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## **Memo**

**Date:** Sept. 9, 2019

**Subject:** Ballot Prop No. 1 & 2 – Tax on sale of alcohol beverages and Tax on sale of marijuana and marijuana products

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### **What is being proposed**

Haines Borough voters are being asked if the borough should collect an additional borough-wide (both inside and outside the townsite) 2 percent sales tax on retail alcohol and retail marijuana. The tax would be collected from the consumer at the time of sale.

Retail alcohol includes all sales of alcohol in a liquor store or alcohol drinks at a bar, restaurant, brewery or distillery. *(Note: Alcohol sales to members of the American Legion would not be affected; as a non-profit member organization it does not charge sales tax on alcohol sales and would not charge the additional 2 percent if enacted.)*

Retail marijuana products means concentrated marijuana products and marijuana products that are comprised of marijuana and other ingredients and are intended for use or consumption, such as, but not limited to, edible products, ointments, and tinctures sold at retail marijuana stores. *(Note: Currently Winter Greens is the only retail marijuana store in Haines.)* CBD or hemp products are NOT included in this definition.

### **Recommendation**

As this is a ballot proposition, Haines Economic Development Corp. board of directors does not take a position on whether it supports the proposition or not. Our aim is to make available information and research that may help voters make an informed decision using objective data and research from reliable sources.

### **Current taxes**

- Goods are currently taxed at 5.5 percent inside the Haines townsite area and 4 percent outside the townsite. Excursion Inlet is charged a 3.5 percent sales tax.
- An additional 4 percent tax is levied on all lodging and rentals less than 30 days.
- Alcohol and marijuana distributors and manufacturers also pay state and federal excise tax on their products and usually pass those costs on to vendors. Alaska has the highest state

alcohol excise tax in the country. (NOTE: A table of existing state and federal taxes on alcohol and marijuana is included in the appendix.)

### **Why is it being proposed**

The Haines Borough Assembly voted unanimously to put the question of raising taxes on marijuana and alcohol on the ballot but has not clearly stated a specific reason supporting the effort. In a memo to the assembly on June 18, 2019 borough manager Debra Schnabel stated “The purpose of the tax levy is to generate revenue.”

The assembly initially discussed a 3 percent tax on alcohol and marijuana, but revised the ballot question to 2 percent. The assembly also discussed asking voters whether they approved a 1 percent sales tax areawide to fund the operation of solid waste; that decision was deferred for a year by the assembly. No other revenue-generating tax proposals were considered by the assembly in time for this year’s October ballot.

Generating additional revenue became a concern because of cuts to communities in the state budget process. The Haines Borough lost \$450,000 in school debt reimbursement this year from the state; the assembly decided to offset that loss by taking that amount from borough reserves. There is uncertainty if and how much more state funding will be cut to the Haines Borough in coming years.

Other suggested uses from borough staff and the assembly for how to use the revenue from the proposed alcohol and marijuana taxes include using it to offset the loss of sales tax revenue on long-term rentals (estimated at a \$70,000 loss) or supporting areawide police services. However, while the assembly may voice a preference for how the revenue may be used, the money initially will go into the general fund.

### **How much will the taxes generate?**

According to information from the borough (*see appendix*) an additional 2 percent tax on retail alcohol would generate approximately the following amounts in annual revenue:

**Alcohol = \$89,700**

**Marijuana = \$10,000**

*This information based on gallons of alcohol (taxable) reported sold in FY16 from the Alaska Dept. of Revenue. Actual revenue will depend current alcohol and marijuana sales.*

### **What will it cost consumers?**

Below is a table with examples of current common prices for retail alcohol and marijuana in Haines and how the price will rise if a 2 percent tax was added.

