwhelming evidence in favor of tobacco tax increases, and despite the fact that Alaska has one of the highest rates of smoking and smoking-related death in the country, our state cigarette tax is below the national average and has actually been allowed to fall significantly in real terms (due to inflation) for decades.

I would now like to address specific statements made by Representative James in her position paper on HB 431.

- Representative James writes, "In Alaska, I don't believe that implementing this tax will, by itself, accomplish the desired goal..."

Our response: No one within the tobacco control movement believes that a tobacco tax increase is THE answer to ending the epidemic of tobacco related death and disease in Alaska. But we have no reason to doubt American Cancer Society estimates that HB 431, if enacted, would bring about a 32% reduction in youth smoking in Alaska and a 16% reduction in smoking among adults. These figures cannot be ignored. They represent thousands of children who would be spared the tragedy of nicotine addiction and subsequent disease and early death caused by tobacco use.

Of course we support all efforts to reduce tobacco use in Alaska, including passage of clean indoor air laws, enforcement of existing youth access laws, and improved education and public awareness programs. We would point out that other states have used tobacco tax revenues to fund such efforts, with great success. Where does Representative James propose the money come from for these programs in Alaska? If she is sincere about wanting to fight the tobacco epidemic in Alaska, she

will support the current tobacco tax legislation and then sponsor additional legislation to fund other tobacco control programs.

- Representative James points to the Alaska Native Community-Oriented Tobacco Project as a model program because as a demonstration project, it was able to reduce recent tobacco use by elementary school children by 10% in two out of the three villages in which it was implemented. Representative James mentions that family and community interventions were the key to success in those two villages.

Our response: First of all, we would point out that a 10% reduction in tobacco use is a far cry from 32% (the estimated reduction in youth smoking if HB 431 is enacted). We would also point out that this little demonstration project cost \$314,000 to implement over three years. We do believe it is a worthwhile project and have supported its continuation past the demonstration phase. However, there is no longer any money available to hire community prevention workers, and the project has not been as successful since the money dried up.

Certainly tobacco taxes should not replace community development efforts. Alaska Native Health Board, and all of our member organizations, are actively involved in outreach efforts aimed at changing attitudes and norms about tobacco use in rural Alaska. But these efforts can be greatly aided by the economic disincentives for tobacco use resulting from tobacco taxation, as well as the revenues raised by a tobacco tax increase which could help fund valuable health promotion programs.

- Representative James refers to a tobacco tax as a "sin tax."

Our response: No wonder she feels tobacco taxes are unfair. She is viewing them as a punitive measure aimed at smokers instead of as a preventive health measure aimed at kids. We do not believe that smokers are sinners. We believe that smokers and non-smokers alike are victims of the tobacco industry. Tobacco taxes are *health taxes*, not sin taxes.

- Representative James refers to a statewide opinion poll which found that 74% of respondents support a \$1 per pack cigarette tax increase and that 86% would support it if they felt sure it would reduce smoking by youth. Representative James then goes on to say that she assumes it is non-smokers who support the tax and smokers who are opposed. She further assumes that support is stronger for alcohol and tobacco taxes than for motor fuels taxes because "other people" pay the "sin taxes."

Our response: The assumption that only non-smokers support tobacco taxes is absolutely false. The survey to which Representative James refers found that the 74% of Alaskans who support a \$1 per pack cigarette tax increase includes 55% of the smokers who were surveyed. Seventy-two percent of smokers said they would support the tax if they knew it would reduce youth smoking.

Furthermore, I would venture to guess that the reason alcohol and tobacco taxes are more popular than motor fuels taxes is not because fewer people use the products (most Alaskan adults consume alcohol, yet alcohol taxes are almost as popular as tobacco taxes); but because most of us recognize the damage done to

society by the use of these drugs and we also recognize that they are not essential commodities, like gasoline.

- Representative James writes that "people who are already addicted to smoking will not quit because it costs more." She further states that raising the price of tobacco products will simply lead to more stealing.

Our response: In fact, it is estimated that a \$1 per pack increase in the state cigarette tax would reduce smoking among adults by 16%. Almost three-fourths of Alaskan adult smokers *want to quit* (AK DHSS, 1993). Most smokers cite health concerns and financial concerns as their main reasons for wanting to quit (Centers for Disease Control, 1994). Believe it or not, there are smokers who support the tobacco tax increase precisely because they think it might provide the additional incentive they need to finally kick the habit. And they just might be right.

In regard to stealing: This problem is easily solved by keeping all tobacco products locked up or behind the counter. However, the tobacco companies pay store owners to keep cigarettes in easily accessible self-service displays. Other states have passed legislation to ban self-service displays for tobacco products. Representative James should consider sponsoring such legislation in Alaska.

- Representative James says that she supports efforts (and legislation such as HB 365) to improve enforcement of state laws against selling tobacco products to minors, and that she also favors stricter enforcement of laws banning possession of tobacco by youth.

Our response: House Bill 365 would allow kids to work with enforcement agencies in conducting underage sting operations to find out which stores are selling tobacco to minors (under age 19). This bill, if passed, may accomplish some good *if* police departments choose to take advantage of it. That's a very big *if*. I think it is safe to assume that in most communities around the state, this legislation will have no effect at all, just as most other youth access provisions have had no effect. A *tobacco tax increase, on the other hand, would have an immediate and substantial effect on tobacco consumption in every community in the state, at no cost to local police departments or state government.*

Regarding punishing kids for possession of tobacco: Wouldn't it make more sense to take steps to *prevent* nicotine addiction from occurring in the first place, than to go after kids who are already addicted? And how does Representative James propose to pay for the extra personnel who would spend their time stalking young smokers and handing out tickets?

- Representative James states that of the \$33.4 million in additional revenues that would be raised by the tobacco tax in the first year, \$20.6 million (almost 62%) would come from Alaska Natives.

Our response: I truly cannot comprehend how Representative James came up with this figure. She provides data which show that approximately 43% of Alaska Natives smoke. Even if she misinterpreted this to mean that 43% of Alaskans who smoke

are Native (which is clearly absurd, since our people only comprise 16% of the state population), the figures still don't add up.

Regardless of how she concocted her figures, it is irresponsible for Representative James to pass this propaganda off as fact.

Furthermore, I greatly resent her patronizing attitude toward Alaska Natives. Representative James portrays tobacco use as a Native problem and then offers advice on how to encourage non-smoking among "these people."

I would suggest that Representative James listen to Native leaders and community members about how best to address the social and health problems in Native communities. And in regard to the tobacco issue, I urge her to consider the fact that although rates of tobacco use in the Native population are high, *82% of Alaska Natives support a \$1 per pack increase in the state cigarette tax.*

- Finally, Jeannette James ends her position paper by stating that tobacco taxes are simply not fair.

