

1400 N. Hurstbourne Parkway
Louisville, KY 40223
502.329.3000 Tel



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Senator Anna MacKinnon
Senator Lyman Hoffman
Alaska Senate Finance Committee Co-Chairs
State Capitol Room 516
Juneau AK, 99801

Dear Senator MacKinnon and Senator Hoffman:

Thank you for the opportunity to provide testimony on the proposed Motor Fuel Tax Bill and the impact it could have on UPS and the air cargo industry. UPS is one of several in our industry that oppose an increase in the tax on jet fuel. UPS appreciates the long-standing working relationship with the State of Alaska. We have more than 1,100 employees in Alaska, including 489 pilots who are domiciled here.

Traditionally, Alaska has played an important role in UPS's global reach; not only do we deliver to thousands of customers daily, but Anchorage serves as our gateway to the Asia-Pacific region. Anchorage also serves as the training location for our MD-11 and 747 fleets.

UPS located in Alaska because of the business-friendly climate created by elected leadership. We pay close to \$6 million in general and aviation taxes here, as well as approximately \$7.2 million in landing fees annually to cover costs at airports. We have also invested into the local area, spending millions on a flight training center that celebrated its tenth anniversary in Anchorage last year.

We sympathize with the situation you are faced with. We also understand that the budget outlook in Alaska for future years is under a tremendous amount of scrutiny given the lower price of oil and what that means to the budget of Alaska.

UPS is in a unique situation as it relates to the proposed motor fuel tax bill. First, UPS faces the risk of higher taxes on two different business units; ground in the form of the motor fuel tax increase and air in the form of the increased jet fuel tax. Second, UPS actually supports the increase in the motor fuel tax as it is a pure user fee. UPS uses most, if not all, of the roads in Alaska and we believe we should pay into maintenance of that infrastructure.

However, we oppose the jet fuel tax as it's not a user fee. UPS and other airlines already pay user fees to airports in terms of landing fees. As I mentioned earlier, we pay roughly \$7.2 million in landing fees to the Alaska International Airport System each year. AIAS is self-sustaining and

requires little if any state funding as the passenger and commercial airlines pay for operational support and infrastructure improvements.

In fact, the AIAS is thriving, and making an important economic impact on the state. According to a DOT study, the AIAS accounts for 17,000 jobs, including one in ten jobs in Anchorage and one in 20 jobs in Fairbanks.

Increasing the jet fuel tax also increases the indirect subsidy to airports where there are no landing fees and which UPS does not regularly use.

UPS does contract with carriers to deliver packages to airports outside of the AIAS, but this is on a minimal basis, and UPS is already paying jet fuel taxes on domestic flights to subsidize those airports, along with fees to the contracted carriers for any costs they may incur.

In addition, UPS, Delta, and other members of the aviation community, including those involved in Airlines for America and the Cargo Airlines Association, are concerned that targeting the aviation industry for a budget shortfall could cause a reduction in cargo and commercial flights to Alaska.

This increase could also cause an accelerated push toward dependence on newer aircraft that can bypass Anchorage, as at least one cargo carrier has started to do already.

A decrease in the number of flights raises further concerns, including the potential of diminished investments in infrastructure if not as many airlines are paying into the aviation fund through fuel taxes. As it stands, cargo-related revenues account for nearly two-thirds of AIAS revenues. If higher costs cause carriers to fly elsewhere, this could indirectly lead to either a reduction in revenues, or lead to the remaining carriers having to pay more into the system to account for those who bypass Alaska.

Again, UPS empathizes with the state of Alaska and its budget deficit. We appreciate the partnership we've had here and the growth-friendly environment that has allowed UPS to operate here over many years. We hope that you will greatly consider the consequences of what an increase in the jet fuel tax can mean to the great state of Alaska.

Thank you for your time.

Nick D'Andrea
Vice President, UPS Public Affairs

Jeff Wafford
Manager, UPS Public Affairs