Example of alcohol or marijuana product	Example of estimated current price tag	Example of prices paid at register after current 5.5% sales tax is added	Example of price if additional 2% tax was added
Single beer	\$5.00 *	\$5.00	\$5.10
Single cocktail	\$8.00 *	\$8.00	\$8.16
Box of wine	\$22.99	\$24.25	\$24.71
12-pack Budweiser	\$17.99	\$18.98	\$19.34
6-pack craft beer	\$11.99	\$12.65	\$12.89
750 ml rum	\$18.99	\$20.03	\$20.41
Marijuana pre-roll	\$8.00	\$8.44	\$8.60
1/8 oz bud	\$65	\$68.58	\$69.88
Vape cartridge	\$75	\$79.13	\$80.63
CBD ointment	\$24	\$25.32	\$25.80

\* Some bars and the distillery in Haines include the current 5.5 percent sales tax in their final drink total. Example: A customer is charged a total of \$8 for a cocktail at the Port Chilkoot Distillery. That price already includes the 5.5 percent sales tax.

### **Do “sin taxes” meet their objectives?**

Alcohol and marijuana taxes are often categorized as “sin” taxes, or taxes on undesirable or harmful activities and products. Research points to two primary motives by policy makers when proposing them; advancing public health by making tobacco, marijuana or alcohol use more costly and collecting revenue from those who do not give up the habit.

Pew Trusts<sup>i</sup> (an independent non-profit aimed at informing public policy) in 2018 examined whether sin taxes are healthy for state budgets. The findings suggest that historical trends in sin tax revenue point to three main takeaways:

- Sin taxes are a useful tool for supporting public health objectives and can be effective in raising revenue in the short term.
- Governments should carefully assess the sustainability of these revenue sources in the long term, especially for funding ongoing budget commitments, to avoid structural budget challenges.
- Policymakers can benefit from considering historical experiences with sin tax revenue as they seek to implement new, related tax policies. States should be especially cautious about pursuing emerging sin taxes where markets are volatile and forecasts rely on limited data. Given this uncertainty, and the trends in revenue from these sources, states should also be mindful of potential pitfalls in directing new sin tax revenue toward recurring expenditures.

*The Economist* examined the effect of sin taxes and suggests it is easiest to justify taxes on particular goods when they present what economists call “negative externalities.”<sup>ii</sup> Some policymakers argue that people who engage in unhealthy habits impose negative externalities, since they tend to present taxpayers with bigger medical bills. But *The Economist* article argues, “Smokers tend to die earlier, meaning that they probably save governments money since they

draw less from state pensions. Sin taxes combined with other interventions to change individuals' behavior may be more effective.”

Most research suggests a give and take on sin taxes; if the goal is to curtail behavior by increasing revenue from such activity, then successfully affecting the behavior will also mean a drop in sales and therefore a drop in expected revenue. This is why some research suggests that sin taxes are most effective for short term revenue generation and shouldn't be relied on a long-term or sustainable source of revenue.

An investigative report on alcohol in Alaska from the Anchorage Daily News in 2016<sup>iii</sup> found that Alaska may buck that trend. Alaska in 2005 implemented the highest alcohol tax in the country, more than doubling the state's alcohol tax at the time. The stated goal was to decrease alcohol consumption and legislators wanted the tax revenue to boost alcohol treatment resources. Retailers increased drink and retail prices to cover the tax. Research shows that while Alaska's population rose 13 percent between when the tax took effect and 2012, sales of hard liquor and spirits rose 41 percent. Additionally, the state actually decreased spending on treatment resources in the years after the tax was implemented to make up for shortfalls elsewhere in the state budget.

### **What does alcohol and marijuana use cost the Haines Borough?**

Calculating the local price tag associated with adverse effects of drinking and marijuana use is difficult. According to the Haines Borough Police Department, of the 218 criminal cases opened by the department in FY19, 35 of the cases were directly related to alcohol or drug use. *(NOTE: These numbers do not include how many calls police responded to where alcohol or drugs were a factor; only those that resulted in a criminal case being opened.)*

The number of alcohol and drug related ambulance calls in Haines Borough for the same time period was unavailable.

