

ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672

11258 SENATE LABOR & COMMERCE

2. Does the minimum of 100 clock hours of fieldwork include observation hours?

No. ASHA guidelines recommend a minimum of 100 clock hours of fieldwork that includes direct and indirect client contact activities covering all of the job responsibilities of an SLPA, but not observation hours. Those should be undertaken before starting the 100 fieldwork hours. It is up to the training program to set the appropriate number of observation hours.

3. When SLPA students are engaged in patient/client contact, does ASHA require that they receive direct supervision or indirect supervision for the specified minimum of 50% of the time?

When engaged in patient/client contact, ASHA guidelines indicate that the SLPA student be supervised a minimum of 50% of the time. The patient/client contact refers to direct supervision of the SLPA student, which is defined as on-site, in-view observation and guidance.

4. When SLPA students are placed in fieldwork settings, can they be supervised by more than one SLP?

Yes, as long as each SLP supervising the student is willing and able to complete a technical proficiency or skills competency checklist (or whatever specific format your institution uses for fieldwork assessments) for that particular student.

5. Must the supervisor of an SLPA student in an external fieldwork placement hold a current Certificate of Clinical Competence in Speech-Language Pathology (CCC-SLP) from ASHA, or can he/she hold state licensure only?

For the 100 clock hours of fieldwork defined in ASHA guidelines for each SLPA student, the supervisor must hold a current ASHA CCC-SLP. Any fieldwork hours completed that are above the minimums indicated by ASHA can be under the supervision of a qualified speech-language pathologist who is either state-licensed or ASHA-certified.

6. How many years experience does the supervisor need to have to supervise an SLPA student?

The Guidelines for the Training, Credentialing, Use, and Supervision of Speech-Language Pathology Assistants (1995) specifies that "the SLPA must be supervised by an SLP who has practiced speech language pathology for at least 2 years following ASHA certification."

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This page was updated on: 2/25/2004.

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Alaska State Legislature

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SENATOR CON BUNDE

District P

VICE-CHAIR: SENATE FINANCE COMMITTEE
CHAIR: SENATE LABOR & COMMERCE COMMITTEE
MEMBER: LEGISLATIVE BUDGET & AUDIT COMMITTEE

Sponsor Statement SB365 Speech-Language Pathology Assistants

SB365 establishes registration of speech-language pathology assistants through the department of occupational licensing regardless of employment setting. Currently, speech-language pathology assistants (SLPA), in Alaska, are not licensed or regulated like the similar professions of physical and occupational therapy assistants. SB365 outlines the qualifications and training required to be an SLPA, their scope of practice, supervision and continuing education requirements.

Due to shortages in the number of qualified speech-language pathologists, many Alaskans are not receiving the consistency and appropriate amount of services they require. An SLPA will be able to assist the speech-language pathologists in clerical duties, charting progress, developing materials and assisting in other therapy services within their scope of practice. SLPAs will not be allowed to work independently of a speech-language pathologist or be given the sole responsibility of their own case/workload. SLPAs will be under the direction and supervision of a qualified and licensed Speech-Language Pathologist.

It is not the intent of SB365 to hire an SLPA in lieu of a qualified speech-language pathologist. SLPAs are to enhance the services provided.

All regions of Alaska will benefit from the use SLPAs. SLPAs will be able to enhance services in schools, private clinics, the underserved rural/remote areas, and in hospital settings. Having an assistant will allow the speech-language pathologist additional time to assess an individual's progress, write treatment plans, confer with medical and other professionals, attend meetings and complete other administrative duties as required. The recipients of speech-language pathology services will benefit the most, as they will have consistent services from appropriately trained individuals, which will decrease the length of treatment and thereby decreasing costs. Since many recipients of speech-language services receive assistance through Medicaid/Medicare, that cost savings is then passed on to the citizens of Alaska.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 365
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: DCED
 Title Speech-Language RDU Occupational Licensing (117)
Pathologist Assistants Component Occupational Licensing
 Sponsor Senate Labor and Commerce
 Requester Senate Labor and Commerce Component No. 2360

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Personal Services	0.8	0.8	0.8	0.8	0.8	0.8
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.8	0.8	0.8	0.8	0.8	0.8

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES (1156)	0.8	0.8	0.8	0.8	0.8	0.8
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other 1156 - Receipt Supported Services	0.8	0.8	0.8	0.8	0.8	0.8
TOTAL	0.8	0.8	0.8	0.8	0.8	0.8

Estimate of any current year (FY2004) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

SB 365 creates registration for Speech-Language Pathologist Assistants. Currently there are 121 licensed Speech-Language Pathologists. Based on similar programs that register assistants, this fiscal note assumes that at least 10% of the current licensee number will register to become an Assistant (at least 12 registrants). The expenditure shown above is based on 10% of the FY03 Speech-Language Pathologist costs. Speech-Language Pathologist Assistants will be expected to cover these costs through registration fees.

Based on biennial costs of \$1.6, registrants can expect to pay a biennial registration fee of approximately \$133.00.

Prepared by: Jennifer Strickler, Administrative Manager Phone (907) 465-2144
 Division Occupational Licensing Date/Time 3/23/04 3:10 PM
 Approved by: Edgar Blatchford, Commissioner Date 3/23/2004
 Agency Department of Community and Economic Development



AMERICAN
SPEECH-LANGUAGE-
HEARING
ASSOCIATION

March 31, 2004

Alaska Speech-Language Hearing Association
Nancy Lovering, President
4325 Laurel Street- Suite 100
Anchorage, AK 99508

Dear Ms. Lovering:

The American Speech-Language-Hearing Association (ASHA) would like to formally express our support for Alaska S.B. 365. ASHA is the professional, credentialing and scientific organization that represents more than 114, 000 audiologists; speech-language pathologists; and speech, language and hearing scientists nationwide.

We have examined the text of S.B. 365 and would like to focus our comments on the topic of speech-language pathology assistants. S.B. 365 is well written, comprehensive and generally consistent with ASHA policy and guidelines on the use of speech-language pathology support personnel. The bill does an excellent job of clearly delineating the tasks that are allowed and prohibited to be performed by speech-language pathology assistants.

With the passage of this legislation, Alaska would be joining 31 other states that currently regulate the use of speech-language pathology support personnel. Of these 31 states, 22 states regulate through registration, similar to the proposed Alaska bill. In addition, the sections of S.B. 365 that pertain to education/experience required, title, continuing education and supervision all fall within the spectrum of other state requirements ensuring that speech-language pathology assistants in Alaska would be comparable to assistants in other states.

We feel that the bill could be made even stronger by making some minor changes and we have detailed suggested amendment language for you in the attached e-mail. If you have any questions or concerns, please contact me at spilch@asha.org or at (301) 897-5700, ext. 4284.

Sincerely,

Susan Pilch

Director, State Legislative and Regulatory Advocacy

1. Under Section 08.11.042(b) we recommend that you strike the words "direct screening." This would bring the section into conformance with the ASHA preferred practice patterns for speech-language pathology that provide that while assistants may perform feeding and swallowing treatment, they may not conduct feeding and swallowing screening.
2. Under Section 08.11.045(3)(d) we would recommend that you specify that a "full-time" speech-language pathologist may not supervise more than two individuals. You may also wish to add a sentence that specifies that a "part-time speech-language pathology assistant may not supervise more than one assistant."
3. In addition, we would recommend that you include a statement similar to "A speech-language pathology assistant may not be assigned his or her own caseload" and "a school district that intends to utilize the services of a speech-language pathology assistant must provide written notification to the parent or guardian of each student served by a speech-language pathology assistant." All of the recommendations listed in this paragraph and the one prior are provisions that have been included in various state statutes and regulations pertaining to support personnel.

Senate Bill: SB 365

Short Title: Speech-Language Pathologist Assistants

Sponsor: Senate Labor and Commerce Committee

Current Version: SB 365

Contact: Jane Alberts, 465-4843

Summary:

- Speech-language pathologists (SLP) are licensed through the Department of Community and Economic Development.
- Speech-language pathology assistants (SLPAs) are those who, following academic coursework and clinical practicum, can perform tasks prescribed, directed and supervised by licensed, certified speech-language pathologists.
- This bill will mandate that SLPA be regulated and supervised which ensures that the consumer is receiving appropriate speech-language services.

Benefits:

- The use of credentialed and supervised SLPAs is one way to increase the frequency of services to clients while maintaining service quality and controlling cost.
- SLPAs may also assist service delivery by preparing materials, performing clerical duties associated with program or case management or working on other appropriate assignments that fall within their defined scope of responsibilities.
- The use of SLPAs in rural/remote regions in Alaska is the only way that some degree of consistent service delivery can be made.

Background

- There is a shortage of qualified SLPs in Alaska. It must be clear that the use of an SLPA is not meant to replace the work of a SLP but, rather, to effectively extend it.
- Dramatic changes have occurred over the last decade in the manner in which SLP services are delivered (due to challenges of health care finance reform, public school workloads, scientific and technological advances and an expanding scope of practice for members of the profession). As one response to these challenges, the use of SLPAs can be supportive to the SLP in different work settings.

SB

368

STATE OF ALASKA
DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

FRANK H. MURKOWSKI, GOVERNOR

Commercial and Fair Business Section
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March 23, 2004

The Honorable Con Bunde, Chairman
Senate Labor & Commerce Committee
Alaska State Legislature

Re: SB 368
Tobacco Tax; Licensing; Penalties
Sectional Analysis

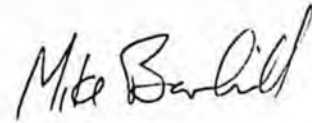
Dear Senator Bunde:

Enclosed is the Sectional Analysis for SB 368.

Sincerely,

GREGG D. RENKES
ATTORNEY GENERAL

By:


Michael A. Barnhill
Assistant Attorney General

MAB:ame

Enclosure

cc w/enc.: Mike Tibbles, Office of the Governor
Randy Ruaro, Office of the Governor

Sectional Analysis

SENATE BILL NO. 368
"AN ACT RELATING TO TOBACCO TAX; LICENSING; PENALTIES"

SECTIONAL ANALYSIS
OFFICE OF THE ATTORNEY GENERAL

- Section 1: Increases the cigarette license fee for direct-buying retailers from \$25 to \$50. This increase makes the license fee the same for distributors and direct-buying retailers who are engaged in substantially similar activities.
- Section 2. This section is a technical correction to the wholesaler-distributor cigarette license type. This correction ensures that in-state individuals and retailers are not double taxed on product that is sold to them by an entity holding a wholesaler-distributor license.
- Section 3. This section requires unlicensed entities that bring cigarettes into the state upon which a tax stamp is not affixed to pay the cigarette excise tax and remit it to the department each month.
- Section 4. This section is a technical correction to the definition of a "buyer" that ensures that an individual bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.
- Section 5. This section is a technical correction to the definition of "direct-buying retailer" that ensures that a retailer bringing cigarettes into the state that were purchased from a licensed wholesaler-distributor are not again subject to tax.
- Section 6. This section is a technical correction to the definition of "distributor" that ensures that a distributor bringing cigarettes into the state that were purchased from a

licensed wholesaler-distributor are not again subject to tax.

- Section 7. This section is a technical correction to the definition of "wholesaler-distributor" that ensures that entities outside the state who make sales of cigarettes into the state are properly licensed.
- Section 8. This section increases the tax on cigarettes by 50 mills or \$1.00 per pack of 20.
- Section 9. This section increases the tax on other tobacco products from 75% to 100% of the wholesale cost.
- Section 10. This section allows licensees to apply for a credit for cigarette tax stamps that were lost or damaged in transit.
- Section 11. This section allows in-state cigarette licensees to maintain unstamped cigarette inventories if the licensee is in the business of making cigarette sales to customers outside the state and the licensee is properly licensed in the other states where it makes sales.
- Section 12. This section allows in-state cigarette licensees to claim a credit for cigarette tax stamps affixed to packages of cigarettes that are sold outside the state provided the licensee is properly licensed in the other states where it makes sales and the licensee provides proof acceptable to the department that the stamped cigarettes were not consumed in Alaska.
- Section 13. This section provides that unstamped cigarettes that are seized are forfeited to the state and shall be destroyed by the state.
- Section 14. This section allows the seizure of assets used in the sale or transport of cigarettes that are sold in the state in violation of the cigarette tax act. This section further

outlines the types of assets that may be seized, procedures for seizing assets, and procedures for the disposition of assets seized.

Section 15. This section requires that a floor stock tax be paid by all persons in control or possession of cigarettes for resale at the effective date of this bill. A floor stock tax is the difference between the tax paid at the old and new tax rates. The floor stock tax will apply to cigarettes only. The floor stock tax is due no later than 30 days after the effective date of this bill.

Section 16. This section is a technical correction to the heading of AS 43.50.610.


Section 17. The section defines the effective date of this legislation as July 1, 2004.

Opposition and/or Concern

THE
FOLLOWING
DOCUMENT(S)
ARE
POOR
ORIGINAL
COPIES



Memorandum

DATE: March 23, 2004
TO: House Ways and Means - Senate Labor and Commerce
FROM: Timothy J. Schrage, *Operations Manager* 
SUBJECT: *Opposed to HB 538 -- SB 368*

The proposed increased excise tax on tobacco products is unfounded and just another band aid approach to increasing revenues. The current tax is among the highest when compared to other Western states such as Montana (70 cents per pack), Idaho (57 cents per pack) and Wyoming (60 cents per pack).

Adding another \$1.00 per pack will jeopardize future revenues to the State through a reduction in annual payments from the Master Settlement Agreement, and loss of tax revenues from illegal internet and counterfeit tobacco purchases. In addition it will increase the competitive disadvantage of local retailers who legally compete with large national chains and tax exempt Military installations.

It is time for Alaska to realize that it is "the richest poor State in the Union". We have billions of dollars in the bank, no limits on spending, declining oil revenues, all while focusing on pennies and letting dollars fall through the cracks of government. *Our Legislature and Governor need to wake up and realize that targeting Alaskans with head taxes, sin taxes, and user fees is like a millionaire not purchasing cup of coffee in the morning to save for retirement!* We need real fiscal solutions that include spending limits, utilization of Permanent Fund earnings, and the elimination of entitlement programs before imposing more taxes on average Alaskans who least afford it.

Alaska's Retailer of Fine Wines, Spirits, and Beer
PO Box 190027 Anchorage, Alaska 99519-0027
Phone (907) 563-3815 Fax (907) 562-3130



March 23, 2004

To: Members of the Senate Labor and Commerce Committee

I am writing to oppose SB368 for the following reasons:

- *Alaska would have the second highest tax in the country after New Jersey at \$2.05; Other western state taxes: Montana, 70 cents; Idaho, 57 cents; Oregon, \$1.28; Washington, \$1.425; Wyoming, 60 cents; Utah, 69.5 cents*
- *Purchasers would shift to buying cigarettes over the Internet, where no state taxes are collected; Alaskan retail businesses would be harmed*
- *Higher cigarettes taxes would lead to more smuggling of tobacco products to avoid taxation and more illegal trafficking of counterfeit product*
- *Using cigarette taxes to balance the state budget is bad fiscal policy; cigarette taxes are an unstable and inequitable way to raise revenues*
- *Higher taxes would threaten payments to the state under the Master Settlement Agreement; annual payments are tied to the sales volume of the major "participating" manufacturers, and when purchasing shifts to products not covered under that agreement or to illegal products, those payments will fall.*

Please don't take the easy way out by singling out one group of Alaskans for higher taxes. We deserve a more equitable solution to our budget problems.

Sincerely,

George Kallas

CAMPAIGN For TOBACCO-FREE Kids[®]

STATE CIGARETTE TAX INCREASES & STATE TOBACCO SETTLEMENT REVENUES

An increase to a state's cigarette tax will have no direct or significant effect on the annual amounts the state is receiving in tobacco-settlement payments.

No State Tax Offset Provision in the Settlement Agreements. There is nothing in the agreements that reduces state settlement payments because of state cigarette tax increases.