Our response: How fair is it that *non-smokers* in this country pay 75% of all government expenditures to treat smoking-related illness? How fair is it that non-smokers carry a disproportionate share of the economic burden of tobacco use in Alaska? (The total economic impact is almost \$300 million a year, according to the Department of Health and Social Services.) And finally, is it fair to our children not to use the best weapon we have in the tobacco wars, one which would save thousands of lives? It is *not fair*, and it is *not right*.

Again, none of us believe that a tobacco tax increase will eliminate tobacco use in Alaska. We do believe that it will help enormously, and that any harm caused by regressivity is far outweighed by the potential benefit of reduced addiction and disease.

We urge Representative James to issue a retraction to her earlier statement opposing HB 431 and reconsider the tobacco tax question. We urge her to schedule a hearing for HB 431 in House State Affairs as soon as possible. *It is wrong to deny a hearing on this bill when the public overwhelmingly supports it!* We will be happy to provide Representative James and other legislators and members of the public with additional information on this topic.



Alaska Affiliate  
2330 E. 42nd Avenue  
Anchorage, Alaska 99508  
(907) 563-3111  
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Toll Free 1-800-242-8721

The Anchorage Daily News  
P.O. Box 149001  
Anchorage, AK 99514-9001

RE: Response to editorial of 3-19-96 entitled "Tax Addiction"  
Contact: Suzanne Meunier, Executive Director (907) 563-3111 ext. 22  
cc: Members of the Alaska Legislature

To the Editor,

A recent editorial ("Tax Addiction," 3-19-96) examining the proposed state tobacco tax increase suggests that revenues from the tax would be better spent by non-profit health groups with a strong history of smoking prevention than by the state. While we appreciate the editorial staff's confidence in our public health expertise and our ability to effectively spend tens of millions of dollars to reduce tobacco use among Alaskans, we are nonetheless compelled to reply to several inaccuracies which led to the conclusion that the current tax proposal is not a solid public health measure in and of itself.

Primarily, the editorial expresses doubt that a one dollar increase in the pack price of cigarettes will have an impact on teen smoking. This doubt is simply unfounded. Following years of health and economic analyses, virtually every major health organization in the country (including the U.S. Surgeon General, the American Medical Association, and the Institute of Medicine) has concluded that tobacco tax increases are the single most effective prevention strategy we can employ to reduce tobacco use. And, according to the U.S. General Accounting Office, the strategy is *approximately three times more effective with children than with adults*. Perhaps the National Cancer Institute best summarized the research findings in a 1993 statement: "Few measures exhibit the speed and magnitude achieved by increasing taxation by tobacco products....Increasing tobacco excise taxes must be considered an essential and primary component of any comprehensive tobacco control program."

Secondarily, the editorial supposes that the state administration is focused strictly on the economic impact of the tax and not the health impact. This is simply not true. In fact, the Department of Revenue's fiscal projections for the proposed one dollar increase predict *an 18% decline in tobacco consumption in the first year alone*. The Department of Revenue based their projections on calculations recommended by the 1994 U.S. Surgeon General's Report. Despite this dramatic decline in tobacco use, the tax increase is such that revenues will still increase significantly, creating a win-win situation for the citizens of Alaska.

Our state policy makers have a choice: they can maintain the current tobacco tax structure and watch as one-fifth of our children continue to graduate from high school as nicotine users, or they can support an increased tobacco tax structure which will decrease tobacco use among our children and afford a healthier future for our state. The American Heart Association will continue to work for that healthier future for all Alaskans and trust that our elected policy makers will support our efforts.

Sincerely,

Michael J. Dimino, Ph.D.  
President,

American Heart Association, Alaska Affiliate



Alaska Affiliate  
2330 E. 42nd Avenue  
Anchorage, Alaska 99508  
(907) 563-3111  
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The Anchorage Times  
P.O. Box 100040  
Anchorage, AK 99510

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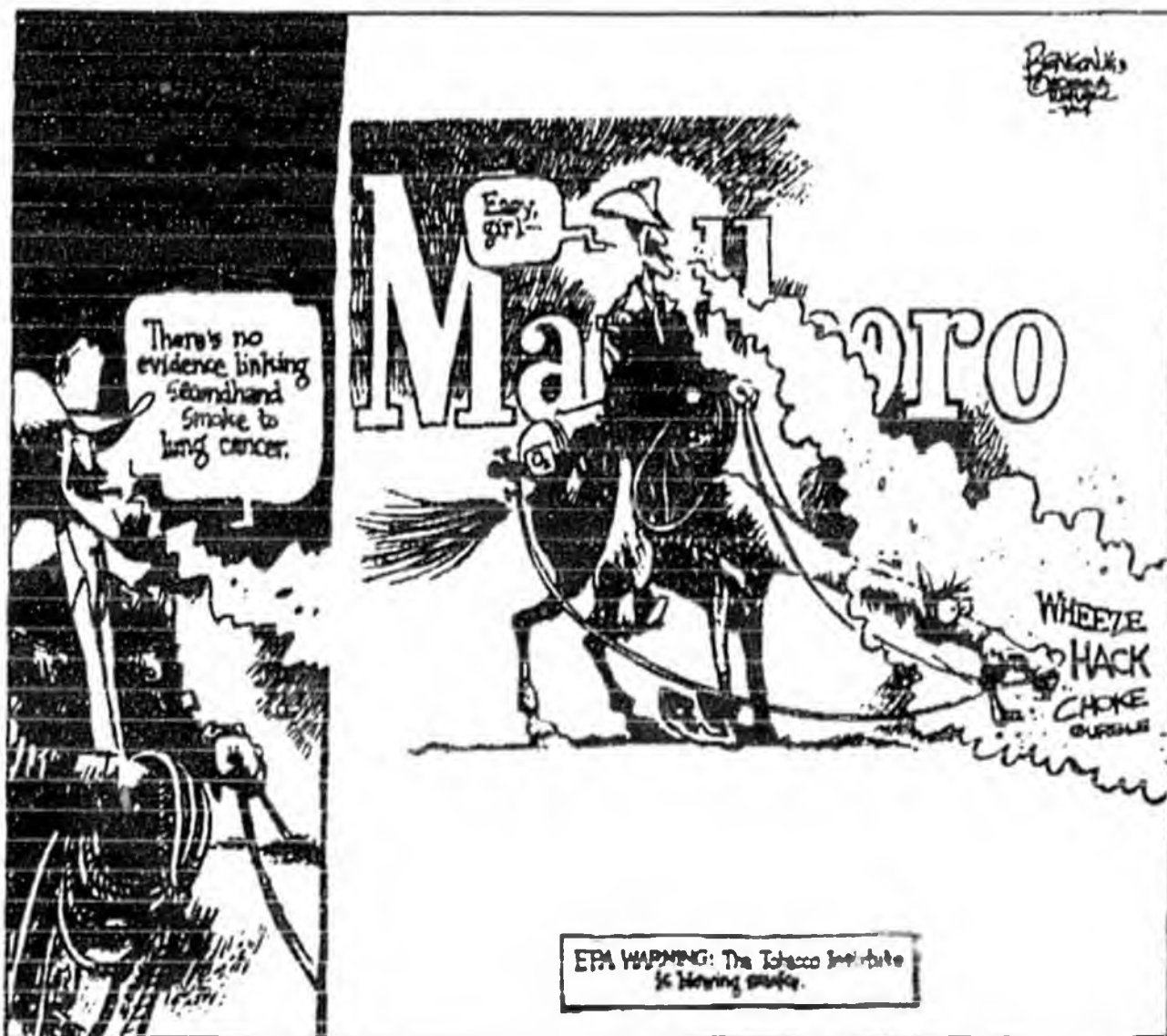
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Sincerely,