According to a 2016 Centers for Disease Control and Prevention<sup>iv</sup>, Alaska ranks first in the country for the cost of alcohol abuse. The study found that health care bills, lost days at work, car crashes and other alcohol-related problems cost \$1,096 per Alaskan or \$2.34 per drink and says, “Local city governments, the state and federal government pay two-fifths of the bill.”

### **Consumer reaction to sin taxes**

If the goal of the tax is generating revenue, then the concern becomes whether consumers will reduce their spending on the taxed items in order to save money or out of deviance of the tax. As mentioned above, state taxes on alcohol have not negatively impacted consumer spending on alcohol.

Some local critics of these taxes argue that in reaction to a 2 percent tax on alcohol, consumers may import bulk stocks of products purchased at lower cost outside of Haines, either from discount suppliers in Juneau or locations with lower sales tax. The counter to that argument is that it costs

to travel to Juneau and Juneau has a 3 percent local sales tax on alcohol in addition to a 5 percent sales tax. However, decreased prices may offset some of these taxes. Travelers and seasonal visitors who bring their own alcohol to Haines to save costs may be subject to U.S. Custom and Border Protection limits and duty taxes.

Two researchers at the Wharton School of the University of Pennsylvania did more specific research on consumers' spending reaction to sin taxes.<sup>v</sup> They found that sin taxes may be more effective at discouraging unhealthy activities when the tax is clearly conveyed, for example, by making the tax clear and bold on the receipt. "If the goal of a tax is to discourage consumption of something that's unhealthy, then people will only reduce their consumption if they actually see that tax and feel it." Otherwise, taxes alone may not deter alcohol use or affect sales.

Researchers found this to be even more true of marijuana taxes. UCLA researchers Brett Hollenbeck and Yale's Kosuke Uetake<sup>vi</sup> looked for the sweet spot between too much and too little tax on recreational pot. Their findings suggest that around the country, states could pull more money from retail weed than their current tax structures allow.

The researchers analyzed every legal marijuana transaction over a three-year period in Washington, a state with the highest pot tax in the nation. They found that price fluctuations had little effect on dollar sales. When prices rose, Washington customers simply switched to a cheaper form of the product (from gummies to vaping oil, for example) while overall sales remained steady, the study finds.

Such loyalty, regardless of the cause, means that taxes could be higher without losing many customers, Hollenbeck posited in an interview. "We found lots of evidence that (Washington) could increase (the tax rate) more and get more revenue," he said. "It's not unreasonable to think these (pot products) could be taxed at, say, 70 percent."

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<sup>i</sup> "Are Sin Taxes Healthy for State Budgets?" Pew Trusts, July 19, 2018 <https://www.pewtrusts.org/en/research-and-analysis/reports/2018/07/19/are-sin-taxes-healthy-for-state-budgets>

<sup>ii</sup> "Do 'Sin Taxes' Work?" The Economist, Aug. 10, 2018 <https://www.economist.com/the-economist-explains/2018/08/10/do-sin-taxes-work>

<sup>iii</sup> "Alaskans Drank More Despite Higher Alcohol Tax, Drink Prices" Kyle Hopkins, Anchorage Daily News, Sept. 27, 2016 <https://www.adn.com/alaska-news/article/alaskans-drank-more-despite-higher-alcohol-tax-drink-prices/2013/09/16/>

<sup>iv</sup> "Alaska is No. 1 State For Cost of Alcohol Abuse" Kyle Hopkins, Anchorage Daily News, Sept. 28, 2016 <https://www.adn.com/alaska-news/article/alaska-no-1-state-cost-alcohol-abuse/2013/08/15/>

<sup>v</sup> "Do 'Sin Taxes' Really Change Consumer Behavior?" Feb. 10, 2017 <https://knowledge.wharton.upenn.edu/article/do-sin-taxes-really-change-consumer-behavior/>

<sup>vi</sup> Setting the Tax Rate on Legal Marijuana: Consumption, State Revenue and the Black Market UCLA Anderson Review, November 14, 2018 <https://www.anderson.ucla.edu/faculty-and-research/anderson-review/weed>

## Appendix

### **Alcoholic beverages tax**

The state alcoholic beverage tax is collected primarily from wholesalers and distributors of alcoholic beverages. Rates per gallon are:

- Liquor - \$12.80;
- Wine - \$2.50;
- Beer - \$1.07; and
- beer from small breweries - \$0.35.