State Cigarette Tax Increase's and the Volume Adjustment. The state tobacco settlements include a volume adjustment that reduces the cigarette companies' payments to the states whenever the four major companies' nationwide cigarette sales decline below pre-settlement levels. While a state's cigarette tax increase can substantially reduce smoking within its borders, its effect on nationwide cigarette sales -- and on the volume adjustment -- is much weaker. Even California and New York, the two biggest states, account, respectively, for only 5.9 and 4.2 percent of total U.S. cigarette sales. Smaller states account for much less, such as Idaho (0.4%), Iowa (1.2%) and North Dakota (0.2%). Even the lowest-tax tobacco states (which typically have high smoking rates and sometimes serves as sources for interstate cigarette smuggling) account for quite small portions of total U.S. pack sales -- e.g., North Carolina (3.8%), Kentucky (2.7%), and Virginia (3.2%). Even if one of the very biggest states increased its cigarette tax enough to reduce smoking in that state by 25 percent (which would require a tax increase of more than \$2.00 per pack), that would reduce nationwide cigarette sales and each state's future settlement revenues by only about one percent or so.[†] Some of the smallest states could actually eliminate all smoking within their borders without having any significant effect on the volume adjustment.

State Cigarette Tax Increases Produce Significant State Benefits. State cigarette tax increases always increase state excise tax revenues, reduce smoking (especially among kids and low-income families), and reduce the state's smoking-caused healthcare costs.[‡] That means the big winners will be the states that reduce their smoking rates more sharply than the overall national decline: they will get the same reductions to their settlement payments as other states but enjoy above-average smoking-reduction benefits and cost savings.

National Center for Tobacco-Free Kids, May 1, 2003 | Eric Lindblom

* The federal offset provision in the state tobacco settlements -- which provided that settlement payments to the states would be reduced on a dollar-for-dollar basis if the states received any new funds from a federal cigarette tax increase -- is no longer operative..

[†] Numerous studies have established that for every ten percent a state tax increase raises the average price of a pack of cigarettes in the state it will also reduce overall cigarette consumption in the state by about four percent. See, e.g., Chaloupka, F. J., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research* (2000), and other price studies at <http://tigger.uic.edu/~fjc>. The volume adjustment reduces state settlement receipts by roughly 98% of any declines in the nationwide cigarette sales of the four major cigarette companies since before the settlement.

[‡] See, e.g., Campaign for Tobacco-Free Kid fact sheets, *Raising State Tobacco Taxes Always Increases State Revenues and Always Reduces Tobacco Use and State Cigarette Tax Rates and Projected Benefits from Increasing Them*, <http://tobaccofreekids.org/research/factsheets>. For more information and Campaign factsheets on state tobacco-tax increases, see <http://tobaccofreekids.org/reports/prices>.

CAMPAIGN For TOBACCO-FREE Kids®

BENEFITS FROM A CIGARETTE TAX INCREASE IN ALASKA

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

Smoking-caused costs in state per taxed pack sold: \$6.38
Average retail price per pack: \$4.34 (state share from excise and sales taxes: \$1.00)

Total state Medicaid program smoking costs each year: \$60 million
State cigarette tax revenue each year: \$40.4 million (2002)

Last Alaska Cigarette Tax Increase: 10/01/97

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

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

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

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

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

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

CAMPAIGN For TOBACCO-FREE Kids[®]

2003 STATE CIGARETTE EXCISE TAX RATES & RANKINGS

Overall All States' Average: 73.5 cents per pack
 Major Tobacco States' Average: 12.4 cents per pack
 Other States' Average: 81.7 cents per pack

State	Tax	Rank
Alabama	16.5	47th
Alaska	100	13th
Arizona	118	12th
Arkansas	59	27th
California	87	19th
Colorado	20	43rd
Connecticut	151	3rd
Delaware	55	30th
DC	100	13th
Florida	33.9	41st
Georgia	37	38th
Hawaii ¹	130	8th
Idaho ²	57	28th
Illinois	98	17th
Indiana	55.5	29th
Iowa	36	39th
Kansas	79	21st
Kentucky	3	50th

State	Tax	Rank
Louisiana	36	39th
Maine	100	13th
Maryland	100	13th
Massachusetts	151	3rd
Michigan	125	10th
Minnesota ³	48	35th
Mississippi	18	45th
Missouri	17	46th
Montana	70	23rd
Nebraska	64	25th
Nevada	80	20th
New Hampshire	52	34th
New Jersey	205	1st
New Mexico	91	18th
New York	150	5th
North Carolina	5	49th
North Dakota	44	36th
Ohio	55	30th

State	Tax	Rank
Oklahoma	23	42nd
Oregon	128	9th
Pennsylvania	135	7th
Rhode Island	171	2nd
South Carolina	7	48th
South Dakota	53	33rd
Tennessee	20	43rd
Texas	41	37th
Utah	69.5	24th
Vermont	119	11th
Virginia	2.5	51st
Washington	142.5	6th
West Virginia	55	30th
Wisconsin	77	22nd
Wyoming	60	26th
Puerto Rico	123	NA
Guam	100	NA
Northern Marianas	175	NA

¹ 10-cents added 7/1/04. Reverts to \$1

7/1/06.

² Reverts to 28 cents 7/1/05.

³ Has an 83-cents rate that applies only to the brands of small manufacturers that are not part of the state tobacco settlement.

The many states and U.S. territories that have implemented or passed new cigarette increases since January 2002 are in **bold type**. New York City increased its local cigarette tax from eight cents to \$1.50 per pack, effective 7/1/02, and several localities in VA and elsewhere have increased their cigarette tax rates, as well. Hawaii has passed an additional 10-cent increase that goes into effect in 2004; and Alabama has sent a 14.5 cents increase, effective October 1st, 2003, to the state's voters to approve or reject. The median tax rate is now 60 cents per pack.

Tobacco States are KY, VA, NC, SC, GA, TN. States' average includes DC, but not U.S. territories Puerto Rico, Guam, or Northern Marianas. Also including Puerto Rico (which has a larger U.S. population than more than 20 states and DC) raises the state average to 74.5 cents per pack and the non-tobacco state average to 82.6 cents. Federal cigarette tax is 39 cents per pack. From the beginning of 1998 through 2002, the major cigarette companies increased the prices they charge by more than \$1.25 per pack (but also instituted aggressive retail-level discounting for competitive purposes and to reduce related consumption declines). In January 2003, Philip Morris instituted a "temporary" 65-cent per pack price cut for four of its major brands to replace its retail-level discounting and fight sales losses to deep discount brands. The U.S. Centers for Disease Control & Prevention estimates that smoking-caused health costs nationwide total \$7.18 per pack sold in the United States.

The average price for a pack of cigarettes nationwide is roughly \$3.65 (including statewide sales taxes but not local cigarette or sales taxes, other than NYC's \$1.50 per pack cigarette tax), with considerable state-to-state differences because of different state tax rates, and different manufacturer, wholesaler, and retailer pricing and discounting practices. AK, DE, MT, NH & OR have no state sales tax at all; CO has a state sales tax but it does not apply to cigarettes; and AL, GA & MO (unlike the rest of the states) do not apply their state sales tax to that portion of retail cigarette prices that represents the state's cigarette excise tax.

Sources: Orzechowski & Walker, *Tax Burden on Tobacco*, 2002; media reports; Economic Research Service, U.S. Department of Agriculture, *Tobacco Briefing Room Website*, <http://www.ers.usda.gov/Briefing/tobacco>.

For additional information see the Campaign's website at <http://tobaccofreekids.org/reports/prices>.

National Center for Tobacco-Free Kids, January 8, 2004 / Eric Lindblom

CAMPAIGN for TOBACCO-FREE Kids®

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

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

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

State	Cigarette Tax Per Pack	National Rank (1 = high)	Date of Last State Tax Increase	FY 2002 Cigarette Pack Sales (millions)	FY 2002 Cigarette Tax Revenue (millions)	Retail Price Per Pack With All Taxes	CDC State Smoking Costs Per Pack Sold	Adult Smokers	Youth Smoking Rate	Adult Smoking Rate	Adult Smoking Rank (1=low)
All States	\$0.70.5 avg.	///	///	20.4 billion	\$8.4 billion	\$3.72	\$7.18	48 million	28.1%	22.8%	///
Alabama	\$0.16.5	47th	7/1/84	378.5	\$61.7	\$3.15	\$7.33	794,359	23.7%	23.9%	30
Alaska	\$1.00	12th	10/1/97	40.4	\$40.4	\$4.34	\$6.38	113,852	33.9%	26.1%	44
Arizona	\$1.18	11th	11/26/02	276.1	\$158.6	\$4.44	\$8.35	809,192	19.0%	21.5%	12
Arkansas	\$0.59	26th	6/1/03	234.8	\$76.8	\$3.70	\$6.46	510,216	34.7%	25.6%	40
California	\$0.87	19th	1/1/99	1,234.90	\$1,065.2	\$4.11	\$11.38	4,234,953	21.6%	17.2%	2
Colorado	\$0.20	43rd	7/1/86	292.6	\$56.2	\$3.01	\$6.21	716,904	25.3%	22.4%	19
Connecticut	\$1.51	1st	3/15/03	227.4	\$149.8	\$4.74	\$9.16	533,286	25.6%	20.8%	8
Delaware	\$0.55	29th	7/31/03	113.4	\$27.0	\$2.98	\$4.32	147,842	24.2%	25.1%	38
Washington, DC	\$1.00	12th	1/1/03	25.4	\$16.3	\$4.14	\$16.02	95,070	14.7%	20.8%	9
Florida	\$0.33.9	41st	7/1/90	1,277.30	\$426.3	\$3.33	\$8.26	2,775,609	19.0%	22.5%	22
Georgia	\$0.37	37th	4/1/71	666.2	\$76.5	\$3.01	\$6.38	1,426,081	23.7%	23.7%	29
Hawaii	\$1.30	7th	7/1/03	62.6	\$62.6	\$4.57	\$10.15	188,649	24.5%	20.6%	7
Idaho	\$0.57	27th	6/1/03	83.6	\$23.4	\$3.38	\$6.03	182,210	19.1%	19.7%	3
Illinois	\$0.98	17th	7/1/02	885.2	\$464.3	\$4.02	\$8.53	2,165,027	34.0%	23.6%	27
Indiana	\$0.55.5	28th	7/1/02	742.1	\$110.3	\$3.52	\$5.14	1,239,174	31.6%	27.5%	47
Iowa	\$0.36	38th	6/1/91	249.7	\$88.0	\$3.22	\$6.40	486,776	32.7%	22.2%	15
Kansas	\$0.79	20th	1/1/03	208.8	\$47.9	\$3.75	\$6.98	438,544	26.1%	22.2%	16
Kentucky	\$0.03	50th	7/1/70	572.5	\$16.0	\$2.89	\$4.88	941,508	40.0%	30.9%	51
Louisiana	\$0.36	38th	7/1/02	433.3	\$98.1	\$3.21	\$7.57	805,796	33.3%	24.8%	37
Maine	\$1.00	12th	10/1/01	102.4	\$94.1	\$4.12	\$8.46	233,684	24.8%	24.0%	32
Maryland	\$1.00	12th	6/1/02	301	\$202.7	\$3.95	\$10.03	839,287	23.7%	21.3%	10
Massachusetts	\$1.51	1st	7/24/02	354	\$269.0	\$4.82	\$12.52	955,260	26.0%	19.7%	4
Michigan	\$1.25	9th	8/1/02	780.1	\$577.3	\$4.34	\$7.70	1,887,068	27.6%	25.7%	41
Minnesota	\$0.48	34th	7/1/92	352.8	\$166.1	\$3.49	\$7.22	806,434	28.9%	22.2%	17
Mississippi	\$0.18	45th	6/1/85	261.5	\$44.0	\$3.15	\$6.96	525,646	23.6%	25.4%	39
Missouri	\$0.17	46th	10/1/93	558.3	\$92.0	\$2.94	\$6.37	1,079,387	30.3%	25.9%	42
Montana	\$0.70	22nd	5/1/03	67.3	\$11.7	\$3.49	\$6.86	147,197	28.5%	21.9%	13

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

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

State	Cigarette Tax Per Pack	National Rank (1 = high)	Date of Last State Tax Increase	FY 2002 Cigarette Pack Sales (millions)	FY 2002 Cigarette Tax Revenue (millions)	Retail Price Per Pack With All Taxes	CDC State Smoking Costs Per Pack Sold	Adult Smokers	Youth Smoking Rate	Adult Smoking Rate	Adult Smoking Rank (1=low)
Nebraska	\$0.64	24th	10/1/02	132.4	\$43.5	\$3.82	\$7.19	257,248	29.0%	20.4%	5
Nevada	\$0.35	40th	7/1/89	173.1	\$58.8	\$3.26	\$6.54	401,344	25.2%	27.0%	46
New Hampshire	\$0.52	33rd	7/1/99	166.7	\$84.1	\$3.33	\$4.63	223,220	25.3%	24.1%	34
New Jersey	\$1.50	3rd	7/1/02	495.2	\$391.5	\$4.64	\$9.69	1,347,607	24.5%	21.3%	11
New Mexico	\$0.91	18th	7/1/03	95.4	\$19.5	\$3.98	\$7.75	313,203	36.2%	23.9%	31
New York	\$1.50	3rd	4/3/02	884.4	\$1,052.8	\$5.65	\$12.83	3,343,006	26.8%	23.4%	26
North Carolina	\$0.05	49th	8/1/91	806.6	\$38.8	\$3.02	\$5.90	1,576,084	27.8%	25.9%	43
North Dakota	\$0.44	35th	7/1/93	43.4	\$19.1	\$3.52	\$7.82	106,379	35.3%	22.1%	14
Ohio	\$0.55	29th	7/1/02	1,101.00	\$257.3	\$3.51	\$6.66	2,344,750	33.4%	27.7%	48
Oklahoma	\$0.23	42nd	6/1/87	352.8	\$57.1	\$3.09	\$6.01	736,789	24.0%	28.8%	50
Oregon	\$1.28	8th	11/1/02	231.3	\$155.0	\$3.80	\$7.58	527,849	22.0%	20.5%	6
Pennsylvania	\$1.00	12th	7/15/02	1,067.40	\$320.1	\$3.95	\$7.50	2,221,373	27.6%	24.6%	36
Rhode Island	\$1.50	3rd	7/1/03	79.1	\$78.1	\$4.65	\$8.15	192,119	24.8%	24.0%	33
South Carolina	\$0.07	48th	7/1/77	396.2	\$25.4	\$3.00	\$6.52	786,621	36.0%	26.2%	45
South Dakota	\$0.53	32nd	4/1/03	57.1	\$17.5	\$3.49	\$6.84	123,692	33.0%	22.4%	20
Tennessee	\$0.20	43rd	7/15/02	593.6	\$75.3	\$3.26	\$7.01	1,046,946	32.4%	24.4%	35
Texas	\$0.41	36th	7/1/90	1,244.30	\$497.5	\$3.49	\$7.79	3,367,139	24.7%	22.5%	23
Utah	\$0.69.5	23rd	5/6/02	91	\$47.1	\$3.73	\$5.99	201,425	8.3%	13.3%	1
Vermont	\$1.19	10th	7/1/03	57	\$24.5	\$4.11	\$6.18	103,332	23.7%	22.4%	21
Virginia	\$0.02.5	51st	9/1/66	662.1	\$15.0	\$2.95	\$5.57	1,201,557	NA	22.5%	24
Washington	\$1.42.5	6th	1/1/02	269.5	\$306.6	\$4.82	\$10.25	989,943	28.0%	22.6%	25
West Virginia	\$0.55	29th	5/1/03	199.5	\$32.6	\$3.37	\$7.02	396,478	39.2%	28.2%	49
Wisconsin	\$0.77	21st	10/1/01	408.3	\$288.8	\$3.89	\$7.14	942,801	27.1%	23.6%	28
Wyoming	\$0.60	25th	7/1/03	46.1	\$5.1	\$3.50	\$5.27	81,010	28.4%	22.2%	18
USA/U.S. Gov't	39	///	1/1/02	21.25 billion	\$7.0 billion	\$3.72	\$7.18	49 million	28.5%	22.8%	NA