Michael J. Dimino, Ph.D.  
President

American Heart Association, Alaska Affiliate



Reprinted by permission: Tribune Media Services

TO: All Legislators, State Capitol  
 FROM: Charlie Franz, Chief Executive Officer, South Peninsula Hospital (Homer)  
 SUBJECT: Support for Tobacco Tax Increase

The cartoon above makes two important points. One is that smoking hurts everybody, smokers and non-smokers alike. The second point is that the tobacco industry cannot be trusted. Tobacco companies spend huge amounts of money to addict new smokers, almost all of whom are kids. It is time to level the playing field. The proposed \$1 per pack tax increase will provide an economic disincentive to reduce smoking in youth, and will also help offset the economic impact of smoking in this state.

The Centers for Disease Control, the National Cancer Institute, the American Cancer Society, and every other organization that has looked at this issue agree that tobacco tax rates in this country should be dramatically increased to help stop the epidemic of tobacco use which costs us all so dearly. Surveys show that Alaskans strongly support this effort. It should therefore be an easy and obvious decision for our elected leaders to pass the tobacco tax legislation. Please make this a priority for this session.

**PROTECT KIDS - TAX TOBACCO**



# Yukon-Kuskokwim Health Corporation

Yukon-Kuskokwim Delta Regional Hospital

*"Fostering Native Self Determination in Primary Care, Prevention and Health Promotion"*

16 April 1996

Senator Bert Sharp  
Chair, State Affairs Committee  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, AK 99801-1182

Dear Senator Sharp:

As a pediatrician for native children in Alaska, I strongly support raising the state tax on tobacco. This will lower the use of tobacco, particularly among adolescents--the age group in which tobacco use and addiction is most likely to start. This measure could have life-long health implications for a large segment of the state's people.

Sincerely,

Nina Pierpont, M.D., Ph.D.  
Chief of Pediatrics



Tanana  
Valley  
Clinic

Family Medical Care  
Since 1968

Re. SB 210

April 17, 1996

Dear Senator Strong:

As a practicing physician, I see problems daily which are caused by tobacco use. This degrades the quality of life, and drives up the cost of medical care. Raising tobacco taxes is a win-win proposition.

Top revenue increased  
Better health.

Lower medical expenses

Smaller kids and smoking

Fewer cigarettes but everywhere

Please raise the tobacco tax!

Sincerely,

Robert D. Brown

1001 Noble Street • Fairbanks, Alaska 99701  
(907) 459-3500



April 17, 1996

The Honorable Bert Sharp  
The Alaska Senate  
State Capitol  
Juneau, Alaska 99801

Dear Senator Sharp

As you know, Jay Hammond has long been a voice of reason in Alaskan politics. Knowing that he supports the \$1 per pack tobacco tax increase currently being considered by the legislature, we recently asked him if he could provide any assistance with our campaign to pass the tobacco tax increase this session. He mentioned that he had just written an article on how progress toward addressing the state's fiscal gap is being sabotaged by the legislative process, which is preventing good legislation from reaching the floor for a vote. He uses the tobacco tax as a prime example.

Mr. Hammond kindly gave us permission to distribute his article to members of the legislature, in the hope that it might help our cause. We hope you will take a moment to read it, particularly the last three paragraphs.

The tobacco tax legislation serves an urgent public health purpose and has the added benefit of raising revenue at a time when the state faces financial crisis. We ask, how often does the legislature have the opportunity to enact a measure that will save lives and raise revenue, and which is also politically popular?

We ask that you please join Jay Hammond and three-fourths of all Alaskans in support of the proposed tobacco tax increase. Please do not allow the amount of the increase to be reduced—to do so would only reduce its benefits. Likewise, to delay action on this matter only ensures more addiction and early death that could be prevented by passage of a major tobacco tax increase this session.

Sincerely,

Diana Kuhns, Executive Director  
American Cancer Society, Alaska Division

Port Alsworth, Alaska 99653

April 8, 1996

The Governor's Fiscal Gap Plan  
By Jay Hammond

Some seem surprised polls show Alaskans favor tax increases over dividend reductions. they shouldn't be. After all, every \$1,000,000 taken from dividends "costs" Alaskans \$1,000,000 while a million acquired from increased taxes costs them far less...only \$666,000 under Gov. Knowles' fiscal plan. Non-residents would pay the other \$333,000.

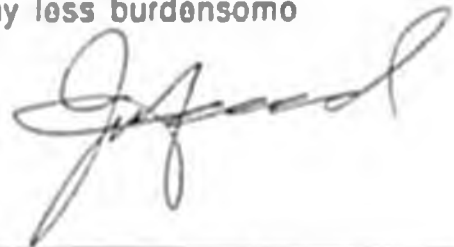
When I reacted positively to much of the Knowles' proposal while being briefed on it by Lt. Gov. Fran Ulmer, she remarked: "I thought you'd like it for it incorporates much of what you've been suggesting." Indeed it does.

For example: Since it never makes more sense to *cut* dividends than to raise an equivalent sum through budget cuts or increased taxes, I've proposed *increasing* dividends to help Alaskans pay for inevitable tax increases. To fund increased dividends I've advocated increasing Permanent fund contributions.

The Governor's plan does both. However, rather than directly increasing deposits to the Fund, money from the Budget reserve account would supplant P.F. earnings now being used to inflation proof. This would free up fully one half of fund earnings for dividends which would increase by about \$300.

I've also suggested the burden of any new taxes be reduced on Alaskans by grating them a "dividend tax credit". The governor applies this concept, but in a far less ponderous and more direct manner than I had proposed. He would grant every Alaskan credit against a state income tax for the tax on dividends they'd paid the I.R.S. (\$200-\$300 ?). Since this credit would greatly exceed what all but a few Alaskans would owe in state income taxes, only single persons earning more than \$40,000 in taxable income and couples earning more than \$70,000 would owe any state tax at all. Moreover, instead of but roughly a tenth of such tax being paid by non-residents, they'd pay fully 1/3.