There is a wide range of federal excise taxes on alcoholic beverages and the tax rate can change from year to year. According to the Tax Policy Center;

There are different tax rates for distilled spirits, wine, and beer. Distilled spirits generally are taxed at \$13.50 per proof gallon (a proof gallon is one liquid gallon that is 50 percent alcohol), but a lower rate applies in 2018 and 2019 to quantities of less than 22.23 million proof gallons removed from the distillery or imported. Tax rates on wines vary based on type and alcohol content, ranging from \$1.07 per gallon for wines with 14 percent alcohol or less to \$3.40 per gallon for sparkling wines, but lower rates also apply in 2018 and 2019 to smaller quantities of wine removed or imported. Beer is typically taxed at \$18.00 per barrel (31 gallons), although a reduced rate of \$7.00 per barrel applied to the first 60,000 barrels for breweries that produce less than two million barrels. Lower rates apply in both cases in 2018 and 2019. Note that the alcohol content of beer and wine is taxed at a much lower rate than the alcohol content of distilled spirits.

### **Marijuana tax**

The state collects tax from licensed marijuana cultivation facilities. The marijuana tax is imposed when marijuana is sold or transferred from a marijuana cultivation facility to a retail marijuana store or marijuana product manufacturing facility. The tax is \$50 per ounce of marijuana flower and bud. The rest of the plant is taxed at \$15 per ounce.

There is no federal tax on marijuana as it is still classified as a Schedule 1 drug and the use, sale and possession of cannabis is illegal under federal law.



Manager's Memo  
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September 5, 2019

To: Borough Assembly

Re: Information Campaign, Alcohol and Marijuana Tax

The Assembly approved for election the question of imposing a 2% sales tax on alcohol and marijuana products sold in Haines.

The purpose of the tax levy is to generate revenue. A vote should encourage the best outcome for the borough. The following information is pertinent to an informational campaign.

Alaska imposes an excise tax on alcoholic beverages based on gallons sold. Information re: gallons sold in Haines calendar year 2016 was provided by Kelly Mazzei, Revenue Audit Supervisor, Dept. of Revenue, Tax Division:

Gallons of alcohol (taxable) reported sold in FY16 to individuals and retail in Haines:					
Beer	Wine	Liquor	Reduced Beer	City	TOTAL Gallons
61,282.27	9,878.51	6,079.54	25,531.41	Haines	102,771.73

Based on this information, an extrapolated annual revenue @ 2% tax levy could be:

Product	Estimated gallons	Estimated Unit Price	Estimated Annual Sales	Estimated Tax Revenue @ 2%
Six Pack, Retail	30,000	\$20.00	\$600,000	\$12,000
Bar Service Beer	30,000	\$48.00	\$1,440,000	\$28,800
Wine, Bulk	5,000	\$27.00	\$135,000	\$2,700
Wine, bottled	5,000	\$60.00	\$300,000	\$6,000
Liquor	6,000	\$250.00	\$1,500,000	\$30,000
Reduced Beer	25,500	\$20.00	\$510,000	\$10,200
<b>Totals</b>	<b>100,000</b>		<b>\$4,485,000</b>	<b>\$89,700</b>

Presently, only one marijuana retail outlet is operating in Haines. The projected annual revenue to be generated by an additional 2% tax on retail marijuana products is \$10,000.

**I recommend that the Assembly to appropriate \$1000 for an informational campaign using various local media to support the ballot propositions.**

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