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

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

National Center for Tobacco-Free Kids, June 26, 2003 / Eric Lindblom

CAMPAIGN For TOBACCO-FREE Kids®

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

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

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

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

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

Economic Research On Cigarette Tax Increases Reducing Smoking

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

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

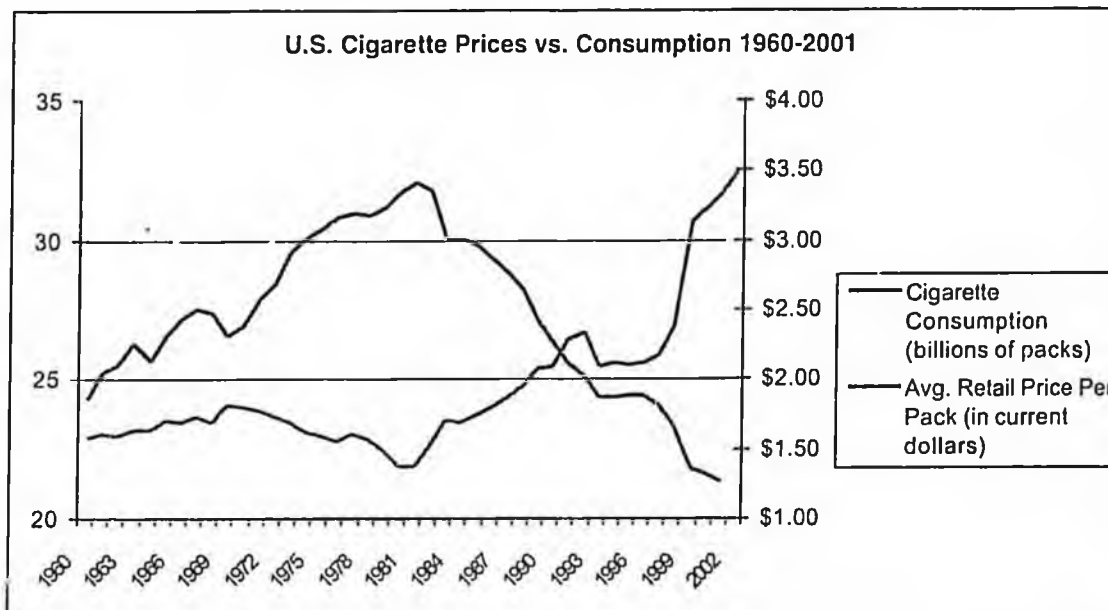
- Kids do not smoke more marijuana if they reduce their cigarette smoking. In fact, cigarette price increases not only reduce youth smoking but also reduce both the number of kids who smoke marijuana and the amount of marijuana consumed by continuing regular users.⁸

Expert Conclusions on Cigarette Prices and Smoking Levels

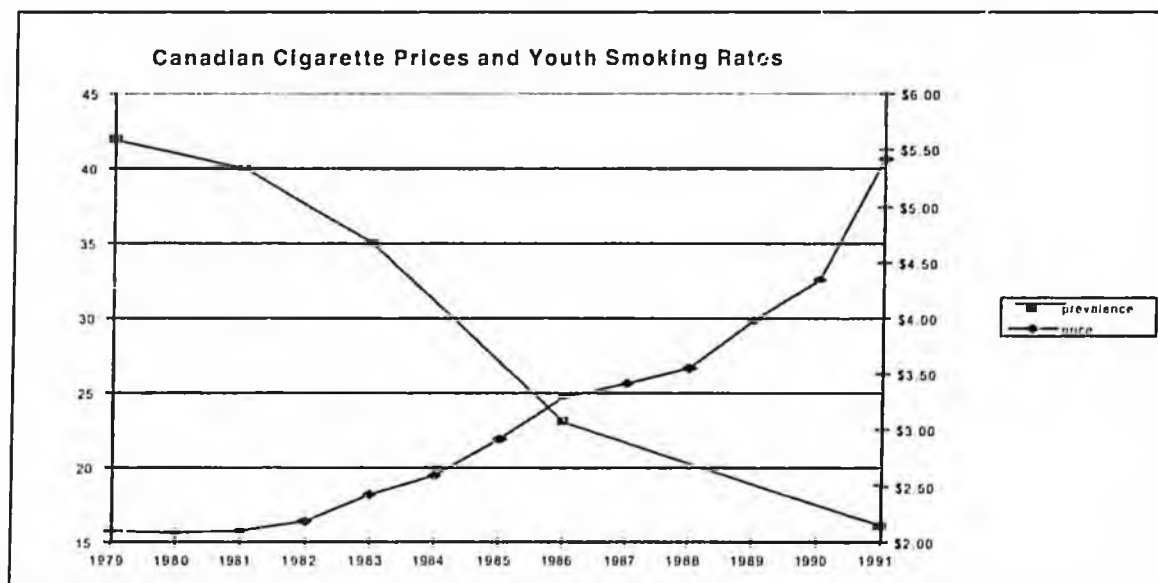
- The 2000 U.S. Surgeon General's Report, *Reducing Tobacco Use*, found that increasing the price of tobacco products would decrease the prevalence of tobacco use, particularly among kids and young adults, and that tobacco tax increases would lead to "substantial long-term improvements in health." From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

Increasing U.S. Cigarette Prices and Declining Consumption

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



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



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

¹ R.J. Reynolds Executive D. S. Burrows, "Estimated Change In Industry Trend Following Federal Excise Tax Increase" RJR Document No. 501988846 -8849, September 20, 1982, www.rjrtdocs.com.

² Philip Morris Research Executive Myron Johnston, "Teenage Smoking and the Federal Excise Tax on Cigarettes," PM Document No. 2001255224, September 17, 1981, www.pmdocs.com.

³ Philip Morris Executive Jon Zoler, "Handling An Excise Tax Increase," PM Document No. 2022216179, September 3, 1987, www.pmdocs.com.

⁴ Philip Morris Executive Claude Schwab, "Cigarette Attributes and Quitting," PM Doc. 2045447810, March 4, 1993, www.pmdocs.com.

⁵ See, e.g., Tauras, J., et al., "Effects of Price and Access Laws on Teenage Smoking Initiation: A National Longitudinal Analysis," Bridging the Gap Research, ImpacTeen, April 24, 2001, and other price studies at www.uic.edu/orc/s/impacteen. Chaloupka, F., "Macro-Social Influences: The Effects of Prices and Tobacco Control Policies on the Demand for Tobacco Products," *Nicotine and Tobacco Research*, 1999, and other price studies at <http://tigger.uic.edu/~fic>; Chaloupka, F. & R. Pacula, "An Examination of Gender and Race Differences in Youth Smoking Responsiveness to Price and Tobacco Control Policies," National Bureau of Economic Research, Working Paper 6541, April 1998, <http://tigger.uic.edu/~fic>. Emery, S., et al., "Does Cigarette Price Influence Adolescent Experimentation?," *Journal of Health Economics* 20:261-270, 2001. Evans, W. & L. Huang, *Cigarette Taxes and Teen Smoking: New Evidence from Panels of Repeated Cross-Sections*, working paper, April 15, 1998, www.bsos.umd.edu/econ/evans/wrkpap.htm. Harris, J. & S. Chan, "The Continuum-of-Addiction: Cigarette Smoking in Relation to Price Among Americans Aged 15-29," *Health Economics Letters* 2(2) 3-12, February 1998, www.mit.edu/people/jeffrey.

⁶ See, e.g., U.S. Centers for Disease Control and Prevention (CDC), "Responses to Cigarette Prices By Race/Ethnicity, Income, and Age Groups - United States 1976-1993," *Morbidity and Mortality Weekly Report (MMWR)* 47(29): 605-609 July 31, 1998, www.cdc.gov/mmwr; Chaloupka & Pacula, April 1998.

⁷ Chaloupka, F., J. Tauras & M. Grossman, "Public Policy and Youth Smokeless Tobacco Use," *Southern Economic Journal* 64(2): 503-16, October 1997, <http://tigger.uic.edu/~fic>.

⁸ Chaloupka, F., et al., *Do Higher Cigarette Prices Encourage Youth to Use Marijuana?*, National Bureau of Economic Research, Working Paper No. 6939, February 1999, <http://tigger.uic.edu/~fic>. Farrelly, M., et al., "The Joint Demand for Cigarettes and Marijuana: Evidence from the National Household Surveys on Drug Abuse," *Journal of Health Economics* 20: 51-68, 2001. See, also, Campaign for Tobacco Free Kids fact sheet, *Smoking and Other Drug Use*, <http://tobaccofreekids.org/research/factsheets/pdf/0106.pdf>.

⁹ Available at www.cdc.gov/tobacco/sqrpage.htm.

¹⁰ Available at <http://www1.worldbank.org/tobacco/reports.htm>.

¹¹ Available at www.nap.edu/books/0309060389/html/index.html.

¹² Bill Neville, President, Canadian Tobacco Manufacturers Council, testifying before Legislative Committee F on Bill C-10, *An Act to Amend the Excise Tax Act and the Excise Act*, September 26, 1991.

¹³ Canadian Cancer Society, et al., *Surveying the Damage: Cut Rate Tobacco Products and Public Health in the 1990s*, October 1999, www.nsra-adnf.ca/english/oct99taxrep.html.



March 21, 2004

Dear Committee Chairs

The Alaska Tobacco Control Alliance (ATCA) is pleased to provide this letter of support for HB 538 and SB 368 which will increase Alaska's tobacco tax by \$1.00 per pack.

ATCA was formed in 1992 to encourage, coordinate and support effective methods of controlling and preventing tobacco use for the purpose of increasing the years of healthy life for all Alaskans by reducing disease caused by tobacco use. ATCA'S vision is a tobacco-free Alaska. ATCA has over 200 statewide members consisting of educators, health professionals, government agencies, private businesses, parents and others are committed to this cause.

In January 2004, the ATCA Board met and agreed to support an increase in Alaska's tobacco tax. An increase in the tobacco tax is an important part of overall tobacco control program.

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

Affects on youth consumption are projected to be

- **Percent decrease in youth smoking: approximately 15.0%**
- **Increase in total number of youth alive today who will not become smokers: 9,100**
- **Number of youth alive today saved from premature smoking-caused death: 2,900**

Creating barriers to youth smoking is good for public health. Smoking is a pediatric disease. Adults do not start smoking, children do. Virtually all today's smokers started before they were 19 years old. Effectively run tobacco control programs can help these adult smokers quit, but we need to stem the tide of future smokers. The future smokers of Alaska are our children. This tobacco tax increase will save thousands of lives and aid in the further decline of the number of kids who smoke in Alaska today.

In behalf of the Alaska Tobacco Control Alliance and its 200 members around the state, I urge you to pass these bills and give Alaska a powerful tool in the battle against youth smoking.

Sincerely,

ATCA Chair

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



*Learn and Live*SM

March 21, 2004

Dear Committee Chairs:

The American Heart Association is pleased to provide this letter of support for HB 538 and SB 368, legislation that would increase Alaska's cigarette tax by \$1.00 per pack and increase the excise tax levied on other tobacco products by 33%.

The American Heart Association strongly supports significant increases in tobacco taxes because research from around the country has demonstrated time and again that as cigarettes get more expensive, fewer children start to smoke and adults are more likely to quit. As virtually all smokers become addicted before age 19, fewer children starting to smoke will have significant future public health benefits in Alaska. Smoking remains the leading preventable cause of cardiovascular disease, and it is also the leading preventable cause of death in Alaska, responsible for one out of every five deaths in our state. Although Alaska has had tremendous success in reducing youth smoking, we must strive to continue this exciting trend by raising the cost of cigarettes and maintaining our effective tobacco control programming.

Every state that has significantly increased its tobacco tax has enjoyed substantial increases in revenue while also reducing smoking rates. While Alaska will still not have the highest tax in the nation, the proposed increases will go a long way toward saving lives and generating revenue. Not only will the proposed taxes generate over \$35 million each year, but as increased prices translate into fewer people smoking, it will also eventually help decrease the more than \$130 million that Alaska spends each year on health care expenditures directly related to tobacco.

Very rarely do revenue measures and public health messages overlap so significantly. The American Heart Association asks for your support of this important piece of legislation – your commitment to increase the tobacco tax will help save thousands of Alaskan lives.

Thank you,

Jennifer App
Alaska Advocacy Director
American Heart Association



March 22, 2004

Senator Con Bunde, Chair
Senate Labor and Commerce Committee
State Capitol, Room 506
Juneau, AK 99801-1182

Dear Chairman Bunde:

The American Cancer Society is pleased to support SB 368, which increases the state's tobacco tax. The Society recognizes tobacco taxes as one of the most effective ways to reduce youth smoking and save lives. We have seen evidence of this fact across the nation as well as here in Alaska. There is no longer any doubt that tobacco taxes are a proven means to reduce tobacco use and save lives.

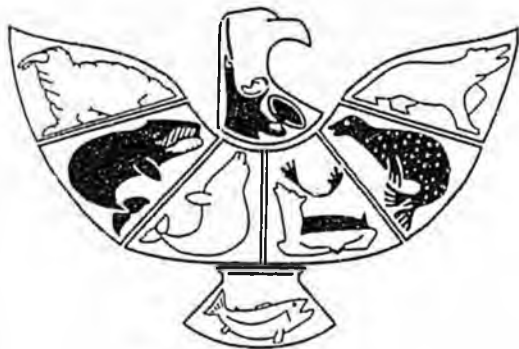
The mission of the American Cancer Society is to eliminate cancer as a major health problem by preventing cancer, saving lives, and diminishing suffering from cancer. We also recognize the devastating impact of cancer on Alaskans. Cancer is currently the second leading cause of death for all Alaskans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

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

Sincerely,

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

Emily E. Nenon
Alaska Advocacy Manager



Alaska Native Health Board

3700 Woodland Drive, Suite 500
Anchorage, Alaska 99517

Phone: (907) 562-6006
FAX: (907) 563-2001

March 22, 2004

The Honorable Senator Con Bunde
Senate Labor and Commerce Committee
Alaska State Legislature
State Capitol
Juneau, AK 99801

Dear Chairman Bunde,

The Alaska Native Health Board supports the Governor's proposal to increase the tobacco tax by \$1.00 per pack and urges you to pass SB 368 out of the Senate Labor & Commerce Committee.

Health care expenditures directly related to smoking cost Alaskans \$132 million dollars per year. Our current tax covers only half of those costs. From an economic perspective the decision is simple – raise the tax. But the issue at hand is not just an economic one, it's about the well being of Alaskans. **It's about protecting kids and saving lives.**

We made great strides toward protecting our youth from the hazards of smoking when we increased the tobacco tax in 1997. Since that time, we have reduced the number of kids who smoke by nearly half. But we still have a lot of work to do. In rural Alaska, for example, we have an excessively high prevalence of both youth and adult smoking rates. The best thing we can do to change this statistic is to help prevent kids from ever picking up that first cigarette – increasing the cost of smoking is an effective tool to prevent youth initiation.

Among all age groups, tobacco consumption is the leading cause of preventable death. Though we have made progress in decreasing tobacco consumption in Alaska, increasing tobacco taxes is a proven way to further reduce tobacco consumption among people who already smoke.

We recognize that a tobacco tax alone won't stop the devastation caused by tobacco use in Alaska. The Alaska Native Health Board is also working on other measures such as local smokefree workplace policies, community education, and prevention strategies to help reduce the destruction caused by tobacco. An increase in Alaska's tobacco tax will go a long way to enhancing our efforts and the efforts of many other health organizations across the state with the goal of reducing death and disease caused by tobacco.

Protect Kids. Save lives. Support a \$1.00 a pack tobacco tax increase.

Best regards,


Kattaryna Stiles
Tobacco Policy Coordinator

ALEUTIAN/PRIIBILOF ISLANDS ASSOCIATION
ARCTIC SLOPE NATIVE ASSOCIATION
BRISTOL BAY AREA HEALTH CORPORATION
CHUGACHMIUT
COPPER RIVER NATIVE ASSOCIATION
EASTERN ALEUTIAN TRIBES
KETCHIKAN INDIAN COMMUNITY
VALDEZ NATIVE TRIBE

MANILAO ASSOCIATION
METLAKATLA INDIAN COMMUNITY
MT. SANFORD TRIBAL CONSORTIUM
NATIVE VILLAGE OF EKLUTNA
NATIVE VILLAGE OF TYONEK
NINILCHIK TRADITIONAL COUNCIL
KODIAK AREA NATIVE ASSOCIATION

NORTON SOUND HEALTH CORPORATION
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March 22, 2004

Senator Con Bunde
Chair, Senate Labor & Commerce
State Capitol
Juneau, Alaska 99811

Re: HB 538 and SB 368 -- Increasing the State Tobacco Tax

Dear Chairman Bunde:

The American Lung Association of Alaska is pleased to support the above referenced bills. These measures represent a win, win, win solution for Alaska that reduces smoking, raises much-needed revenue and has strong support from voters. It's no wonder 33 states have increased cigarette taxes since January 1, 2002.