I don't know how in the world a tax can be made any less burdensome



while yet assuring any new development which attracts others from elsewhere will at least pay part of its own way. (By far the greatest reason for imposing the income tax). Absent such tax Alaska, will simply exhaust its finite oil wealth that much more rapidly by promoting *uneconomic* development.

Perhaps the most controversial aspect in the Governor's plan is funding education from half the Fund's earnings. While I might prefer using all Fund earnings for dividends, such would compell a level of taxes few politicians would have guts enough to support, even though these could be structured to impact most Alaskans not at all since vastly increased dividends would provide more than an offset.

Since my Alaska Inc. proposal made during the genesis of the Permanent Fund would have not only increased dividends but used some fund's earnings for government, I can hardly oppose the governor's proposal to use some Fund earnings for education...particularly when Alaskans would get to vote on the matter. I only wish they, not the legislature, got to vote on the entire package, for that, I fear, is the only way any fiscal gap plan, no matter how well structured, is likely to pass.

Though the governor's plan is perhaps the most politically palatable, it wont even be voted upon as a package. The legislative *process* precludes it. Now, any committee chairman can lock any element up in committee and prevent a floor vote. This occurs even when most other legislators may favor the measure. Don't blame committee chairman for exercising such powers. Blame the legislature for letting them do so.

A prime example of just how difficult it will be for even the most acceptable parts of any plan to possibly pass is the treatment being accorded the proposed tobacco tax. While polls show more than 70% of Alaskans favor the tax, a committee chairman opposed to the tax is permitted to kill it. Imagine the unlikelihood of less widely accepted or understood elements of any plan possibly making its way to the floor!

Until some means, such as a secret ballot vote to discharge bills from committee, permits (requires?) all legislators to vote on the matter, expect no effective fiscal plan to pass. It ain't gonna happen!

A handwritten signature in black ink, appearing to be "J. A. ...", located at the bottom right of the page.



**Support healthy  
lungs and a healthy  
economy.**

**Get a tobacco tax  
bill to the floor for  
a vote THIS SESSION!**

**IN FAVOR of TOBACCO TAX INCREASE:** American Cancer Society, American Lung Association, American Heart Association, Alaska Native Health Board, U.S. Centers for Disease Control, National Cancer Institute, Institute of Medicine, American Medical Association, Alaska State Hospital and Nursing Home Association, Alaska State Medical Association, Alaska Public Health Association, Older Persons Action Group, Association of Alaska School Boards, Alaska Association of Retired Persons, Alaska Association of Elementary School Principals, Anchorage School District, Alaska Nurses Association, Kenai Peninsula Borough School District, etc. etc. etc. etc. **AND** three-fourths of all Alaskans.

**OPPOSED:** Philip Morris Tobacco Co., R.J. Reynolds Tobacco Co., Lorillard Tobacco Co., The Tobacco Institute, U.S. Tobacco Co. ...



LYDIA A. EASTBURN, M.D., F.A.C.O.G.

A Professional Corporation  
3340 Providence Drive, Suite 451  
Anchorage, Alaska 99508

Telephone (907) 562-4000

4-16-96

Senator Dick Troop  
Chair, State Affairs Committee  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau - AK 99801-1122

Dear Senator Troop,

Please support HB 431/SB 510, the  
increase in cigarette taxes.

Every day I see cigarette related  
problems of pregnancy. Increasing the  
cost of a pack of cigarettes can help some people  
make the decision to get treatment to end  
it - improving their health lifelong.

Sincerely

Lydia A. Eastburn

April 16, 1996

Senator Bert Sharp  
State Capitol  
Juneau, AK 99801-1182

Dear Senator Sharp:

TOBACCO use is THE LEADING CAUSE OF DEATH IN ALASKA. As a legislator, you, much better than I know what the State of Alaska spends on the health care, or rather pre-death care of smokers. Is it "Fair" that the non-smoking citizens of Alaska have their state budget dollars used for the smoking related health care, and pre-death care of smokers. Does the State of Alaska have that much surplus????-- Not according to the reports of the budget deficit I have read.

I have never been a politician and I never could be one. To be a politician one must have the knowledge of what the "right thing" is and be able to rationalize doing the "wrong thing", to be "politically correct".

To propose a tax to bolster the general fund of a state which has a budget deficit is no new rocket scientist idea. To help fund, directly or indirectly the health care of citizens, one must have the treasury to do so. To state that it is "unfair" to ask those who smoke to carry more of a burden for their addiction and subsequent health expenditures is conversely stating that it is "fair" to ask those of us who do not smoke to carry that burden. As a citizen, I feel I owe nothing to those who can't read and comprehend the warnings placed on the side of the packs of the tobacco products they buy.

If new laws are needed, then pass them.....then spend untold amounts of money enforcing the unenforcable. New laws are seldom the solution of societies ills.....they only serve to put a cosmetic facelift on the problem.....to show that the legislature recognizes a problem and wants to take action. Example: Gun Control--- "politically correct---unenforcable!

Wouldn't it seem more common sense to put the product out of the financial reach of at least a few, to save at least a few lives? I seriously doubt anyone will starve or be driven to poverty with the \$1.00 tax/pack proposed. If indeed they are that stupid, maybe they should starve. You can't legislate stupidity!

As a child who at age nine watched his Camel cigarette smoking mother die from lung cancer, I urge you to reconsider your liberal stance on this issue. I have devoted my life to the care of my fellow human. No child deserves to see their parent or loved one die from the use of a **drug** which has been determined to be **hazardous** by our government, but which is so cheaply and legally available to children and adults.

As an Obstetrician-Gynecologist, I have seen all too many times the effects that tobacco use has caused. I am speaking of growth-retarded infants. Recently reports are being published of research indicating mental retardation also being associated with tobacco use in the pregnant woman.

For real tangible facts stop listening to those who lobby for the tobacco industry. Please don't look at pie graphs for your statistical information!.....Go visit any department of Radiation Therapy in Anchorage to observe the treatment of the ravages of this drug delivery system. Go visit the morgue and observe an autopsy of someone who has died from the effects of smoking. Go to any funeral home on any given day and view the death certificates.....as the leading cause of death in this state you might find that the majority of those you see there died from tobacco use!

**FAIR OR NOT, JUST DO THE RIGHT THING!**

Sincerely,

A handwritten signature in black ink, appearing to read "Richard W. Threet" with a stylized flourish at the end.