Studies show that higher cigarette taxes are one of the most effective ways to reduce smoking among both youth and adults. A Department of Revenue study shows Alaska's tobacco consumption dropped substantially in response to the 1997 tobacco price increase. Among younger children the report estimated a 30 percent reduction in smoking. The 1997 tax, as part of a comprehensive tobacco control program has contributed to the 50 percent reduction in high school smoking rates since 1995.

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

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

Despite the great progress, tobacco remains the leading cause of preventable death in Alaska while costing the state hundreds of millions of dollars in increased health care costs and lost worker productivity. These are large "hidden costs" presently borne by the general non-smoking public and private businesses.

Tobacco use in Alaska costs the general public approximately \$6.38 per pack. Increasing the state tobacco tax to \$2 per pack would only recoup a small portion of these costs.

This measure would save thousands of Alaska lives, reduce health care costs and generated much needed revenue. All measures of success the American Lung Association of Alaska can enthusiastically support.

Sincerely,

Christie Garbe, CEO
American Lung Association of Alaska

CRAIN'S NEW YORK BUSINESS

**High tax fuels black market in cigarettes
Agencies crack down on smugglers**

By Anne Michaud

Published on March 08, 2004

Like the prohibition on alcohol in 1920s America, the high tax on cigarettes in New York City is giving rise to a vast network of illegal sales, complete with gangland-style violence.

Cigarettes are not banned here, of course, but at \$7.50-plus for a pack, they are prohibitively expensive for many smokers. To feed smokers' habits, bootleggers—from petty criminals to organized gangs and even terrorist organizations such as Hezbollah—are bringing cigarettes into the state and successfully evading the tax penalties.

"We're paying a lot of attention to this," says Garry McCarthy, deputy commissioner with the New York Police Department. "It's a black market people are moving into, and we have to squeeze it as hard as we can."

If there's any doubt about cigarette sales going underground, tax collection figures tell the tale. Legitimate vendors sold only 11.1 million packs in New York City last January, compared with 30.4 million packs in January 2002. Because the city collects \$1.50 on each pack sold, versus 8 cents prior to the July 2002 tax hike, monthly tax revenue increased to \$16.7 million this past January from \$2.4 million in January 2002. However, state tax revenue declined so much that the state and city together lost \$5.6 million in monthly revenue during the same period.

Much of that decline is probably not due to smuggling—studies show that 4% of smokers will quit for every 10% rise in the cost of cigarettes. But there is plenty of evidence that people who haven't quit are getting their nicotine fix illegally.

Mike Patel says cigarette sales are down by half at his newsstand at Broadway and Chambers Street. "If they increase the tax again, we're out of business," says Mr. Patel, who watches teenagers sell cigarettes from plastic grocery bags near his stand. "They come with two bags full and sell them for \$5."

Some criminal sales are more blatant than others. People may not know that Internet cigarette purchases are illegal if buyers don't pay the appropriate taxes. Or that loading up on a few cartons at tax-free Indian reservations upstate or on Long Island is illegal for non-Indians, even though the governor is refusing to enforce the law.

Gang rivalry

At a much higher criminal level, bootleggers drive to Virginia and North Carolina, where they load up car trunks and trailers with cheap cigarettes that can net them \$7,000 to \$140,000 a trip. Police believe the smuggling may be fueling street gang rivalries. The NYPD attributes two Brooklyn homicides and two shootings late last year to cigarette turf battles.

The lucrative trade is attracting organized crime and terrorism groups. Two years ago, 10 members of Hezbollah were arrested in Charlotte, N.C., and convicted of using proceeds from cigarette smuggling to aid the organization.

"Since then, we have stepped up our enforcement quite a bit," says Joseph Green, senior special agent for the federal Bureau of Alcohol, Tobacco, Firearms and Explosives in New York.

The ATF seized 12,000 cases in New York--more than 2 million cigarettes--in a sting operation in the city last fall. Many were run up from Virginia; others were manufactured for export from the United States but were diverted back here. Counterfeit cigarettes are also being flown in from China, where they are packaged to look like well-known brands, such as Marlboro and Newport.

"Either the black market gets stopped, or we are going to have no legitimate distribution in the city of New York," says Leonard Schwartz, owner of Global Wholesale Co. in Brooklyn, which distributes cigarettes to stores. Mr. Schwartz, who also serves as chairman of the Wholesale Marketers Association, says he has had to lay off 15% of his workforce since the new city tax was enacted.

Small businesses are under so much pressure to make up for the losses that they are turning to illegal purchasing themselves. Sen. Frank Padavan, R-Bellerose, and Assemblyman Jeff Klein, D-Bronx, have introduced twin bills in the state Legislature that would reward wholesalers for turning in businesspeople who make suspicious cutbacks in their cigarette orders. Mayor Michael Bloomberg is pressing for the earliest possible passage of the bills.

Sting operations

The city's Department of Finance has hired a new head of enforcement, Carlton Butler, to run sting operations to nab illegal sellers. He is formalizing relationships with agencies such as the ATF, the NYPD, the state police and the sheriff's office.

But some people aren't thrilled with the stepped-up enforcement. "I'm outraged that they're creating new task forces," says E.J. McMahon, a senior fellow at the Manhattan Institute, a conservative think tank. "I don't want them keeping an eye out for illegal cigarette sellers; I want them watching the guys with suitcases with nuclear bombs."

All signs point to the bootlegging problem growing worse. City Finance Commissioner Martha Stark says that sellers are becoming more sophisticated, especially in the use of the Internet. Illegal distributors are said to be setting up home delivery routes.

Police, who are charging first-time offenders with a misdemeanor, expect that once criminals are caught for the second time and face felony charges, others will be deterred. "Over the course of time, we anticipate getting more bang out of the buck for these arrests," the NYPD's Mr. McCarthy says.

Mr. Green of the ATF predicts more violence as well. "The black market has continued to thrive and expand," he says. "Anywhere the criminal organizations have a potential to make a lot of money, the potential for violence increases."

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INCREASED TAXING MEANS MORE CRIME & SHUTTING DOWN THE ECONOMY

Firm sees red over counterfeit smokes - New York Times, March 4, 2003

As cigarette taxes increase, U.S. Customs officials see more smuggling of counterfeit products...

Seizures by U.S. Customs inspectors confirm that the problem is getting worse. Last year, Customs intercepted about 13 million packs of counterfeit smokes - mostly counterfeits - a fourfold increase over 2000. Most were seized at Los Angeles-Long Beach harbor, the gateway for Asian trade.

As the top-selling cigarettes in the U.S., with a 37% market share, Marlborc naturally has been the favorite target of counterfeiters. According to a Southern California tobacco dealer who did not want to be identified, a recent jobe within the cigarette trade was that "there was probably more Chinese product in California than there was Philip Morris product."

Because sales of counterfeit cigarettes also mean lost taxes, the problem has aligned the interests of tobacco firms and federal and state revenue agencies. In California, the tobacco industry typically carry phony tax stamps. Each counterfeit pack represents a loss of \$1.28, comprising California's cigarette tax of 67 cents and the federal excise tax of 39 cents. According to the state Legislative Analyst's Office, California is losing \$130 million to \$270 million a year to various tobacco tax-avoidance schemes.

Lawmakers discuss raising tobacco taxes - Associated Press, February 5, 2003

When North Dakota was considering a tax increase of 35 cents per pack...

Opponents say raising tobacco taxes could result in people bringing in cigarettes from states with cheaper taxes, buying them on American Indian reservations or buying them on the Internet without paying any taxes.

"It will make very honest people become little crooks," said Vicki Wagner, a spokeswoman for the North Dakota Council of Clubs.

Two suspected cigarette smugglers funded Hezbollah, U.S. says - Associated Press, February 5, 2003

Smugglers find profitable market in Michigan...

Two men accused in a cigarette trafficking ring have been charged with funneling contraband profits to the Islamic militant group Hezbollah, federal authorities say. The two were among 11 people charged in an indictment with buying cigarettes in North Carolina and an Indian reservation in New York, then bringing them back to Michigan to be resold.

The government linked the conspiracy to Mohamed Hammond, the suspected leader of a Hezbollah cell who was convicted in North Carolina last June of helping run a ring that sent cigarette-smuggling profits to the Lebanese group.

Eleven indicted on cigarette racketeering charges - Associated Press, February 4, 2003

High cigarette taxes in Michigan lead to cigarette smuggling...

Eleven people accused of buying and selling contraband cigarettes in order to evade Michigan taxes have been indicted on racketeering charges, federal authorities announced Tuesday.

In separate documents, prosecutors allege some of those charged donated profits from the cigarette trafficking to the militant group Hezbollah, a U.S.-designated terrorist organization in Lebanon.

The indictment unveiled Tuesday charges each of the 11 with conspiracy to commit a pattern of racketeering activity, including counterfeiting, trafficking, possession of counterfeit cigarette tax stamps, credit card fraud, money laundering, arson and witness tampering.

The defendants are accused of buying cigarettes in North Carolina and the Cataraugus Indian Reservation in New York, then bringing them to Michigan to be resold, according to U.S. Attorney Jeffrey Collins and the Bureau of Alcohol,

Upstairs business

Tobacco and Premium Cigarettes taxes are \$12.50 per carton in Michigan and 50 cents per carton in North Carolina. Cigarettes are not taxed on the reservation.

Smokers who don't like the tax? - Atlanta Journal & Constitution, January 16, 2003

As Georgia considers a 45-cent tax hike

What happens to the majority of smokers who don't like the habit or cut their smoking in half in response to the tax increases? They either pay higher prices, turn to the black market or cross the border to buy cheaper cigarettes, as Canadian smokers did.

Nine years a decade ago, Canada introduced a \$5-per-pack (\$2.72 in U.S. dollars) tax on cigarettes. In response, an estimated 30 percent of cigarettes available in Canada were smuggled in and sold for about half the price of legal cigarettes. Quebeca smuggling created a hardship for the owners of small stores who relied on cigarette revenue and it became an additional burden for law enforcement. Consequently, Canada eventually cut its cigarette tax in order to collect revenues.

Georgia's proposed 55-cent-per-pack tax takes effect, a one-pack-per-day smoker could save some \$168 annually by purchasing cigarettes north of the border, or better yet, over the internet. If just 10 percent of Georgia's 1.34 million adult smokers decided to cross the border or order cigarettes online, the state would actually bring in millions of dollars less than it is proposing under the cigarette "sin tax" hike.

Paid Virginia cheap smokers? - Wall Street Journal, December 13, 2002

Cigarettes become hot item on New York's black market as excise taxes increase

"...cigarettes, cigars, etc," he checks under his breath to passivity. Customers slip him \$5 bills and he gives each a green-and-white pack of smokes.

Ave's business is unhard cigarettes smuggled in from other states, and he confess he can sell 50 packs a night. "I go for shopping areas, wherever there's a large crowd," the 28-year-old says. "I make a good profit, enough to pay my bike."

The black market has spread across the city, to Brooklyn, a borough, feeding drug pushers who in the neighborhood, called pedlos. The "pushers" turned out to be black market cigarette vendors.

"There are a lot of entrepreneurs and opportunities out there," says Michael Broder, the deputy inspector who commands the New York Police Department's vice-enforcement division. "There's more activity because of all the money that can be made."

[Edward Doumrech (head of the ATF's New York field office) predicts an increase in competition among criminal groups to control the trade in untaxed cigarettes. "And competition in any illegal activity results in some shape or form of criminal violence," he says.

Up in smokes: Cigarettes no cash cow for N.Y.; Higher tax has smokers buying tobacco elsewhere - Birmingham, NY Press & Sun-Bulletin, November 25, 2002

New York's cigarette smuggling business is declining faster and less successfully

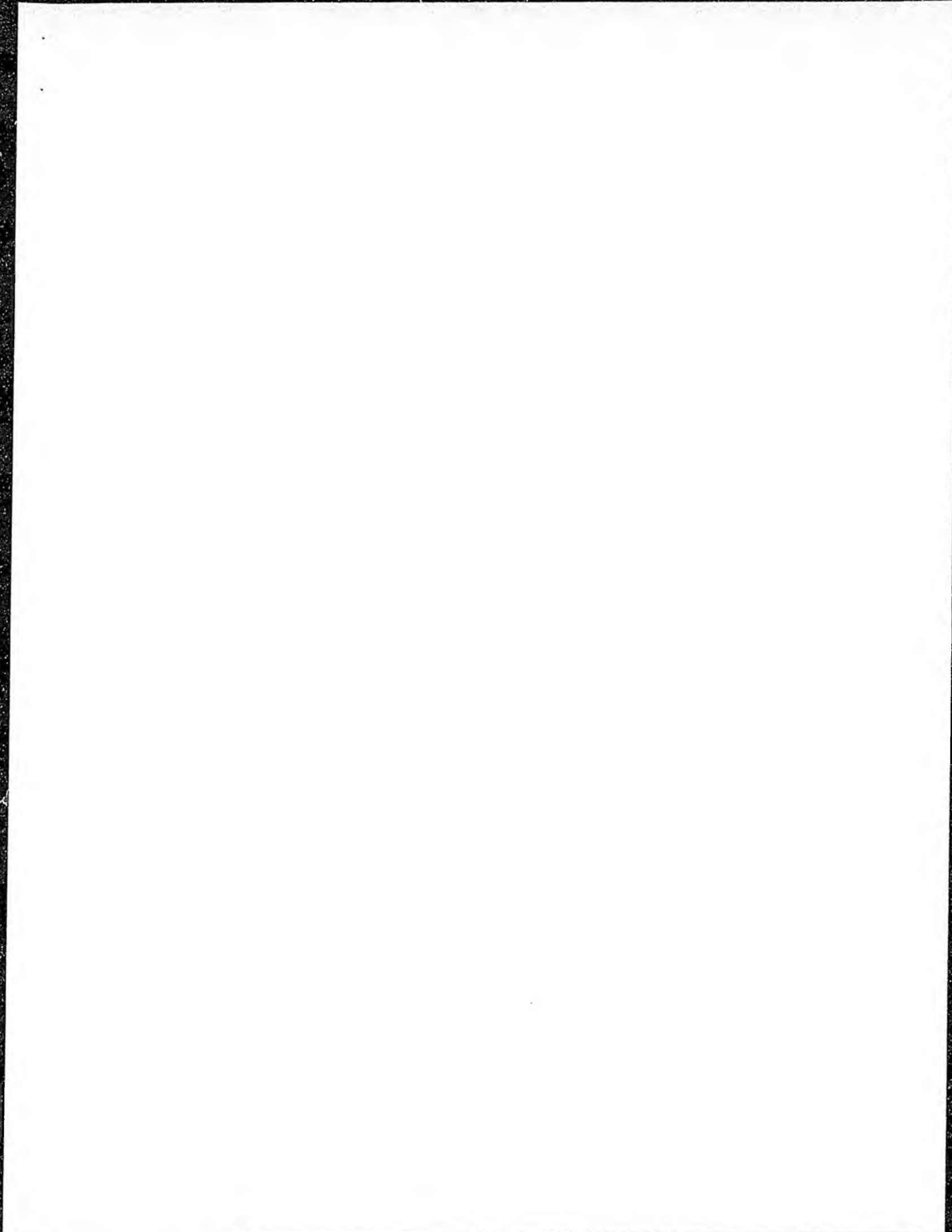
In the last two months, New York's Tax Department has announced four arrests for bootlegging or possessing illegal cigarettes. A Schenectady VMCRA worker, charged with selling illegal cigarettes on the job, was caught with 208 cartons. Two Dutchess County men were caught with three firms as many cartons, selling them from gas stations. A Rockland County man, who authorities say had been dealing illegal tobacco to retailers, was arrested outside a Spring Valley convenience store with 2,440 cigars in the back of his car.

"Smuggling has increased for some time, but it's gotten more lucrative," (Jim) Galin (director of the New York Association of Convenience Stores) said.

Tobacco is gold on black market - Baltimore Sun, November 24, 2002

Crime and corruption flourish from increased value of cigarettes on the black market

A court case filed in New York last month tells a gripping story involving terrorists and drug traffickers, Swiss banks and the Russian mob, the Italian mafia and money launderers.



Updated 10/20/23

Producers said they collected more than 1,355 cartons of most brands that were smuggled from China to Chicago to avoid city and state taxes of \$3 per pack.

Scam up in smoke, Illinois bust cigarette smuggling ring - Reuters, September 28, 2002

After officials broke up a \$5-million-a-year smuggling and counterfeit cigarette ring...

"In the wake of the increase in New York's cigarette tax, a torrent of untaxed cigarettes - including fakes purporting to be popular brands such as Marlboro and Marlboro Lights - has been pouring into New York City," said Queens District Attorney Richard Brown.

\$200M lost to evaders smugglers yearly, city, state tax shortfall from gang & internet sales - New York Daily News, September 23, 2002

Smugglers' profits also, and city, state tax revenues fall...

Freelance smugglers, organized crime and internet sources are flooding New York's neighborhoods with cheap cigarettes that would bring the city and state upward of \$200 million a year in taxes on the legitimate market.

The boom in underground cigarettes was touched off by the July increase in city taxes...according to government officials and tobacco wholesalers.

"When it comes to smuggling and counterfeit stamps, traditional organized crime is involved, terrorist groups are involved and street gangs are involved," said John D'egan, the ATF's area supervisor for industry operations. "Now the profit margin is tremendous," he said.

One morning last week, three stores in a four-block area in Bedford-Stuyvesant, Brooklyn were busted by agents of the Finance Department's tax enforcement division for selling untaxed cigarettes.

Illegal tobacco transport targeted; arrest rate rises with tax increase - The Washington Times, September 23, 2002

Law enforcement sees also in arrests rise to smuggling...

Maryland is setting a record pace for tobacco-smuggling arrests, having charged 42 persons with the crime since the fiscal year began July 1.

The increased pace of arrests coincides with an increase in Maryland's tobacco tax.

(Maryland's comptroller William Donald Schaefer) has linked tobacco to terrorist groups. "We know that some of the money used by smugglers is directly passed on to terrorist organizations," Mr. Schaefer said last month.

Three weeks after the September 11 terrorist attacks on the World Trade Center and the Pentagon, Mr. Schaefer said he believed there was some connection between cigarette smugglers and terrorist groups.

He said the terrorists who bombed the World Trade Center in 1993 had sold cigarettes illegal to partially finance that attack.

Revenue-crawling jurisdictions have long been advised to nicotine, drawing in tax revenue while breathing out fiscal plaudits about liberating the community from lethal addiction - The Business, September 22, 2002

New York's high cigarette tax leads to smuggling from neighboring states...

Another Unlabeled consequence of the tax has been a sharp increase in bootleggers who have been making a nice living out of transporting cigarettes from low-tax states in the south to high-tax states in the northeast.

Authorities recently arrested 17 people accused of smuggling cigarettes to raise money for the terrorist Hezbollah by earning as much as \$10,000 with each vessel.

All the boxes in that case were of brands of cigars or cigarettes, but cigarettes.

Cigarettes smuggled into US featured cigarette follow money trail to Islamic group Hezbollah - Fort St. Louis Post-Dispatch (Friday) Tribune, November 18, 2002

Counterfeit cigarettes that a man had in suits of suits...

The trap that arrested Hassan Nashar as he changed planes at Lambert Field was intended to stop drug runners. As it turned out, the nervous, sweating traveler who attracted police attention three years ago had no narcotics; the contraband in his luggage was instead almost 6700,000 worth of cigarette tax stamps that police presumed were counterfeit.

St. Louis bust leads police to Charlotte Hezbollah ring - Associated Press, November 18, 2002

Terrorists find easy funding source in smuggled cigarettes and counterfeit tax stamps...

Hassan Nashar, 38, a native of Lebanon who lives in North Carolina, was running fraudulent cigarette tax stamps, rather than drugs. After authorities started questioning him, he gave them the names of other people of Lebanese heritage who he said were smuggling cigarette stamps to raise money for Hezbollah.

This June, Nashar appeared in a heavily guarded courtroom in Charlotte to testify against two men he implicated, brothers Mohamed and Charaf Hamrouk.

[Kermit] Bell (the assistant U.S. attorney who prosecuted the case) said the Hamrouk brothers and eight defendants who pleaded guilty had at times sent as many as three vans of cigarettes a week to Michigan, seeking a profit of up to \$12,000 per van.

Counterfeit Terror: Feds track sales of counterfeit goods, money to terror groups - Associated Press, October 24, 2002

Counterfeit products including counterfeit cigarettes, food and other necessities...

Officials said the schemes span the globe, but there is direct evidence that some counterfeit products are being imported from overseas and sold directly in the United States, with the proceeds from Americans going back to terror groups. Counterfeit sales are believed to have reached into the millions of dollars, officials said.

[The] Trainer (a former Customs Service official who now heads the International Anti-counterfeiting Coalition in Washington) said current estimates are that sales of counterfeit goods account for 5 percent to 7 percent of worldwide trade, possibly as much as a half-trillion dollars a year.

Thieves apparently drive through door, take smokes - Toledo Blade, October 21, 2002

Cherish this! The car was expensive cigarettes for retailers...

Toledo police are investigating a burglary...in which a vehicle apparently slammed through the front door and thieves stole 250 cartons of cigarettes.

Mr. James (store manager and co-owner) said suspects took a large case that contained the cigarette cartons and drove off...he estimated the damage to the store at about \$20,000.

Bogus buds punched in Queens - New York Daily News, September 28, 2002

After police seized 37 car packs, fake cigarettes imported from...

Already under siege from sky-high prices, smokers got another dose of bad news yesterday - some of the brand-name cigarettes they are buying are actually fakes.

"I never believed in my wildest dreams that I'd be smoking before you with hundreds of cartons of counterfeit cigarette," said Queens District Attorney Richard Brown as he posed before a large table covered with fake Marlboros.

Hiding tobacco tax won't solve budget deficit - Cape Cod Times, September 16, 2002

When California's deficit increased to \$40 billion...

With California facing a Grand-Dan Quayle budget deficit of \$24 billion, Gov. Gray Davis and his Democratic allies in the State Legislature have fallen back on a brain-dead form of tax increase. The first-liner of the year award, however, has got to be the proposed massive hike in the state tobacco tax, which should be labeled the "Tax Avoidance and Smuggling Promotion Act."

Before they bank on all those additional tax revenues, Davis and Wesson should look at the huge problems currently being experienced by states and countries with high tobacco taxes.

New York smokers have gone to great lengths to avoid the high tobacco taxes. For instance, many tobacco consumers travel to Indian reservations in the state where, because of Indian sovereignty rights, cigarettes can be sold minus state and local taxes.

In a delicious irony, then, much of the revenues that Davis and Wesson expect from their tobacco tax increase may go up in smoke.

Cigarette smugglers find Virginia's low tax tempting - Virginian-Pilot, September 16, 2002

Maryland officials catch a smuggling ring - running cigarettes from Virginia to New York...

The U.S. Customs Service says profits from cigarette smuggling now rival those from trafficking in illegal drugs. And no state is a more tempting target for the traffickers than Virginia.

The operation was profitable at every step of the process, said Dale Irwin, assistant director of field enforcement in the Maryland customs office, which investigated the case. "The retailer was making money in Virginia. The guy taking them into Maryland was making money. The guy who was taking them to New York was making money. And the person who eventually sold them over the counter was making money," Irwin said.

Irwin estimates that 90 percent of the seized cigarettes came from Virginia. New York City authorities estimate that 80 percent of cigarettes smuggled into the city originate in Virginia. "This is organized crime," Irwin said. "We've had some information come back to us from reliable sources that there have been warehouses where people had semi-automatic machine guns guarding their product."

State gets tough on cigarette tax, threatens smokers dodging \$1 charge - Pittsburgh Post-Gazette, August 30, 2002

Youth access cigarettes via the Internet...

Pennsylvania officials are learning what their counterparts in other states have known for years: People will buy cheaper cigarettes over the Internet, from neighboring states, or from Indian reservations that sell tax-free cigarettes to avoid paying high taxes.

"The Internet is a great resource, but some individuals are using it to thwart Pennsylvania tax law," said State Revenue Secretary Larry P. Williams.

"Our main goal in increasing Pennsylvania's tax on cigarettes was to discourage our children from smoking," Williams said. "If children have access to purchasing tobacco products over the Internet, it defeats the purpose."

Smokers 'win' if you can afford 'em - Daily Texan, August 27, 2002

An increased excise duty raises the price of cigarettes to \$10...

Where there is a will to procure a desired product at a lower cost, there is always a way. Luckily for smokers, the free market and legal loopholes have allowed them to circumvent suffocating government legislation and find cigarettes for very low prices.

In addition to the Texas tradition of hopping the border to grab some cheap smokes in Matamoros or Ciudad Acuna, smoke shops on Indian reservations have become more popular with smokers as word gets out that one can buy cartons for less than \$20.

It is estimated that \$1.5 billion in federal and state cigarette taxes goes uncollected every year [due to smuggling].

Cracking down on cigarette smuggling could also be seen as corollary to the terror war. In July, 17 men were arrested on charges of cigarette smuggling. Authorities also alleged that proceeds from the smuggling ring were being funneled to the terror organization Hezbollah.

Cigarettes top burglars' list at city stores - Toledo Blade, August 20, 2002

As taxes on cigarettes rise, crime against retailers who sell cigarettes increases...

Den Fidi is tired of the hassle. Two of his Toledo convenience stores have been broken into this month. The object of the burglars' desires isn't money, but cartons of cigarettes.

"They're taking out garbage bags and laundry baskets full of them," Toledo police Detective Felix Parra said.

New Yorkers finding ways to circumvent high cigarette taxes - CBS News, August 20, 2002

When officials claim that cigarette taxes help curb smoking and improve public health...

The city (New York) claims sales have been cut in half, but have they? Just because they're reporting selling half as many cigarettes doesn't mean people are smoking half as many cigarettes. Perhaps all it means is that smokers have become more enterprising in their efforts to beat the tax. Which brings us to these agents, raking markets across the city that are selling illegal cigarettes lacking the proper New York tax stamp.

Is taxing tobacco good public policy? No; Snuff-out cigarette tax hike - The San Diego Union-Tribune, August 18, 2002

Crime and youth access to tobacco may increase with cigarette tax increase...

California lawmakers should reject as fools gold the proposed huge increase in cigarette taxes. I [Robert Shephard, New York] spent 25 years in New York State government as a cop, a prosecutor and the top enforcement official for tobacco taxes, and I know first-hand what such a high tax will bring: crime, cheap cigarettes easily available to youth and unemployment.

Perhaps the most egregious problem with a tax increase of this magnitude is that it will end up making cheap cigarettes available to kids - the direct opposite of what the proponents claim. With an overwhelming proliferation of smuggling, cheap cigarettes will be available...on many street corners. Smugglers never ask for ID.

The lesson is clear from New York to California: when governments try to tax behavior in order to change behavior, they wind up losing revenue and hurting the innocent.

Burning issues steam The Apple - butt-loggers cool illicit cigs under cops' noses - New York Post, August 16, 2002

Smuggled cigarettes hurt local businesses...

Mayor Bloomberg may have helped raise the price of a pack of cigarettes to \$7.60 and the City Council may be trying to ban smoking everywhere, but The Post found that it is easy to buy cheap cigarettes from illegal vendors at numerous locations across the city.

Popular brands can be bought on the streets for as little as \$3 a pack - \$2 to \$3 less than tax-stamped packs being offered by stores and bodegas complying with the city and state's 6-week-old tax surge, which went from 8 cents a pack to \$1.60.

Upward pressure

"An increase in budgeting to just what we probably" Richard Lundy, a spokesman for a city coalition of small-
state business said. "What you're counting on early this day of the budget, but this feeling is going to shake
some of our businesses before November because it is not the budget for them."

"The NLRB said that they legal cigarette value are small-time operators who are hard to catch. Police sources say
their hands are tied in dealing with repeat offenders... because current laws don't really address street sellers
buying low-tax cigarettes."

"There's no real punishment," one source said. "Ideally, they pay a fine and go right back out there."

Cigarette tax increases are tough vote - Associated Press, July 24, 2002

Orville has increases lead to increased theft and smuggling in New Jersey...

New Jersey police say the kind of catch-and-quit robbery that usually takes place at jewelry stores are
becoming more common and so. And federal law enforcement officials report that hijacking of tractor-
trailers transporting cans of smokes around the country are on the rise.

"Where we've seen an increase in taxes, we've seen an increase in diversion," said Special Agent Joseph
Green of the Bureau of Alcohol, Tobacco and Firearms.

The ATF only deals with cases involving the theft or smuggling of more than 50,000 cigarettes and
investigations conducted by the agency nationally have swelled from six in 1998 to 97 so far this year.

Cigarette tax impacting smuggling, driving sales - Associated Press, July 21, 2002

After cigarette increases tax officials are worried by smuggling...

"It's not unusual for someone to buy \$100,000 in cigarettes and turn that into \$150,000 or \$160,000," said
Chris Yards, a Bureau of Alcohol, Tobacco and Firearms agent in Chester. "It's mind-boggling how
profitable it is."

"Obviously it creates opportunities to make some money illegally," said Gary Gaudin, spokesman for the
Department of Taxation. "There will undoubtedly be people who see it as an opportunity they can't pass up."

States brace for cigarette backlash - Associated Press, July 14, 2002

After several states increase cigarette taxes, smokers have begun pushing for more aggressive smuggling...

There's nothing or unwise to kick the habit and left with several options - legal, quasi-legal or illegal - for getting a
fixative fix without a tax hit.

Those who choose the illegal route are often successful. The Bureau of Alcohol, Tobacco and Firearms
estimates state and federal authorities have more than \$1.5 billion annually in evaded cigarette taxes.

The ATF concentrates on major interstate smuggling - operations involving at least 50,000 cigarettes. The
workload has increased steadily in recent years. ATF now has about 150 active cigarette-smuggling cases.

"There's no question cases large-scale interstate crime gangs are involved," said ATF spokesman John
D'Angelo. "Just early and these criminals enjoying state and federal governments of tax revenue, they're
using their profits for other criminal activity."

The state of cigarette taxation - Michael Williams, July 9, 2002

Many of states have failed or run into trouble because they've gone too far...

Higher tobacco taxes are expected to create problems for many states because of increased cigarette
smuggling and the proliferation of state-run VED tobacco cigarette sales operations such as 800.com
and Struckdown.com, where smokers can buy their favorite brands without paying state taxes. The result,
according to tax and budget analysts, is that many states likely won't collect the amount of money they have
forecast to balance their budgets. The amount of uncollected revenue could run into the billions of dollars.

Cigarette smuggling has long been a revenue drain for some states and cities. In Oregon, the cigarette tax is 68 cents, allowing an average alternative to Washington. New York Mayor Michael Bloomberg said smuggling could hit his city 160 million a year in lost tax revenues. The love of buying cigarettes in Virginia, where the tax is 2.5 cents, will almost certainly increase because Maryland raised the tax to \$1 per pack, from 65 cents.

A report from Frontier Research Inc. said internet retailers that operate on Indian reservations "are not compelled to collect state sales or excise taxes; 67 percent of the top online tobacco retailers are located on Indian reservations."

In wake of state cigarette tax hike, officials brace for more bootlegging - Albany Times Union, April 29, 2002

After the first month of a NY state cigarette tax increase to \$7.50 per pack (implemented 4/1/02)...

Smugglers can make more than \$20 a carton by purchasing cigarettes from distributors in states like Virginia and North Carolina and reselling them in this (NY) state.

New Yorkers have been driving across state lines to buy cigarettes since the new tax took effect April 1, officials said. Store owners in New York border states that have lower cigarette taxes are reporting brisk sales.

For those not making the trip, smugglers can be the answer. Often, corrupt vendors will bring back untaxed cigarettes and sell them in their own stores in New York for full price, pocketing the profit and the sales tax.

A pack of profits from tobacco - NorthJersey.com, April 14, 2002

Tax increases lead to smuggling...