Richard W. Threet, M.D., F.A.C.O.G.  
PO Box 60187  
Fairbanks, AK 99706-0187

# ASSOCIATION OF ALASKA SCHOOL BOARDS

*Advocates for Alaska's Youth*

April 9, 1996

The Honorable Bert Sharp  
Alaska State Capitol  
Juneau, AK 99801-1182

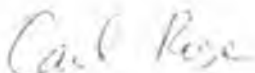
Dear Senator Sharp:

The Association of Alaska School Boards has established child advocacy as one of our top priorities. Our mission to promote parental, public, and social service commitment to the shared responsibility of educating all children enables us to address issues that deal with the health and safety of Alaska's children. To this end our membership adopted a resolution at the 1995 AASB Annual Conference which recommends increasing tobacco taxes in order to reduce the accessibility of tobacco by teens.

We join the 75% of Alaskans who support a tax which prevents tobacco use by our children. We ask you to ensure that a public hearing is scheduled for HB 431, "Tobacco Tax Increase." Research states that a tax increase "is the single most effective way to reduce tobacco consumption among children." We believe that, through the combined influences of tax levies, strict law enforcement, and quality education, we can all have a hand in keeping our kids tobacco free.

Thank you for your commitment to the health and well-being of Alaska's children.

Sincerely,



Carl F. N. Rose  
Executive Director

# ASSOCIATION OF ALASKA SCHOOL BOARDS

*Advocates for Alaska's Youth*

## Association of Alaska School Boards 1996 Tobacco Prevention Resolution

**SUBJECT AREA: Child and Youth Advocacy**

### **INCREASE IN TOBACCO TAX**

WHEREAS, Alaska has the sixth highest rate of smoking nationally and the sixth highest rate of smoking-related deaths; and

WHEREAS, 32% of Alaskan girls smoke or chew tobacco daily, and 36% of Alaskan boys smoke or chew daily; and

WHEREAS, nearly 84% of Alaskan adults started smoking between the ages of 10 and 20 years of age; and

WHEREAS, smoking is illegal by youth under the age of 19; and

WHEREAS, smoking accounted for 19% of deaths in Alaska in 1991, averaging 1 per day; and

WHEREAS, the estimated direct health care cost attributed to smoking in 1991 was \$45.6 million for persons 35 and older; and

WHEREAS, between 1979 and 1991 in Canada, increasing the tax rates by 158% decreased the teenage consumption of tobacco by 67%; and

WHEREAS, the US Government Accounting Office has determined that for every 1% increase in the price of cigarettes, 1% fewer teenagers will smoke; and

WHEREAS, Alaska's tobacco tax was last increase in 1989, and as of 1992 only 20 states had lower tobacco taxes than that of Alaska; and

WHEREAS, a recent survey of 615 Alaskans found that 65% of respondents favored a \$0.75 increase in the sale tobacco tax if the money went toward health programs; and

WHEREAS, the current cigarette tax is \$0.29 per pack or 25% of the wholesale price of other tobacco products;

NOW THEREFORE BE IT RESOLVED that the Association of Alaska School Boards supports legislation which would increase the cigarette tax an additional \$1.00 per pack (to be indexed yearly to inflation) and an increase on other tobacco products an additional 75% raising an estimated \$43 million.

# ASSOCIATION OF ALASKA SCHOOL BOARDS

*Advocates for Alaska's Youth*

## Position Paper Increase in Tobacco Tax

In order to address the risk to the health and safety of children and youth that tobacco related products represent, the Association of Alaska School Boards strongly supports legislation which would increase the cigarette tax.

After a review of the research, we take this position: because:

- nicotine is an addictive drug that has been proven harmful to children;
- the average teenage smoker starts smoking at 14 1/2 years old and becomes a daily smoker before the age of 18;
- if people do not begin to smoke as teenagers or children, it is unlikely they will ever do so; and
- children tend to vastly underestimate the likelihood that they will become addicted to nicotine.

Tobacco use is a problem among Alaska's teens. 27% of 12th grade girls and 18% of 12th grade boys report daily use of cigarettes. Rates are highest among Alaska Natives: 31% of 12th grade girls and 21% of 12th grade boys.

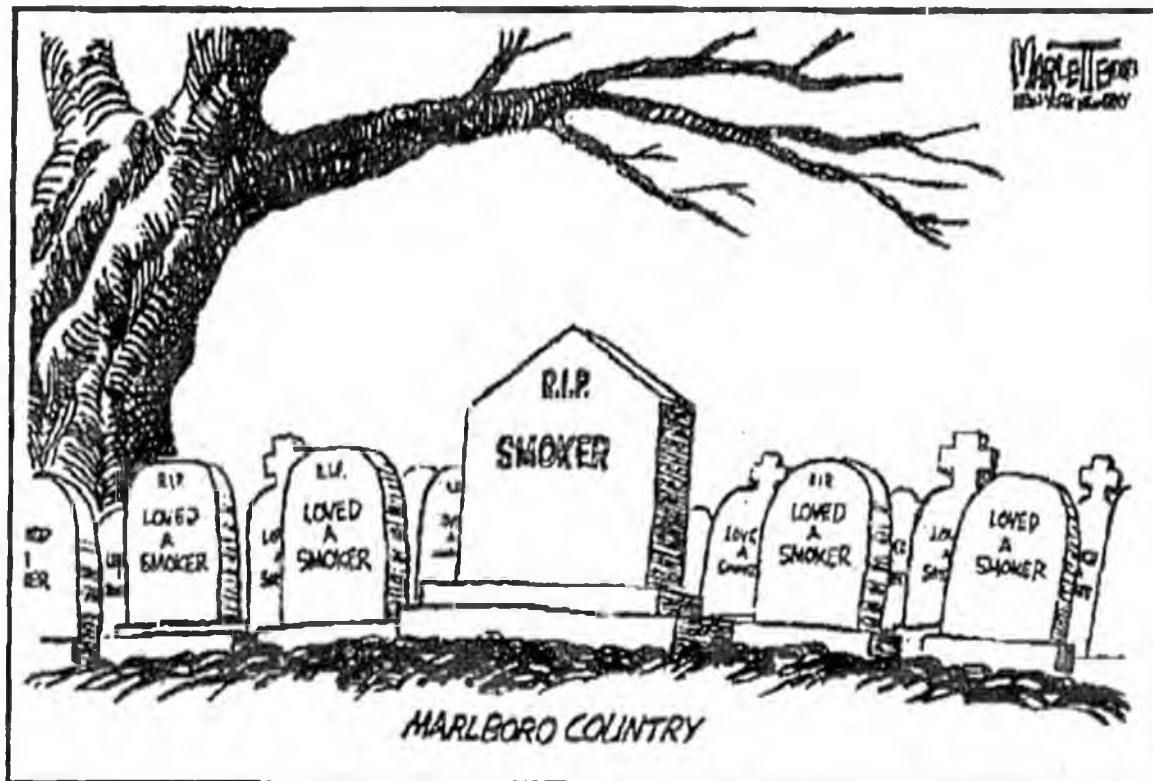
**Of public health strategies available for reducing tobacco use, increasing tobacco taxes as a way of raising the price of tobacco products is viewed as the most effective. One of its virtues is that it is immediate and does not require further public resources to implement.**

**By increasing the tax on tobacco Alaska can significantly reduce the use of tobacco among teens.** Below are two examples of regions where taxation reduced tobacco consumption among teens.

- In Canada, between 1979 and 1991, higher tax rates increased the real price of tobacco by 158 percent and teenage consumption dropped by two-thirds.
- In California, cigarette smoking declined nearly 24 percent (from 26.7 percent in 1988 to 20.4 percent in 1992) after California approved a 25 cent excise tax increase.

AASB believes that it is much easier to prevent smoking, than it is to help a teenager quit once they have become addicted. We hope that you consider joining AASB in our goal to protect the health of teenagers by voting to increase the Alaskan sales tax on tobacco.

1/31/96



To: All Senators and Representatives, Alaska Legislature  
 From: Larry Andrews, Chief Operating Officer, Alaska Regional Hospital  
 Re: Support for HB 431/SB 210

As you may know, smoking is responsible for one out of every five deaths in Alaska. At Alaska Regional Hospital, we see the results of nicotine addiction every day. And as the cartoon above illustrates, for every death certificate we write for a former smoker, dozens of friends and family members suffer their own private grief. This tragedy is preventable.

Preventable as well is the enormous drain that tobacco-related disease places on the health care system and on the Alaskan economy in general. Smokers use the health care system 50% more often than non-smokers. They use 50% more sick leave than non-smokers. They die an average of 15 years earlier than non-smokers. Even though they die younger, they amass lifetime medical bills far greater than the average non-smoker. Of course all of us, in one way or another, share these costs.

For all these reasons, Alaska Regional Hospital strongly supports the proposed \$1 per pack increase in the state cigarette tax. Research shows that no other measure can have a more significant and immediate impact on smoking rates in Alaska. We urge you to pass HB 431/SB 210 this session.

## PROTECT KIDS - TAX TOBACCO

PEDIATRIC CONSULTANTS OF ALASKA, INC.

Clinton B. Lillibridge, M.D., F.A.A.P.



April 04, 1996

Senator Burt Sharp  
Chair  
State Affairs Committee  
Juneau, AK 99801-1182

RE: SB210 or SB234

Dear Senator Sharp:

The state of Alaska is spending hundreds of thousands of health care dollars for tobacco related illnesses. The Senate needs to take active steps to cut this exorbitant cost. Putting a state tax of one dollar on each pack of cigarettes is a simple, yet effective way to decrease this needless drain on the state's coffers.

I strongly urge you to support one of the bills taxing cigarettes.

Sincerely,

A handwritten signature in cursive script that reads "C.B. Lillibridge MD". The signature is written in dark ink and is located below the typed name.

CLINTON B. LILLIBRIDGE, M.D.  
Pediatrician

CBL/bw



# ALASKA STATE MEDICAL ASSOCIATION

4107 Laurel Street • Anchorage, Alaska 99508-5334 • (907) 562-2662 • FAX (907) 561-2063

March 21, 1996

Honorable Bert Sharp  
Alaska State Legislature  
P.O. Box V (MS 3100)  
Juneau, AK 99801-1182

Dear Senator Sharp:

The Alaska State Medical Association is pleased to send you the latest issue of our journal *ALASKA MEDICINE*. The issue is devoted entirely to the pernicious effects of tobacco on human health.

Please note in particular the editorial on page 3 by Editor Donald Rogers, MD.

We hope that you will read the entire issue and become persuaded, as have we, that we must take strong measures to curb the leading cause of disability and death in our state - the use of tobacco.

One of the best ways to do this is to make tobacco too expensive to buy, particularly for children.

The Alaska State Medical Association stands foursquare against smoking and other use of tobacco. We trust that as you consider bills to raise taxes on tobacco you will be too.

Respectfully,

Rodman Wilson, MD  
Acting Executive Director

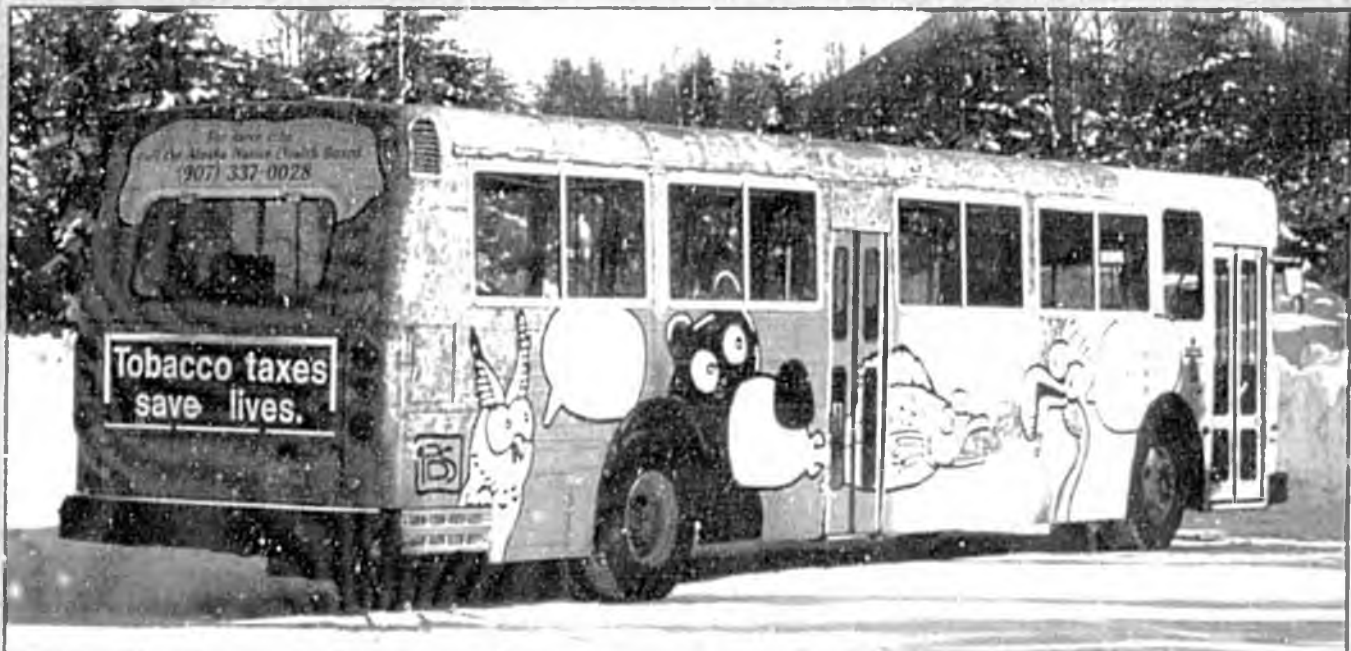
John J. Smith, MD  
President



# LASKA MEDICINE

Volume 38, Number 1

January/February/March 1996



*Official Journal of:*

**ALASKA STATE MEDICAL ASSOCIATION  
AMERICAN SOCIETY FOR CIRCUMPOLAR HEALTH**

**“ This is not the bridge of a starship, but it helps us keep pace with the leading technologies in heart care. ”**



*Dr. Pedro J. Valdes  
Chief of Cardiac Surgery*

**Providence**



**HEART  
CENTER**

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ing state-of-the-art treatment. That is precisely the type of care you receive at **Providence Heart Center.**