In 1998, a year after the last cigarette tax increase went into effect in New Jersey, law enforcement authorities seized 15,465 cartons of illegal cigarettes worth \$504,851, the largest haul over the last five years.

300G cigarette heist foiled - New York Daily News, February 23, 2002

Debauched caught suspects who allegedly stole \$200,000 worth of cigarettes...

Investigators got a tip that the suspects planned to sell the cigarettes yesterday outside a storage facility on W. 230th St. for about \$15 a carton - a steep discount from the estimated retail price of about \$40.

Some New Yorkers fume, others see merit in cigarette tax hike - Bloomberg News, February 15, 2002

New York tax hike won't prevent people from smoking - quotas will co-exist with to purchase cigarettes...

Prudential Securities analyst Robert Campajano, who follows the tobacco industry, says he sees Bloomberg's tax increase "having no impact" on cigarette sales, if enacted. "With all due respect to the mayor, it's a pretty silly idea," he said. "In New York, where everyone is 10 minutes away from a place outside the city, anyone can leave the city, buy their cigarettes and come back in. It creates a powerful incentive to smuggle cigarettes."

Campajano said a tax increase "would create a huge business for those who sell cigarettes by mail order or over the internet. They would be major beneficiaries of a tax like this."

Cigarette taxes yield 2nd-hand hit crime - Portland Oregonian, January 22, 2002

Block market value generated by high cigarette taxes in Washington...

A van stuffed with 8,000 untaxed cartons is worth up to \$27,000 more in Washington than it is in Idaho. Illegal cigarette sales were already costing Washington an estimated \$100 million in lost annual revenues before the 60-cent tax hike on Jan. 1.

Al Carter Lafford, who charges Washington's 14-state tobacco tax-emption law, looks like a man bracing for a hurricane. His agents tell him there are already signs of increased smuggling... "The day that this [the cigarette tax] passed, we said 'Oh boy, this is going to be a real mess.'"

Cigarette smuggling exploded in Maryland after the state cigarette tax climbed to 64 cents a pack in 1998. Vases and vases full of illegal cigarettes suddenly started rolling into the state from neighboring Virginia, which has the lowest tax in the country - 2.5 cents a pack.

Smoker nearest upstate's richest California after it doubled its cigarette tax to 67.5 cents a pack on Jan. 1, 1999. Taxable sales fell by more than 25 percent. State officials now estimate California loses \$300 million a year to the black market.

Cigarettes seem uncovered-Newsday, January 19, 2002

New York cigarette smuggling operation quashed due to heightened airport security...

Authorities say it is increasingly common for criminals to buy cigarettes in states or countries where they are cheaper, and haul less or no taxes, and sell them to New York merchants. Friday at the ranch home, authorities recovered 3,409 cartons of Chinese cigarettes destined for delivery to numerous merchants, Brown said.

The New York Times

6 Are Charged With Selling Millions of Counterfeit Marlboros

By William Glaberson

February 21, 2003

Federal prosecutors in Brooklyn charged six men yesterday with importing millions of counterfeit Marlboro cigarettes from China and selling them through tax-free businesses on the upstate Seneca Indian reservation.

But while prosecutors described an ambitious plot, they portrayed the suspects as luckless. According to documents filed in court, Customs Service agents infiltrated the group, turned two of its members into informants, and then bugged, wiretapped, videotaped and followed the men during almost every phase of their operation. In at least one instance, the agents used a helicopter.

The Customs Service said the men imported 35 million counterfeit cigarettes, with an estimated retail value of about \$10 million. The service's special agent in charge, John C. Varrone, said criminals had been drawn by the huge profits that could be made from such cigarettes, imitations of name brands packaged to look authentic.

According to the prosecutors, the men brought five shipments of cigarettes into New Jersey ports during a two-year period that ended in 2002. The prosecutors said cases of the ersatz Marlboro and Marlboro Light cigarettes were hidden in shipping containers behind boxes of plastic kitchen pots.

The prosecutors said three of the men sold the cigarettes through two smoke shops on the Seneca's Cattaraugus Reservation, south of Buffalo, and on a Web site, Smokemcheap.com. The three were identified as Scott Snyder, 40, who lives on the reservation, and Donald Deland, 42, and Timothy Farnham, 37, who live near it.

The prosecutors said two brothers from Queens, Simon Moshel, 52, and Michael Moshel, 47, arranged to import the cigarettes, assisted by a Brooklyn man, Robert Berardelli, 51. The Moshel brothers were also charged with importing counterfeit Duracell batteries.

Mr. Farnham was the only one of the six men not arrested yesterday.

A sworn statement by the customs agent who infiltrated the group, Rod Khattabi, described the undercover operation, which appeared to leave suspects with very little privacy. He said he posed as a trucker who would transport the cigarettes. He also said a house in Nassau County belonging to two informants and a Brooklyn warehouse used by the group to store the cigarettes were outfitted with surveillance equipment.

The agents taped at least 200 meetings and telephone calls, the court documents said, adding that one videotape captured Mr. Berardelli taking a cigarette out of a shipment and smoking it.



March 24, 2004

The Honorable Con Bunde, Chair
Senate Labor and Commerce Committee
Alaska Capitol, Room 506
Juneau, Alaska 99801-1182

RE: SB 368 (Governor Murkowski)—Support

Dear Chair Bunde:

On behalf of the AARP members in Alaska, we ask that you and your colleagues on the Senate Labor and Commerce Committee support SB 368, the proposal by Governor Murkowski to increase the tobacco tax for cigarettes and other tobacco products.

As the Governor's transmittal letter clearly points out, the cost of smoking-related illnesses to the Alaska state budget far outweighs the revenue from the current taxes. Indeed, the tax increase proposed in SB 368 will still fall far below government costs.

Tobacco companies will argue that tobacco taxes are regressive because they take a higher percentage of income from low-income people. It is AARP's position that increased tobacco taxes that discourage consumption of harmful commodities serve a useful social purpose. In addition, the funds brought in from tobacco taxes are less regressive if they are used to finance programs such as health care for those with low incomes, e.g., Medicaid.

AARP recently sent a copy of a survey of Alaskans over age 18 to you and your colleagues in the Legislature. Although we asked about a 50 cents per pack increase in our survey, admittedly below the Governor's \$1.00 per pack increase, 56% strongly supported it and another 15% somewhat supported the tax increase. Other AARP research indicates that the public overall does object less to tobacco taxes because they are a tax that can be avoided.

We encourage an appropriate amount of the new revenue from this tax increase be applied to smoking-cessation programs. As the Governor points out, Alaska Native adults and high school students are much more likely to use tobacco than non-Natives. AARP recommends special targeted cessation efforts in our Native community, particularly for Native youth.

We are aware that, if the tax partnered with cessation programming is successful, this will be a diminishing revenue stream. Unfortunately tobacco tax increases will not provide a

"magic pill" to make the fiscal gap disappear. AARP still encourages you and your colleagues to aggressively pursue a comprehensive solution to our fiscal problems.

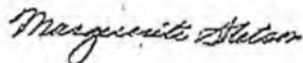
SB 368 does provide a part of the solution to our fiscal problems. Even more importantly, it provides a significant solution to at least part of Alaska citizens' health problems.

AARP recommends an "AYE" vote on SB 368.

Should you have any questions about our position, please feel free to contact Marie Darlin (907.586.3637), Coordinator of the AARP Capital City Task Force; Patrick Luby (907.762.3314), AARP Legislative Representative; or me (907.245.5259).

Thank you for your consideration.

Sincerely,



Marguerite Stetson
AARP Alaska
State Coordinator for Advocacy
3009 Northwood Street
Anchorage, AK 99517-1871
907.245.5259 voice
907.245.5279 fax
ffmas@aurora.uaf.edu

CC: Vice-Chair Ralph Seekins
Senator Gary Stevens
Senator Bettye Davis
Senator Hollis French
Governor Frank Murkowski
Marie Darlin
Patrick Luby

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 1
 Bill Version: SB 368
 (S) Publish Date: 3/19/04

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

Expenditures/Revenues (Thousands of Dollars)

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

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

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()	35,500.0	35,500.0	35,500.0	35,500.0	35,500.0	35,500.0
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FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	617.7	568.5	568.5	568.5	568.5	568.5
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	828.1	778.9	778.9	778.9	778.9	778.9

Estimate of any current year (FY2004) cost: 0.0

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

POSITIONS

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

ANALYSIS: (Attach a separate page if necessary)

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

(cont. on page 2)

Prepared by: Johanna Bales Phone 269-6628
 Division: Tax Division Date/Time 1/15/04 5:23 PM
 Approved by: Steve Porter, Deputy Commissioner Date 1/15/2004
 Agency: Department of Revenue

FISCAL NOTE #1

STATE OF ALASKA
2004 LEGISLATIVE SESSION

BILL NO. SB 368

ANALYSIS CONTINUATION

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

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

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

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

Revenue: DOR estimates cigarette and tobacco products revenues to increase between \$33 and \$38 million each year. However, DOR believes these revenues will be much smaller unless we institute an aggressive investigation and enforcement program. Although we believe the provision for cigarette tax stamps, which took effect January 1, 2004, will be an effective tool in enforcement of the cigarette excise tax, its success depends upon aggressive enforcement. Even at \$1.00 per pack, the incentive for smuggling and tax evasion is great. At \$2.00 per pack, it will be much more attractive. An aggressive enforcement program will help protect the projected revenue increase.

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: 2
Bill Version: SB 368
(S) Publish Date: 3/19/04

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

Expenditures/Revenues (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted by 'w'.

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

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ()						
------------------------	--	--	--	--	--	--

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
1007 Interagency Receipts	206.4	206.4	206.4	206.4	206.4	206.4
TOTAL	206.4	206.4	206.4	206.4	206.4	206.4

Estimate of any current year (FY2004) cost: 0.0

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

This bill will increase the cigarette tax from \$1 per pack of twenty cigarettes to \$2 per pack and the tobacco products tax (OTP) from 75% to 100% of the wholesale cost. This bill also provides for the Department of Public Safety to seize and dispose of assets used in illegal activities related to tobacco product statutes.

The Department of Public Safety at the request of the Department of Revenue, Tax Division will provide investigative support through a reimbursable services agreement (RSA). This fiscal note requests funding for the equivalent of two full-time investigators, field travel, training, communication and vehicle usage. The use of those investigative assets will be coordinated between the two agencies and reimbursed on actual cost.

Prepared by: Lieutenant Al Storey Phone 269-4532
Division: Alaska State Troopers Date/Time 1/9/04 3:45 PM
Approved by: Commissioner William Tandeske Date 1/9/2004
Agency: Department of Public Safety



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

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

SB 368
P.O. Box 110001
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FAX (907) 465-3532
WWW.GOV.STATE.AK.US

March 16, 2004

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

Dear President Therriault:

Under the authority of article III, section 18 of the Alaska Constitution, I am transmitting a bill that would increase the cigarette excise tax from five cents per cigarette to ten cents per cigarette. The tax on "other tobacco products" such as smokeless tobacco would be increased from 75 percent to 100 percent of the wholesale cost.

This bill provides the multiple benefits of saving Alaskan lives, reducing health related expenditures, and raising state revenue. Increasing the price of tobacco is one of the most effective ways of reducing tobacco use, especially among youths. It is well substantiated that as the price of cigarette increases, rates of smoking decline. As youths are especially sensitive to such price increases, we can expect the proposed \$1.00 per pack cigarette tax increase will add to the 50 percent drop in youths smoking rates we have seen in Alaska since 1995. A further drop in youths smoking rates of just 15 percent from current levels would translate into 1,800 lives saved from premature death due to tobacco addiction among Alaska high school students alive today.

Among current adult smokers, 3,500 will quit smoking because of the tax, and of those, 800 will be saved from a smoking-caused death. Smoking among expectant mothers would also be reduced significantly, resulting in 850 babies being spared from exposure to maternal smoking while in utero during the next five years. The impact of tobacco taxes on health is not unprecedented in Alaska. Within a year of the implementation of the \$1.00 per pack cigarette tax in October 1997, the number of cigarettes consumed in Alaska had dropped by 15 percent, and sales have not rebounded since then.

Alaska Natives should particularly see the benefits from reduced smoking. While smoking rates are declining within the U.S. general population, the rate of smoking is unchanged among Alaska Native adults and, at 44 percent, is almost double that of non-Natives. Currently, 44 percent of

The Honorable Gene Therriault
March 16, 2004
Page 2

Alaska Native high school students smoke, almost four times the rate among non-Native students. One-third of Alaska Native high school boys use smokeless tobacco, as do one-sixth of their female counterparts. Use of smokeless tobacco among Alaska Native girls is nine times higher than the national rate. Lung cancer, the leading cause of cancer deaths, is increasing at an alarming rate among Alaska Natives of both sexes. Cardiovascular disease, including heart disease and stroke, is also linked with tobacco use, and kills approximately 120 Alaska Natives each year.

In addition to the devastating health impacts, smoking is a fiscal disaster for Alaska. The state receives nearly \$47 million in cigarette and other tobacco product tax revenues, but this amount doesn't even begin to cover the economic and social costs associated with smoking-related illnesses. The Centers for Disease Control and Prevention (CDCP) estimates that in 1998 the cost for direct medical expenses attributed to smoking-related disease and death in Alaska was nearly \$133 million. In addition, CDCP estimates Alaska's total cost of lost productivity due to early tobacco-related deaths in 2001 was \$137 million.

Alaska can expect to see fiscal savings relatively soon following implementation of this proposed tax. Within five years, the health care savings from fewer smoking affected pregnancies and births will amount to \$1.6 million, according to the Campaign for Tobacco-Free Kids. This group estimates that the savings in the state from fewer smoking-related heart attacks and strokes will be \$1.8 million, and the long-term health care savings from adult and youth smoking declines will be \$146.3 million.

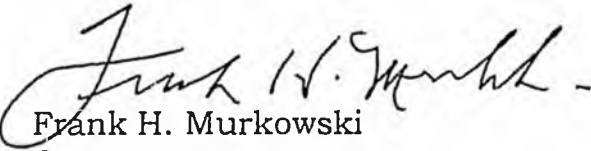
While saving in medical and lost-productivity expenditures, the proposed tax would also generate an estimated \$35.5 million in new tax revenues for the state annually. In addition, an estimated \$350,000 in new revenues will be generated for those municipalities in the state that levy a sales tax on the retail price of cigarettes.

With cigarette taxes at \$2.00 a pack, there will be incentive for tax evasion and smuggling. The new tobacco tax stamp, as passed into law last year, will help address this issue by serving to identify illegal cigarettes. To further advance this enforcement effort, my proposed bill allows the Department of Public Safety to seize and dispose of equipment, vehicles, money, and other assets used in cigarette smuggling and tax evasion activities. These types of seizures will make cigarette smuggling and tax evasion less attractive and protect state revenues.

The Honorable Gene Therriault
March 16, 2004
Page 3

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

Sincerely yours,



Frank H. Murkowski
Governor

Enclosure

**SENATE COMMITTEE REPORT
First Committee of Referral**

DATE: 3/19/04

FURTHER: Finance

Length of 5-Day Notice: _____
(in accordance with Uniform Rule 23)

DATE TURNED
IN TO OFFICE: _____

House and Commerce Committee considered SENATE BILL NO. 368

SB 368 TOBACCO TAX; LICENSING; PENALTIES

Act relating to taxes on cigarettes and tobacco products; relating to tax stamps on cigarettes; relating to the manufacture, transportation, or sale of unstamped cigarettes; relating to licenses and licensees under the Cigarette Tax Act; and providing for an effective date."

Committee recommends:

be replaced with _____ CS _____ (_____)

adopt previous _____ CS _____ (_____)

attached amendment(s)

adopt Letter of Intent by _____ Committee

further referral to _____ Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Ralph Debin</i>	✓			
<i>Betty Davis</i>	X			
<i>[Signature]</i>	X			
<i>[Signature]</i>	X			
CHAIR: <i>[Signature]</i>	✓			



March 24, 2004

The Honorable Con Bunde, Chair
Senate Labor and Commerce Committee
Alaska Capitol, Room 506
Juneau, Alaska 99801-1182

RE: SB 368 (Governor Murkowski)—Support

Dear Chair Bunde:

On behalf of the AARP members in Alaska, we ask that you and your colleagues on the Senate Labor and Commerce Committee support SB 368, the proposal by Governor Murkowski to increase the tobacco tax for cigarettes and other tobacco products.