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**Providence | Alaska  
Medical Center**

Providence Heart Center 261-3065

# ALASKA MEDICINE

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American Society for Circumpolar Health

Volume 38

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Number 1

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## ORIGINAL ARTICLES:

Editorials .....	2-3
Anne P. Lanier, MD, Donald R. Rogers, MD	
Historical Notes on the Introduction of Tobacco into Alaska .....	3
Robert Fortune, MD	
Historic Ceremonial and Medicinal Use of Tobacco Among American Indians .....	8
Donald R. Reece	
Anchorage Clears the Air .....	10
Rodman Wilson, MD	
Smoking Attributable Mortality and Economic Costs in Alaska 1902-94 .....	13
Catherine Schumacher, MD, MSPH	
Prevention that Works .....	18
Peter M. Nakamura, MD	
The Prevalence of Tobacco Use Among Alaska Adults .....	21
Patricia Owen, Diane Ingle, Catherine Schumacher, MD	
Tobacco Use in Rural Alaska and the Trampling Tobacco Project ..	24
Darleen N. Beltz	
Tobacco Use Among Alaska Youth .....	26
Michele Hansen, MPH, CHES, Catherine Schumacher, MD, MSPH	
Tobacco Erases 30 Years of Progress .....	31
Neil Murphy, MD, Steve Butler, MS, Kenneth Petersen, MD	
Association between Maternal Smoking and Severe Respiratory Syncytial Virus Infection and Sudden Death Syndrome .....	34
Rosalyn Singleton, MD	
Smokeless Tobacco and Oral Disease .....	35
James C. Singleton, DDS, PC	
Nutrition and Smoking Cessation .....	36
Charlotte Stefanich, MS, RD, CHES	
Increase in Lung Cancer in Alaska Natives .....	38
Anne P. Lanier, MD	
Tobacco Taxes: The Canadian Experience .....	40
David T. Swenor	
Alaskans Voice Strong Support for Tobacco Tax Increase .....	41
Anne Marie Holen	
Criminal Deception .....	43
Ronald M. Davis, MD	
Tobacco Control and the American Medical Association .....	49
Thomas P. Houston, MD	

**About the cover:** The Alaska Tobacco Control Alliance bus (part of the Anchorage People Mover system) has been carrying a tobacco-free message since February 1995. The sign on the back of the bus, which currently reads "Tobacco Taxes Save Lives," is changed periodically. The bus was designed by Peter Dunlap Shohl. Painting was done by Alaska Neon Design. Funding is provided by the Robert Wood Johnson Foundation through a grant to the Alaska Native Health Board. Photos were taken by Chris Arend.

# TOBACCO:

## Alaska's Most Preventable Health Problem

I wish to thank the Alaska State Medical Association for devoting an entire issue of this journal to tobacco, and for the opportunity to be guest editor. The response of contributors both within and outside of Alaska, the staff at the ASMA office, and others, has been overwhelmingly enthusiastic and prompt.

Tobacco-related death and disease impose an embarrassing black mark on the health record of this century. As the articles in this issue dramatically demonstrate, Alaska's tobacco statistics are among the worst in the nation. This is particularly embarrassing because Alaska has led the nation in other health issues.

Earlier in this century, medical providers were used to PROMOTE the sale of tobacco. (See accompanying samples of cigarette advertisements\*). The industry currently expends nearly \$6 BILLION to promote tobacco — a product that when used as directed is guaranteed to kill you. Medical providers have been replaced by Joe Camel and others. Nonetheless, we owe it to our

patients, friends, and families to do all we can to eliminate this 20th Century scourge. As deeply ingrained as it is in our society, and with the amount of money leveled at its promotion, this is an ambitious task.

In this issue we have tried to provide as much Alaska-specific data as possible, provide some historical perspective on the problem here, discuss the multi-faceted approaches to tobacco control, and bring comments from tobacco control experts and organizations "outside".

As medical providers having been used in the past to promote the product, let's now "take the lead" and join the Trampling Tobacco Project, the Alaska Tobacco Control Alliance, the Citizens to Protect Kids from Tobacco, the volunteer health organizations, and others, and work toward a Tobacco Free Alaska by the year 2000.

Anne P. Lanier, MD, MPH

\*Pictures of tobacco advertisements were graciously provided by D.O.C. (Doctors Ought to Care) 5615 Kirby Drive, Suite 440, Houston, TX 77005



## Editorial

This issue of *Alaska Medicine* is devoted to tobacco related papers. We present historical and cultural perspectives as well as epidemiological data along with statistical data to illustrate that increasing the cost of tobacco results in decreasing the use rate. A recent poll shows that approximately 3/4 of Alaskans support an increase in the current excise tax on tobacco products. This effort should be regarded as a health measure, not a revenue enhancer. It is hoped that no additional revenue will be collected.

In addition to the usual references to the various smoking related cancers and chronic respiratory diseases, my experience as a state medical examiner prompts me to mention deaths due to house fires, and carbon monoxide deaths from smoldering cigarettes.

All members of the state legislature will be furnished a copy of this issue. We hope they will read it and realize that they have an opportunity to make a highly significant contribution to the health of Alaskans for many years to come.

Donald R. Rogers, MD

*Funding for the cover photograph and extra pages in this special issue was provided by the Alaska Native Health Board through its SmokeLess States grant from the Robert Wood Johnson Foundation.*

# Historical Notes on the Introduction of Tobacco into Alaska

Robert Fortune, MD<sup>1)</sup>

## THE NORTH PACIFIC REGION

In July 1741, Georg W. Steller, Bering's physician and naturalist, stepped ashore in Alaska, at Kayak Island near the mouth of Prince William Sound. There he left a pound of tobacco and a Chinese pipe at an abandoned Native house site in exchange for a few artifacts he had carried away. A few weeks later, the Russians again offered Chinese pipes and tobacco, this time in person, to some Aleuts who had paddled out to meet their ship in the Shumagin Islands. A sailor even offered one of the Aleuts a lighted pipe, which was said to "displease" him (1). Captain Chirikov, in command of Bering's other vessel, also offered pipes and tobacco to some Aleuts, probably on the island of Adak, but they simply placed the gifts on their bandarkas and paddled away (2).

By 1778, one of Cook's surgeons was able to write that the people of Unalaska "perfectly understood the use of tobacco, which they asked for by that name" (3). Few if any did not smoke, chew, or take snuff. Lieutenant King noted that they preferred tobacco to "all other things," in fact, some of the Aleut women were willing to bestow sexual favors on members of the crew in exchange for a leaf or two of tobacco (4).

Early Russian fur traders who came to the Aleutians sometimes used tobacco as a gift, a reward, or as an

inducement to service, and before long the Aleuts had developed a craving for it (5,6). Since, however, in those early years tobacco was in short supply, the Russians kept it principally for their own enjoyment. The Aleuts seemed to prefer their tobacco in the form of snuff, (7) and there were reports that they would work very hard, often under hazardous conditions, to obtain even a small supply. In the 1820s, the Orthodox missionary Father Veniaminov reported that often more than half of a hunter's income was spent on tobacco, either for chewing or for snuff (8).

Russians also introduced tobacco as an article of trade to the Natives of Kodiak Island perhaps as early as the 1760s (9). Dr. Merck, who visited in the 1780s, found the Koniag eager for snuff, although women less than men (10). By the early 1800s the Kodiak islanders were passionately fond of tobacco and cursing the Russians for having made them so dependent on it. Shortly after 1800 they were using it primarily as snuff placed in the mouth, few sniffed it and no one smoked, according to Davydov (11). Captain L'vianski around the same time noted that a Koniag would go twenty miles out of his way for a pinch or two of snuff (12). The Russian-American Company also regularly used tobacco as a treat or as an incentive for their Aleut and Koniag hunters stationed at Sitka or at the posts on the Kenai Peninsula. When a new fort was established at Nushagak in 1818, the trader was encouraged to use tobacco among the local Natives to show the good will of the Russians (13).

(1) Biomedical Program, University of Alaska Anchorage. This paper is an abridgment and adaptation of Chapter 16 of my book *Chilly and Fever: Health and Disease in the Early History of Alaska*. Fairbanks: University of Alaska Press, 1989.

The people of Cook Inlet and Prince William Sound were presumably introduced to tobacco by the English, Russian, and perhaps Spanish explorers and traders who frequented this region in the 1780s and 1790s. The habit, however, did not seem to catch on at first, for both Meares and Billings reported that the Natives showed no interest in the tobacco they offered in trade. (14,15)

In precontact times, the Indians of Southeastern Alaska were known to have cultivated a tobacco-like plant which they mixed with lime and chewed. Lieutenant Whidbey of Vancouver's expedition observed the plant being grown in Chatham Straits, the only crop the Tlingit were known to cultivate. (16) They dried the leaves of this plant over a fire, then ground them up and pressed them into cakes. It was always chewed, rather than smoked or inhaled. After the 1780s, as intensive trade with European ships began, the native plant fell into disuse in favor of the European product, which the Indians found stronger and easier to obtain. They soon learned to smoke it as well as chew it. Tobacco began to take on a ceremonial value and was sometimes used after a shamanistic ceremony. (17) or given to the relatives and friends of a sick man. The Russians handed it out generally as a reward. (18) Tobacco became increasingly popular in the region, and soon leaf tobacco mixed with pulverized bark was being regularly smoked in short, carved wooden or clay pipes. (19)

## NORTHERN ALASKA

Curiously, tobacco first reached northern Alaska not by European ships but over traditional trade routes with the Chukchi of Eastern Siberia. According to Ray, the tobacco originated in Circassia, Poland, or Sweden and became an article of trade in the 1750s. (20) Nikolai Daurkin, a Chukchi who visited the Diomedes in the 1760s, reported that the first request of the Natives was for leaf tobacco, for which they were willing to trade expensive furs. (21) In 1789 a large trading market was established at Anyui on the Kolyma River, where the Alaskans traded their furs for tobacco and other European goods, which then passed through several more Native middlemen before reaching the Seward Peninsula. (22)

This trade continued to flourish throughout the nineteenth century, with the major focus on the north coast of Kotzebue Sound and at Port Clarence on the Seward Peninsula. From there tobacco was distributed to the north coast and into the interior via the major river systems. (23)

In the vicinity of Kuskokwim Bay Captain Cook encountered Eskimos in 1778 who were unfamiliar with the use of tobacco. Likewise, when Billings' ship visited Cape Rodney in 1791 the Eskimos were eager to trade for many European goods, but apparently not tobacco.

(24) Yet in 1816 the Eskimos of St. Lawrence Island greeted Otto von Kotzebue with a chorus of pleas for tobacco, which they immediately put into their mouths. Later he saw them smoking small stone pipes, about the size of a thimble. (25) The Russians traded freely with the Siberian Yupik of St. Lawrence Island, who were willing to give up an elaborately decorated gut parka for a few leaves, the amount one might consume in a morning. (26) The Eskimos of Shishmaref Inlet also clamored for tobacco, which they seemed to enjoy chewing as well as smoking. This love of tobacco impressed the captain, who found it remarkable that the weed had penetrated where no European vessel had visited. (27)

When a decade later Captain Beechey landed on St. Lawrence Island and at Cape Prince of Wales, he again found tobacco to be the great object of all trade. On one occasion his sailors bought four hundred pounds of caribou meat for four pounds of tobacco. The differing habits of the Natives of the region are illustrated by Beechey's observation that the northern Eskimos generally smoked a short pipe, while some to the south of Bering Strait chewed tobacco, and the St. Lawrence Islanders took it as snuff. The tobacco was often of poor quality and extended with dried wood. (28)

The first European to reach Barrow, also in 1826, found tobacco well known and readily marketable. Eleven years later Thomas Simpson of the Hudson's Bay Company encountered Eskimos to the east of Barrow who immediately clamored for tobacco, of which they were all —men, women, and children—"inordinately fond." At Barrow he found tobacco to be the "grand article in demand." A single inch of it was equivalent in trade to the most valuable articles they possessed. (29)

Robert F. Spencer has presented interesting information on the role of tobacco in traditional Barrow culture. The small pipes they used were of the Siberian or Russian type and were cleaned before use, with a caribou hair placed in the bowl to prevent tobacco flakes from entering the stem. Men's pipes were small and portable, while those of women had longer stems. Bowls might be made of ivory, metal, or clay. Nearly everyone used tobacco in some form, including the children. Besides smoking, many chewed the leaves. (30)

Further south the Eskimos also used tobacco that they had obtained in trade from Siberia and perhaps later from the Russians in the Aleutians, Kodiak, and Prince William Sound. Khromchenko in 1821 found the Bristol Bay and southern Norton Sound Eskimos to be heavy tobacco users. (31) while Gilazunov, who in 1833 was the first European to explore the interior of southwestern Alaska, found the Natives already passionately fond of tobacco, which they smoked and took as snuff. (32)

Nelson offers considerable detail on the tobacco habits of the Eskimos of the Seward Peninsula and