As the Governor's transmittal letter clearly points out, the cost of smoking-related illnesses to the Alaska state budget far outweighs the revenue from the current taxes. Indeed, the tax increase proposed in SB 368 will still fall far below government costs.

Tobacco companies will argue that tobacco taxes are regressive because they take a higher percentage of income from low-income people. It is AARP's position that increased tobacco taxes that discourage consumption of harmful commodities serve a useful social purpose. In addition, the funds brought in from tobacco taxes are less regressive if they are used to finance programs such as health care for those with low incomes, e.g., Medicaid.

AARP recently sent a copy of a survey of Alaskans over age 18 to you and your colleagues in the Legislature. Although we asked about a 50 cents per pack increase in our survey, admittedly below the Governor's \$1.00 per pack increase, 56% strongly supported it and another 15% somewhat supported the tax increase. Other AARP research indicates that the public overall does object less to tobacco taxes because they are a tax that can be avoided.

We encourage an appropriate amount of the new revenue from this tax increase be applied to smoking-cessation programs. As the Governor points out, Alaska Native adults and high school students are much more likely to use tobacco than non-Natives. AARP recommends special targeted cessation efforts in our Native community, particularly for Native youth.

We are aware that, if the tax partnered with cessation programming is successful, this will be a diminishing revenue stream. Unfortunately tobacco tax increases will not provide a

"magic pill" to make the fiscal gap disappear. AARP still encourages you and your colleagues to aggressively pursue a comprehensive solution to our fiscal problems.

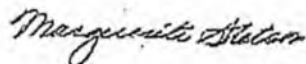
SB 368 does provide a part of the solution to our fiscal problems. Even more importantly, it provides a significant solution to at least part of Alaska citizens' health problems.

AARP recommends an "AYE" vote on SB 368.

Should you have any questions about our position, please feel free to contact Marie Darlin (907.586.3637), Coordinator of the AARP Capital City Task Force; Patrick Luby (907.762.3314), AARP Legislative Representative; or me (907.245.5259).

Thank you for your consideration.

Sincerely,



Marguerite Stetson
AARP Alaska
State Coordinator for Advocacy
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ffm:s@aurora.uaf.edu

CC: Vice-Chair Ralph Seekins
Senator Gary Stevens
Senator Bettye Davis
Senator Hollis French
Governor Frank Murkowski
Marie Darlin
Patrick Luby

*State of Alaska
Epidemiology*



Bulletin

*Recommendations
and
Reports*

Department of Health and Social Services
Joel Gilbertson, Commissioner

Division of Public Health
Doug Bruce, Director

Section of Epidemiology
John Middaugh, MD, Editor

3601 C Street, Suite 540, PO Box 240249, Anchorage, Alaska 99524-0249 (907) 269-8000
24-Hour Emergency Number 1-800-478-0084

<http://www.akepi.org>

Volume No. 7 Number 4
November 4, 2003

Youth Tobacco Use Falls

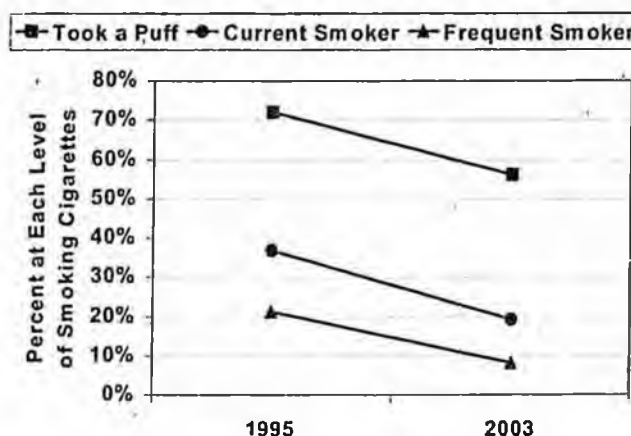
Results From the 2003 Youth Risk Behavior Survey

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

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

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

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



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

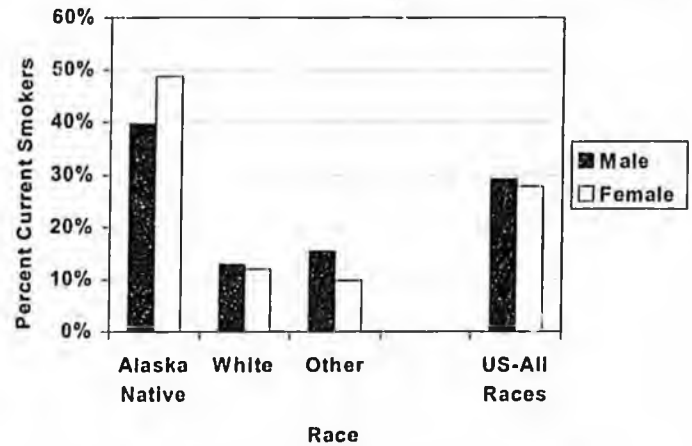
The YRBS, conducted jointly in Alaska by the Department of Health and Social Services and the Department of Education and Early Development, was administered to 1,500 Alaskan high school students who were randomly chosen from nearly every school district in the state. The 2003 YRBS is the first statistically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

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

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

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

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

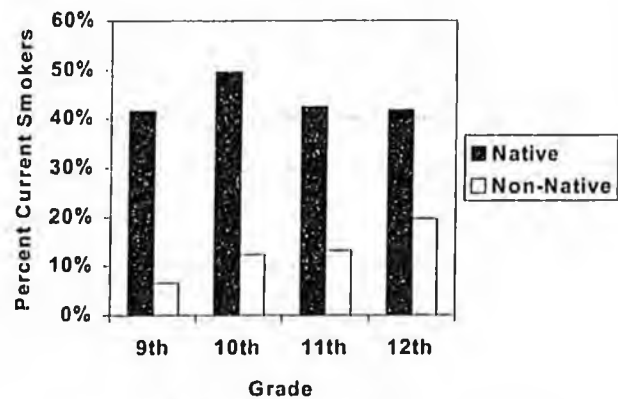


"Current Smoker" = smoked on at least 1 out of the last 30 days

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

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

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

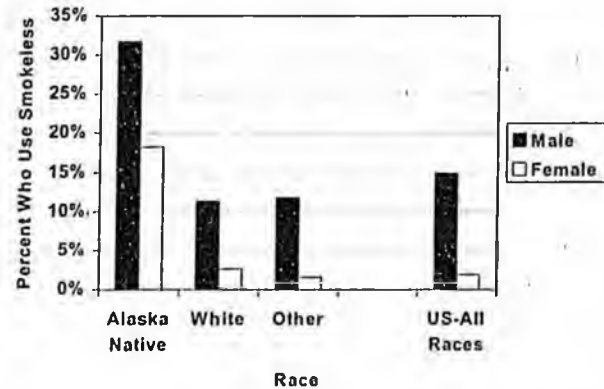


"Current Smoker" = smoked on at least 1 out of the last 30 days

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

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

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

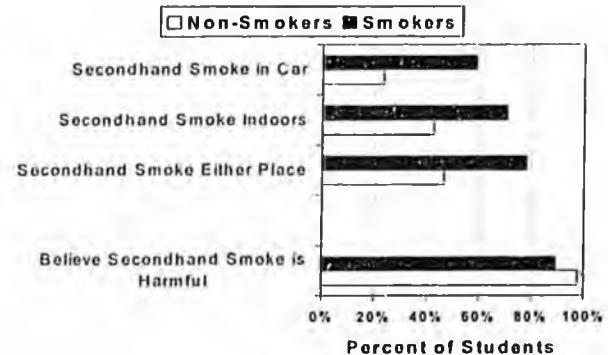


"Use Smokeless Tobacco" = used any smokeless tobacco product on at least 1 of the last 30 days

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

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

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



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

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

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

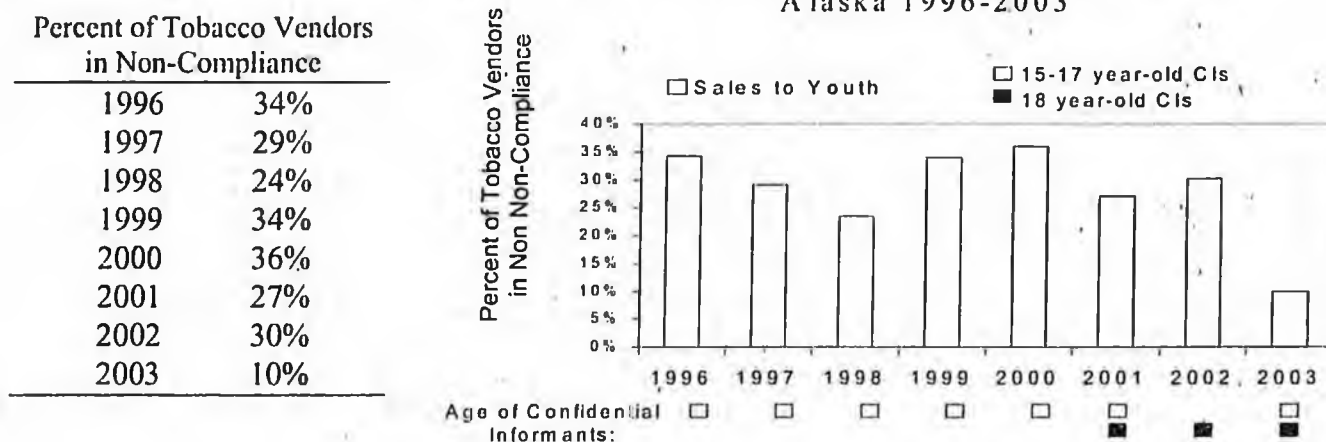
Components of the state tobacco program include:

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

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

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

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



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

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

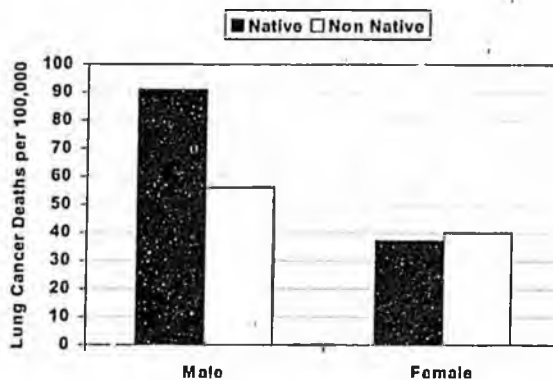
Reductions in youth smoking are critical in decreasing the long-term burden of heart disease, stroke, cancer and other chronic diseases in Alaska. Approximately three-quarters of smokers initiate tobacco use as adolescents.¹ Young people who are refusing to use tobacco today are unlikely to start smoking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

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

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

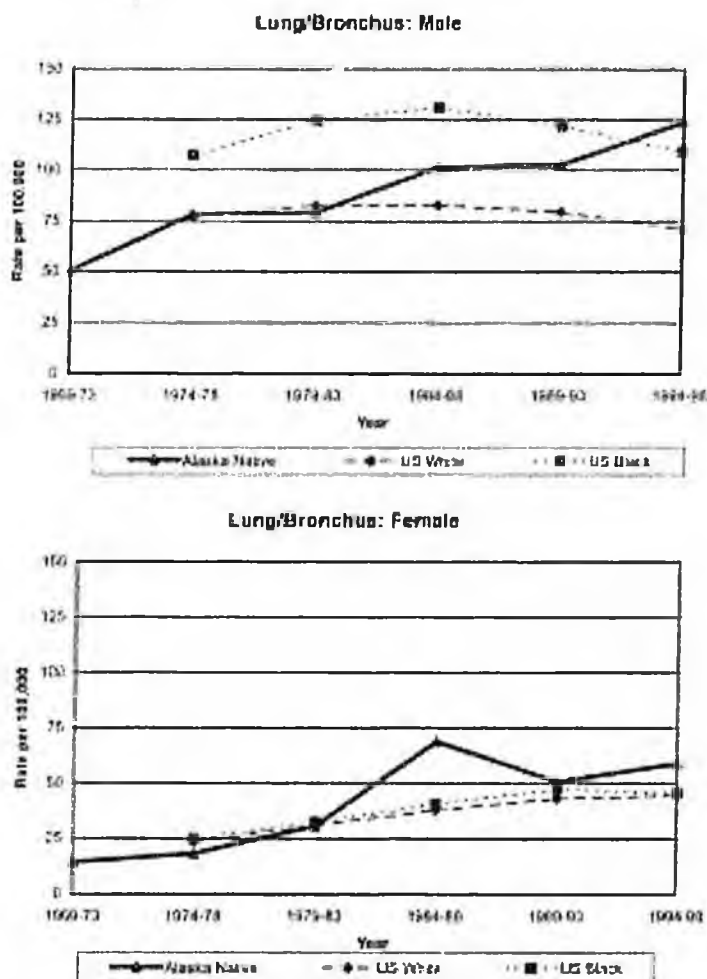
	Male	Female
Native	91.0	37.2
Non-Native	56.1	39.9

Data Source: Alaska Cancer Registry



Data Source: Alaska Cancer Registry

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



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

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

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

State of Alaska
Epidemiology



Bulletin

Recommendations
and
Reports

State of Alaska, Section of Epidemiology
PO Box 240249
Anchorage, AK 99524-0249

PRSR STD
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SB

369

The Honorable Ralph Seekins
Alaska State Senate
State Capitol
Juneau, AK 99801 + 1162

19 April 2004

Re: Senate Bill 369 Concerning exempting students participating in a practicum from Alaska Wage and Hour and workers' compensation coverage.

Dear Sen. Seekins:

Any Alaskan professional who is willing to support the University of Alaska by opening their office to university students as part of an accredited and university sanctioned academic practicum should not find themselves saddled with the possibility of an uninsurable professional liability. Any professional who joins with the university in expanding and enhancing the scope of a student's academic experience should not find themselves at risk of losing what they have spend a professional life time building. Not only are these professionals opening the doors of their practice for the benefit of the university, they will in many instances be volunteering significant amounts of their time and their talents to enrich the student's experience. This in turn will improve and enhance the overall quality of education provided by the University of Alaska and its reputation as an outstanding academic institution.

For those professionals willing to welcome University of Alaska students enrolled in a course that involves, and encourages first-hand experience in an recognized practicum into their practice, we believe it is fair an appropriate that the state recognize their professional contribution by extending to them the courtesies established in this bill. Therefore, the Alaska Dental Society supports Senate Bill 369.

Thank you for your understanding and cooperation.

A handwritten signature in cursive script that reads "James R. Towle". The signature is written in dark ink and is positioned above the typed name and title.

James R. Towle
Executive Director

As enrollments rise across the UA system, more students are entering fields of study which require placements in the work world as a portion of their study. Two such courses of study are construction and health education.

For instance, enrollment in health education programs such as nursing, dental, medical laboratory, and radiology are growing rapidly. As a portion of their study, students must complete clinical practicum with providers in their offices, clinics and hospitals.

Health providers have been hosting UA students for many years, and with great success. To date there have not been any liability claims against providers for actions that students have taken while working with providers. UA has long-standing and successful partnerships with hospitals, doctors, dentists and many other health care professionals. These are formalized in agreements between the University and the provider which state that the providers are not responsible or liable for any malpractice claims, workers compensation claims, or fair labor standards actions of the student.

Why do we need legislation to address liability if we have not had problems and if we have provider agreements? As more students are enrolled in programs and as programs branch out to more communities, UA is finding that potential new providers are reluctant to participate in practicum programs due to liability concerns. UA can no longer rely on historic arrangements that were put in place when liability concerns of providers were not as critical as they are today.

This last year, for instance, UAF needed clinical sites for its dental assisting students. The dental assisting program is growing rapidly in Fairbanks and new dentists needed to be recruited into the practicum program. While dentists were very interested in taking students, many declined. A bare minimum of practicum were obtained so existing students could graduate. Without this legislation, it is unlikely the dental education programs across the state will continue and grow to meet community needs. Lack of clarity about liability is having a negative impact on the private sector's willingness to be involved in vital practicum programs.

Legislation is needed to state clearly what the University believes is existing policy. The legislation clarifies that students are not employees, and therefore not subject to negligence liability, fair labor standards for minimum wage and overtime compensation.

This legislation is intended to give providers and placement sites the clarity in statute to protect them when offering their facilities and services to University students. The threshold requirement that students not be paid ensures that the sites will not use practicum students immunity to take advantage of employees who are also students. From a liability perspective, this proposal is designed to leave each entity - the university, the student, and the site responsible for their own liability.

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/19/04

FURTHER: Judiciary

Date of 5-Day Notice: _____
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: _____

Labor and Commerce Committee considered SENATE BILL NO. 369

SB 369 UNIV. STUDENT PRACTICUM LIABILITY/WAGES

"An Act exempting a person who allows a student of the University of Alaska to gain practical work experience with the person while participating in a practicum from vicarious liability as an employer, and exempting the student participating in a practicum from the Alaska Wage and Hour Act and workers' compensation coverage."

and recommends:

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

Order 17
 Committee

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>[Signature]</i>		X		
<i>Joseph Seelanis</i>	✓			
<i>[Signature]</i>	X			
CHAIR: <i>C B Seude</i>	✓			

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
 Bill Version: SB 369
 () Publish Date: _____

Revision Date/Time (Note if correction): _____ Dept. Affected: University of Alaska
 Title UNIV. STUDENT PRACTICUM LIABIL RDU Systemwide
 Component _____
 Sponsor JUDICIARY
 Requester _____ Component No. _____

Expenditures/Revenues (Thousands of Dollars)

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

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

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

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

FUND SOURCE (Thousands of Dollars)

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

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

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)
 This bill would have no fiscal impact on the University

Prepared by: Pat Pitney Phone 907-474-7958
 Division: UA Statewide Budget and Institutional Research Date/Time 4/19/04 1:49 PM
 Approved by: Wendy Redman Date 4/19/2004
 Agency: University Relations

FISCAL NOTE

STATE OF ALASKA
2004 LEGISLATIVE SESSION

Fiscal Note Number: _____
Bill Version: SB369-DOLWD-WH-04-16-04
() Publish Date: _____

Revision Date/Time (Note if correction): _____ Department: Labor and Workforce Development
Title: Univ. Student Practicum Liability/Wages RDU: Labor Standards & Safety
Component: Wage & Hour
Sponsor: Senate JUD
Requester: Senate L&C Component Number: 345

Expenditures/Revenues (Thousands of Dollars)

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

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

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

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

FUND SOURCE (Thousands of Dollars)

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

Estimate of any current year (FY2004) cost: None
Mark this box (X) if funding for this bill is included in the Governor's FY 2005 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

There is no anticipated fiscal impact to the department as a result of this legislation.

Prepared by: Grey Mitchell, Director Phone 465-4855
Division: Division of Labor Standards & Safety Date/Time 4/16/04 1:56 PM
Approved by: Greg O'Claray, Commissioner Date 4/16/2004
Agency: Department of Labor and Workforce Development

ALASKA STATE SENATE



Session:
State Capitol
Juneau, Alaska 99801-1182
(907) 465-2327
(907) 465-5241 Fax

Interim:
119 N. Cushman, Suite 201
Fairbanks, Alaska 99701
(907) 456-8161
Senator_Ralph_Seekins@legis.state.ak.us

SENATE JUDICIARY COMMITTEE

Senator Ralph Seekins, Chairman
District D

Senate Bill 369 Sponsor Statement

"An Act exempting a person who allows a student of the University of Alaska to gain practical work experience with the person while participating in a practicum from vicarious liability as an employer, and exempting the student participating in a practicum from the Alaska Wage and Hour Act and workers' compensation coverage.

Senate Bill 369 amends current law by exempting University of Alaska students participating in practicum programs from wage and hour provisions. It also provides certain protections relating to vicarious liability. The Bill's intent is to revitalize private sector involvement in a key element of the educational process.

The University offers certain fields of study which require students achieve experience and proficiency in a "real world" setting before a degree can be conferred. By and large, these involve medically oriented endeavors such as the dental profession. Over the years it has become increasingly difficult for the University to entice private sector placement sites to become involved in an internship program.

The legitimate concern expressed by placement sites is that, absent statutory clarification, practicum students could be considered as *employees* with respect to certain labor laws. But of particular distress is the exposure to vicarious liability. High costs associated with potential liability have effectively chilled the private sector's willingness to be involved in vital practicum programs.

Senate Bill 369 proposes a statutory fix designed to protect practicum sites interested in offering their facilities to University interns. The threshold requirement that the students not be paid ensures that sites will not use practicum placement immunity to take advantage of employees who are *also* students. From a liability perspective, this proposal is designed to leave each entity — the university, the student, and the site — responsible for its own liability.

The Legislature should exclude practicum placement situations from the laws that create vicarious liability for damages, liability for workers' compensation, and liability for minimum wages and overtime:

University health and construction programs have had difficulty obtaining sites for unpaid practicum placement. This has been especially problematic with dental students, but can be expected to also be a problem with other professions, especially medical professions where the risk of AIDS or serious injury is a potential. The legitimate concern of placement sites is that the students could arguably be considered as employees of the site for

- A. negligence liability,
- B. Fair Labor Standards Act responsibility for minimum wage and overtime compensation, and
- C. workers compensation responsibility.

Given the current legal structure, practicum placement sites have suggested that the University agree to indemnify the site for claims based on the acts of the students, or to agree that the students will be the employees of the university for liability purposes. From the university's perspective, neither of these suggestions is realistic. The university does not supervise the students. There is a substantial risk that indemnity could be interpreted to cover damages which are caused by the negligence of the site. The time required to negotiate around these potential liabilities is substantial. All of which is counterproductive to training Alaskans for good in-state jobs.

Below I propose three cumulative statutory fixes designed to protect the sites that offer their services to our practicum students on an unpaid basis. The threshold requirement that the students not be paid assures that sites will not use practicum placement immunity to take advantage of employees who are also students.

A. Negligence liability

On the liability side, I would add a new section:

AS 14.40.065 Students not employees. Public or private employers shall not be considered employers of, or be vicariously liable for, the acts or omissions of students participating in work and/or learning activities as part of an unpaid University of Alaska externship, practicum, or other course or program that combines academic instruction with work experience.

From a liability perspective, this proposal is designed to leave each participant--the university, the student, and the site--responsible for its own fault. Thus, this proposal does not alter a party's responsibility for its own negligence, but, it does limit vicarious liability of one party for the fault of another.

B. Fair Labor Standards Act responsibility for minimum wage and overtime compensation

For minimum wage and overtime, I would add a subsection (17) to 23.10.055, to exclude unpaid practicum students of the University of Alaska from the operation of the employment security provisions of Alaska statutes. AS 23.10.055 provides:

Exemptions. The provisions of AS 23.10.050 - 23.10.150 do not apply to

(1) an individual employed in agriculture, which includes farming in all its branches and, among other things, includes the cultivation and tillage of the soil, dairying, the production, cultivation, growing, and harvesting of any agricultural or horticultural commodities, the raising of livestock, bees, fur-bearing animals, or poultry, and any practices, including forestry and lumbering operations, performed by a farmer or on a farm as an incident to or in conjunction with the farming operations, including preparation for market, delivery to storage or to market or to carriers for transportation to market;

(2) an individual employed in the catching, trapping, cultivating or farming, netting or taking of any kind of fish, shellfish, or other aquatic forms of animal and vegetable life;

(3) an individual employed in the hand picking of shrimp;

(4) an individual employed in domestic service, including a baby-sitter, in or about a private home;

(5) an individual employed by the United States or by the state or political subdivision of the state, except as provided in AS 23.10.065(b), including prisoners not on furlough detained or confined in prison facilities;

(6) an individual engaged in the nonprofit activities of a nonprofit religious, charitable, cemetery, or educational organization or other nonprofit organization where the employer-employee relationship does not, in fact, exist, and where services rendered to the organization are on a voluntary basis and are related only to the organization's nonprofit activities; for purposes of this paragraph, "nonprofit activities" means activities for which the nonprofit organization does not incur a liability for unrelated business income tax under 26 U.S.C. 513, as amended;

(7) an employee engaged in the delivery of newspapers to the consumer;

(8) an individual employed solely as a watchman or caretaker of a plant or property that is not in productive use for a period of four months or more;

(9) an individual employed in a bona fide executive, administrative, or professional capacity or in the capacity of an outside salesman or a salesman who is employed on a straight commission basis;

(10) an individual employed in the search for placer or hard rock minerals;

(11) an individual under 18 years of age employed on a part-time basis not more than 30 hours in a week;

(12) employment by a nonprofit educational or child care facility to serve as a parent of children while the children are in residence at the facility if the employment requires residence at the facility and is compensated on a cash basis exclusive of room and board at an annual rate of not less than

(A) \$10,000 for an unmarried person; or

(B) \$15,000 for a married couple;

(13) an individual who drives a taxicab, is compensated for taxicab services exclusively by customers of the service, whose written contractual arrangements with owners of taxicab vehicles, taxicab permits, or radio dispatch services are based upon flat contractual rates and not based on a percentage share of the individual's receipts from customers, and whose written contract with owners of taxicab vehicles, taxicab permits, or radio dispatch services specifically provides that the contract places no restrictions on hours worked by the individual or on areas in which the individual may work except to comply with local ordinances;

(14) a person who holds a license under AS 08.54 and who is employed by a registered guide or master guide licensed under AS 08.54, for the first 60 work days in which the person is employed by the registered guide or master guide during a calendar year;

(15) an individual engaged in activities for a nonprofit religious, charitable, civic, cemetery, recreational, or educational organization where the employer-employee relationship does not, in fact, exist, and where services are rendered to the organization under a work activity requirement of AS 47.27 (Alaska temporary assistance program); or

(16) an individual who

(A) provides emergency medical services only on a voluntary basis;

(B) serves with a full-time fire department only on a voluntary basis; or

(C) provides ski patrol services on a voluntary basis.

(17) an individual who is engaged in work and/or learning activities as part of an unpaid University of Alaska externship, practicum, or other course or program that combines academic instruction with work experience with a public or private employer covered by this chapter.

Relative to minimum wage and overtime responsibility, this proposal

1. provides assurance—by applying only to placements under University of Alaska programs—that employers will not be able to take advantage of employees through sham on-the-job training schemes.
2. increases the availability of practicum placement opportunities by reducing the disincentive to sites to take on students who must get practical training in the field of endeavor of the site.
3. provides fair protection to the sites, in that students in practicum placements do not materially reduce costs to the sites—often, they increase the costs.

C. Workers compensation responsibility.

For workers' compensation, I would propose amending AS 23.30.230. Persons not covered, to include our practicum students:

AS 23.30.230

(a) The following persons are not covered by this chapter:

- (1) a part-time baby-sitter;
- (2) a cleaning person;
- (3) harvest help and similar part-time or transient help;
- (4) a person employed as a sports official on a contractual basis and who officiates only at sports events in which the players are not compensated; in this paragraph, "sports official" includes an umpire, referee, judge, scorekeeper, timekeeper, organizer, or other person who is a neutral participant in a sports event;
- (5) a person employed as an entertainer on a contractual basis;
- (6) a commercial fisherman, as defined in AS 16.05.940;

(7) an individual who drives a taxicab whose compensation and written contractual arrangement is as described in AS 23.10.055(13), unless the hours worked by the individual or the areas in which the individual may work are restricted except to comply with local ordinances;

(8) a participant in the Alaska temporary assistance program (AS 47.27) who is engaged in work activities required under AS 47.27.035 other than subsidized or unsubsidized work or on-the-job training; and

(9) a person employed as a player or coach by a professional hockey team if the person is covered under a health care insurance plan provided by the professional hockey team, the coverage is applicable to both work related and nonwork related injuries, and the coverage provides medical and related benefits as required under this chapter, except that coverage may not be limited to two years from the date of injury as described under AS 23.30.095(a); in this paragraph, "health care insurance" has the meaning given in AS 21.12.050.

(10) a participant who is engaged in work and/or learning activities as part of an unpaid University of Alaska externship, practicum, or other course or program that combines academic instruction with work experience with a public or private employer.

(b) The exclusion of certain persons under (a) of this section may not be construed to require inclusion of other persons as employees for purposes of compensation under this chapter.

(c) In this section,

(1) "on-the-job training" means training provided by an employer under a formal agreement with a department of the state, or an agent of a department, for which wages are paid by the employer to a participant in the Alaska temporary assistance program (AS 47.27) while the participant receives job training;

(2) "subsidized work" means employment, by an employer, of an Alaska temporary assistance program participant in a work placement for which the participant receives wages from the employer, subsidized by, and subject to an agreement between the employer and, a department of the state or an agent of a department; "subsidized work" does not include community work service, job sampling placements, or preplacement activities such as job readiness assessments, job searches, education, or vocational training;

(3) "unsubsidized work" means employment, by an employer, secured by an Alaska temporary assistance program participant, with or without the assistance of a department of the state or an agent of a department, for which the participant receives wages from the employer; "unsubsidized work" does not include self-employment.

SB

377

SENATE COMMITTEE REPORT
First Committee of Referral

DATE: 3/26/04

FURTHER: Finance

Date of 5-Day Notice: _____
 (in accordance with Uniform Rule 23)

DATE TURNED
 IN TO OFFICE: _____

Labor and Commerce Committee considered SENATE BILL NO. 377

SB 377 STATE MECHANICAL CODE

"An Act relating to the state's mechanical code, to mechanical contractors and mechanical administrators, to mechanical standards and inspections involved in certain housing loans, and to the adoption of the state's mechanical code; and providing for an effective date."

and recommends:

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

Senate Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	New Title
House Bill:	
<input type="checkbox"/>	Same Title
<input type="checkbox"/>	Technical Title Change
<input type="checkbox"/>	New Title w/ SCR # _____

NEW FISCAL NOTE(S):

PREVIOUS FISCAL NOTE(S):

Department	Date	Fiscal	Indet.	Zero	FN#

Department	Date	Fiscal	Indet.	Zero	FN#

APPROPRIATION - no fiscal note

SIGNATURES AND RECOMMENDATIONS:	DO PASS	DO NOT PASS	NO REC	AMEND
<i>Joseph J. ...</i>	✓			
<i>[Signature]</i>			X	
<i>[Signature]</i>			✓	
CHAIR: <i>C. B. ...</i>	✓			

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April 22, 2004

Senator Con Bunde

State Capitol, Room 111
Juneau, AK 99801-1182

907-465-4797

800-860-4797

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email: Senator_Con_Bunde@legis.state.ak.us

Dear Senator Bunde,

This letter is written regarding Senate Bill 377 and House Bill 548, Acts relating to the state's mechanical code and etc. I oppose these acts and request that they not be passed by the Legislature.

I have been a worker in the mechanical industry for more than forty years, thirty-four of those years as a contractor. I have lived and worked in Alaska for 29 years. I am an Alaska State Mechanical Administrator, Alaska State Plumbing Journeyman, Municipality of Anchorage Mechanical Administrator and City of Fairbanks Mechanical Administrator. I have owned and operated Mechanical Contracting businesses since 1971. My grandfather was a successful mechanical contractor in the San Francisco, California Bay Area for more than fifty years. My father was a successful mechanical contractor in California, Nevada and Oregon. I offer this information to let you know of my experience and back ground.

This legislation is designed and promoted by special interest groups, under the guise of public safety, to re-institute regressive codes that require labor intense installations costing the public millions of dollars. This legislation bypasses the recommendations of the 2003 Safety Code Task Force. The legislation proposes an unnecessary interim measure, which does not resolve code adoption issues and concerns. The legislation removes the Department of Public Safety from the code adoption process eliminating important and critical checks and balances for the public's safety. The legislation allows the Department of Labor and Workforce Development (DOL) to adopt the codes by regulation. The DOL promotes and furthers the agenda of organized labor. A good example is DOL's recent regulation that requires a person to be in a certified apprenticeship program before the great State of Alaska will allow that person to work as a plumber trainee. Allowing the DOL to adopt codes is not in the public's interest but certainly will further organized labor's interests and enrichment.

The Uniform Codes have been published by the International Association of Plumbing and Mechanical Officials (IAPMO), of which I am a member, since 1945. The Uniform codes are prescriptive. Special interest groups can and do influence these prescribed methods of construction.